

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-9961

TOYOTA MOTOR CREDIT CORPORATION

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)
6565 Headquarters Drive
Plano, Texas
(Address of principal executive offices)

95-3775816
(I.R.S. Employer
Identification No.)

75024
(Zip Code)

Registrant's telephone number, including area code: (469) 486-9300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Medium-Term Notes, Series B Stated Maturity Date January 11, 2028	TM/28	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

(Title of class)

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2022, the number of outstanding shares of capital stock, no par value per share, of the registrant was 91,500, all of which shares were held by Toyota Financial Services International Corporation.

Documents incorporated by reference: None

Reduced Disclosure Format

The registrant meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format.

TOYOTA MOTOR CREDIT CORPORATION
FORM 10-K
For the fiscal year ended March 31, 2022

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PART I

ITEM 1. BUSINESS

GENERAL

Toyota Motor Credit Corporation (“TMCC”) was incorporated in California in 1982 and commenced operations in 1983. References herein to the “Company”, “we”, “our”, and “us” denote Toyota Motor Credit Corporation and its consolidated subsidiaries. We are wholly-owned by Toyota Financial Services International Corporation (“TFSIC”), a California corporation, which is a wholly-owned subsidiary of Toyota Financial Services Corporation (“TFSC”), a Japanese corporation. TFSC, in turn, is a wholly-owned subsidiary of Toyota Motor Corporation (“TMC”), a Japanese corporation. TFSC manages TMC’s worldwide financial services operations. TMCC is marketed under the brands of Toyota Financial Services, Lexus Financial Services, and Mazda Financial Services.

We provide a variety of finance and voluntary vehicle and payment protection products and services to authorized Toyota and Lexus dealers or dealer groups, private label dealers or dealer groups, and to a lesser extent, other domestic and import franchise dealers (collectively referred to as “dealers”) and their customers in the United States of America (excluding Hawaii) (the “U.S.”) and Puerto Rico. Our products and services fall primarily into the following categories:

- **Finance Operations** - We acquire retail installment sales contracts from dealers in the U.S. and Puerto Rico (“retail contracts”) and leasing contracts accounted for as operating leases (“lease contracts”) from dealers in the U.S. We collectively refer to our retail and lease contracts as the “consumer portfolio.” We also provide dealer financing, including wholesale financing, working capital loans, revolving lines of credit and real estate financing to dealers in the U.S. and Puerto Rico. We collectively refer to our dealer financing portfolio as the “dealer portfolio.”
- **Voluntary Protection Operations** - Through Toyota Motor Insurance Services, Inc., a wholly-owned subsidiary, and its insurance company subsidiaries (collectively referred to as “TMIS”), we provide marketing, underwriting, and claims administration for voluntary vehicle and payment protection products sold by dealers in the U.S. Our voluntary vehicle and payment protection products include vehicle service, guaranteed auto protection, prepaid maintenance, excess wear and use, tire and wheel protection, key replacement protection and used vehicle limited warranty contracts (“voluntary protection products”). TMIS also provides coverage and related administrative services to certain of our affiliates in the U.S.

We support growth in earning assets through funding obtained primarily in the global capital markets as well as funds provided by investing and operating activities. Refer to Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Liquidity and Capital Resources” for a discussion of our funding activities.

Our field operations consist of three regional dealer service centers (“DSCs”) located in Chandler, Arizona (serving the West region), Plano, Texas (serving the Central region) and Alpharetta, Georgia (serving the East region). The regional DSCs acquire retail and lease contracts from dealers, and market our voluntary protection products to dealers.

The dealer lending function is centralized at the DSC located in Plano, Texas, and supports the dealers by providing wholesale financing and other dealer financing activities such as business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements.

We currently service contracts through three regional customer service centers (“CSCs”) located throughout the U.S. The CSCs support customer account servicing functions such as collections, lease terminations, and administration of both retail and lease contract customer accounts. The Central region CSC also supports voluntary protection operations by providing contract and claims administrative services. In fiscal 2021, we announced the restructuring of our customer service operations to better serve our customers by relocating and streamlining the customer service operation and investing in new technology. The restructuring is in progress and over the next year, we plan to complete the process of moving our three regional CSCs to be co-located with the regional DSCs to become regional experience centers.

In fiscal 2021, TMCC began providing private label financial services to third-party automotive and mobility companies commencing with the provision of services to Mazda Motor of America, Inc. (“Mazda”). We are currently leveraging our existing processes and personnel to originate and service the new assets; however, we will continue to evaluate the private label financial services business, which includes partnering with or transitioning a portion of the business to our affiliates, some of which are not consolidated with TMCC. We have also made certain technology investments to support the Mazda program and future private label customers.

On November 19, 2021, TMCC announced, in furtherance of its private label financial services initiative for third party automotive and mobility companies, that we entered into a nonbinding letter of intent with Great American Outdoors Group LLC, the parent company of Bass Pro Shops, Cabela's and the White River Marine Group ("Bass Pro Shops") to provide private label financial services for Bass Pro Shop's boats, all-terrain vehicle products, and other mobility products. The Company expects to provide inventory financing for Bass Pro Shops, its affiliates, and authorized independent dealers, starting in fiscal 2023, with additional private label services, including consumer financing and voluntary protection products and services, to be added over time.

Available Information

Our filings with the Securities and Exchange Commission ("SEC") may be found by accessing the SEC website (<http://www.sec.gov>). A link to the SEC website and certain of our SEC filings are contained on our website located at: www.toyotafinancial.com under "Investor Relations, SEC Filings".

Investors and others should note that we announce material financial information using the investor relations section of our website. We use our website, press releases, as well as social media to communicate with our investors, customers and the general public about our company, our services and other issues. While not all of the information that we post on our website or on social media is of a material nature, some information could be material. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on the investor relations section of our website and our Twitter feed. We are not incorporating any of the information set forth on our website or on social media channels into this filing on Form 10-K.

Seasonality

Revenues generated by our retail and lease contracts are generally not subject to seasonal variations. Financing volume is subject to a certain degree of seasonality. This seasonality does not have a significant impact on revenues as collections, generally in the form of fixed payments, occur over the course of several years. We are subject to seasonal variations in credit losses, which are historically higher in the first and fourth calendar quarters of the year.

FINANCE OPERATIONS

The table below summarizes our financing revenues, net of depreciation by product.

	Years ended March 31,		
	2022	2021	2020
Percentage of financing revenues, net of depreciation ¹:			
Operating leases, net of depreciation ¹	41%	43%	38%
Retail	54%	50%	49%
Dealer	5%	7%	13%
Financing revenues, net of depreciation ¹	<u>100%</u>	<u>100%</u>	<u>100%</u>

¹ In conjunction with the adoption of ASU 2016-13 in fiscal 2021, we updated our depreciation policy for operating leases and changed our presentation for reporting early termination expenses related to our investments in operating leases. We now present the effects of operating lease early terminations in Depreciation on operating leases. The information for the comparative period continues to be reported within the Provision for credit losses.

Retail and Lease Financing

Pricing

TMCC matches interest rates with customer risk as defined by credit bureau scores and other factors for a range of price and risk combinations. Rates vary based on customer credit experience, contract term, loan-to-value and collateral, including whether a new or used vehicle is financed. In addition, special rates may apply as a result of promotional activities. We review and adjust interest rates based on competitive and economic factors and distribute the rates to dealers.

Underwriting

Dealers transmit customer credit applications electronically through our online system for contract acquisition. The customer may submit a credit application directly to our website, in which case, the credit application is sent to the dealer of the customer's choice and is considered by us for preapproval. Upon receipt of the credit application, our loan origination system automatically requests a credit bureau report from one of the major credit bureaus. We use a proprietary credit scoring system to evaluate an applicant's risk profile. Factors used by the credit scoring system (based on the applicant's credit history) include the contract term, ability to pay, debt ratios, amount financed relative to the value of the vehicle to be financed, and credit bureau attributes such as number of trade lines, utilization ratio and number of credit inquiries.

Credit applications are subject to systematic evaluation. Our loan origination system evaluates each application to determine if it qualifies for automatic approval or decline without manual intervention ("auto-decisioning") using specific requirements, including internal credit score and other application characteristics. Typically, the highest quality credit applications are approved automatically, and the lowest quality credit applications are automatically declined.

Credit analysts (working in our field operations) approve or decline all credit applications that are not auto-decisioned and may also approve an application that has been the subject of an automated decline. Failure to be automatically approved through auto-decisioning does not mean that an application does not meet our underwriting guidelines. A credit analyst decisions applications based on an evaluation that considers an applicant's creditworthiness and projected ability to meet the monthly payment obligation, which is derived from, among other things, the amount financed and the contract term. A credit analyst will verify information contained in the credit application if the application presents an elevated level of credit risk. Our proprietary scoring system assists the credit analyst in the credit review process. The credit analyst's final credit decision is made based upon the degree of credit risk perceived by the credit analyst after assessing the strengths and weaknesses of the application.

Completion of the financing process is dependent upon whether the transaction is a retail or lease contract. For a retail contract, we acquire the retail contract from the dealer and obtain a security interest in the vehicle. We perfect our security interests in the financed retail vehicles through the applicable state department of motor vehicles (or equivalent) with certificate of title filings or with Uniform Commercial Code ("UCC") filings, as appropriate. For a lease contract, except as described below under "Servicing", we acquire the lease contract and concurrently assume ownership of the leased vehicle. We have the right to pursue collection actions against a delinquent customer, as well as repossess a vehicle if a customer fails to meet contractual obligations.

We regularly review and analyze our consumer portfolio to evaluate the effectiveness of our underwriting guidelines and purchasing criteria. If external economic factors, credit losses, delinquency experience, market conditions or other factors change, we may adjust our underwriting guidelines and purchasing criteria in order to change the asset quality of our portfolio or to achieve other goals and objectives.

Subvention and Incentive Programs

Toyota Motor Sales, U.S.A., Inc. (“TMS”), a subsidiary of Toyota Motor North America, Inc. (“TMNA”), is the primary distributor of Toyota and Lexus vehicles in the United States. In partnership with TMNA and certain non-affiliated third-party distributors, we may offer special promotional rates, which we refer to as subvention programs. TMNA and third-party distributors pay us the majority of the difference between our standard rate and the promotional rate. Amounts received in connection with these programs allow us to maintain yields at levels consistent with standard program levels. The level of subvention program activity varies based on the marketing strategies of TMNA and third-party distributors, economic conditions, vehicle inventory levels, and volume of vehicle sales. The amount of subvention received varies based on the mix of vehicles included in the promotional rate programs and the timing of the programs. The majority of our lease contracts and a significant portion of our retail contracts are subvented. We may also offer cash and contractual residual value support incentive programs in partnership with TMNA or third-party distributors. Subvention and other cash incentive program payments offered in partnership with TMNA or third-party distributors are settled at the beginning of the retail or lease contract. We may also offer our own cash incentives and other competitive rate programs. We defer the payments and recognize them over the life of the contract as a yield adjustment for retail contracts and as rental income or a reduction to depreciation expense for lease contracts.

Servicing

Our CSCs are responsible for servicing the consumer portfolio. A centralized department manages third-party vendor relationships responsible for bankruptcy administration, liquidation and post charge-off recovery activities, certain administrative activities, customer services activities and pre-charge-off collections with support from the CSCs.

We use an online collection and auto dialer system that prioritizes collection efforts and signals our collections personnel to make telephone contact with delinquent customers. We also use a behavioral-based collection strategy to minimize risk of loss and employ various collection methods based on behavioral scoring models (which analyze borrowers’ payment performance, vehicle valuation and credit bureau scores to predict future payment behavior). We generally determine whether to commence repossession efforts after an account is approximately 80 days past due. Repossessed vehicles are held for sale to comply with statutory requirements and then sold at private auctions unless public auctions are required by state law. Any unpaid amounts remaining after the repossessed vehicle is sold or after taking the full balance charge-off are pursued by us to the extent practical and legally permissible. Any surplus amounts remaining after recovery fees, disposition costs, and other expenses have been paid, and after any reserve charge-backs, dealer guarantees and optional product refunds have been credited to the customer’s account, are refunded to the customers. Collections of post-sale deficiencies and full-balance charge-offs are handled by third-party vendors and the CSCs. We charge-off uncollectible portions of accounts when an account is deemed to be uncollectible or when the account balance becomes 120 days contractually delinquent, whichever occurs first. However, the CSCs will continue to collect or pursue recovery of the vehicle up to 190 days after the account is past due.

We may, in accordance with our customary servicing procedures, offer rebates or waive any prepayment charge, late payment charge, or any other fees that may be collected in the ordinary course of servicing the consumer portfolio. In addition, we may defer a customer’s obligation to make a payment by extending the contract term. Refer to Item 1A. Risk Factors, “Industry and Business Risk”-“We face various risks related to health epidemics and other outbreaks, which have had and may continue to have material adverse effects on our business, financial condition, results of operations and cash flows” and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Fiscal 2022 Operating Environment” for further discussion of payment relief programs offered to customers affected by the coronavirus.

Substantially all of our retail and lease contracts are purchased as non-recourse from the dealers. This relieves the dealers of financial responsibility in the event of a customer default.

We may experience a higher risk of loss if customers fail to maintain required insurance coverage. The terms of our retail contracts require customers to maintain physical damage insurance covering loss or damage to the financed vehicle in an amount not less than the full value of the vehicle and to provide evidence of such insurance upon our request. The terms of each contract allow but do not require us to obtain any such insurance coverage on behalf of the customer. In accordance with our customary servicing procedures, we do not exercise our right to obtain insurance coverage on behalf of the customer. Our lease contracts require lessees to maintain minimum liability insurance and

physical damage insurance covering loss or damage to the leased vehicle in an amount not less than the full value of the vehicle. We currently do not monitor ongoing customer insurance coverage as part of our customary servicing procedures for the consumer portfolio.

Toyota Lease Trust, a Delaware business trust (the “Titling Trust”), acts as lessor and holds title to leased vehicles in the U.S. This arrangement was established to facilitate lease securitizations. TMCC services lease contracts acquired by the Titling Trust from Toyota and Lexus dealers. TMCC holds an undivided interest in lease contracts owned by the Titling Trust, and these lease contracts are included in Investments in operating leases, net on our Consolidated Balance Sheets.

Remarketing

The lessee may purchase the leased vehicle at the contractual residual value or return the leased vehicle to the dealer. If the leased vehicle is returned to the dealer, the dealer may purchase the leased vehicle or return it to us. We are responsible for disposing of the leased vehicle if the lessee or dealer does not purchase the vehicle at lease maturity.

In order to minimize losses when vehicles are returned to us, we have developed remarketing strategies to maximize proceeds and minimize disposition costs on used vehicles. We use various channels to sell vehicles returned at lease-end or repossessed prior to lease-end, including a dealer direct program (“Dealer Direct”) and physical auctions.

The goal of Dealer Direct is to increase dealer purchases of off-lease vehicles thereby reducing the disposition costs of such vehicles. Through Dealer Direct, the dealer accepting return of the lease vehicle (the “grounding dealer”) has the option to purchase the vehicle at the contractual residual value, purchase the vehicle at an assessed market value, or return the vehicle to us. Vehicles not purchased by the grounding dealer are made available to all Toyota and Lexus dealers through the Dealer Direct online auction. Vehicles not purchased through Dealer Direct are sold at physical vehicle auction sites throughout the country. Where deemed necessary, we recondition used vehicles prior to sale at auction in order to enhance the vehicle values.

Dealer Financing

Dealer financing is comprised of wholesale financing and other financing options designed to meet dealer business needs.

Wholesale Financing

We provide wholesale financing to dealers for inventories of new and used Toyota, Lexus, private label, and other domestic and import vehicles. We acquire a security interest in the vehicle inventory, and/or other dealership assets, as appropriate, which we perfect through UCC filings. Wholesale financing may also be backed by corporate or individual guarantees from, or on behalf of, affiliated dealers, dealer groups, or dealer principals. In the event of a dealer default under a wholesale loan agreement, we have the right to liquidate assets in which we have a perfected security interest and to seek legal remedies pursuant to the wholesale loan agreement and any applicable guarantees.

Additionally, TMNA and other manufacturers may be obligated by applicable law, or under agreements with us, to repurchase or to reassign new vehicle inventory we financed that meets certain mileage and model year parameters, curtailing our risk. We also provide other types of wholesale financing to certain Toyota and Lexus dealers and other third parties, at the request of TMNA or private Toyota distributors, and TMNA or the applicable private distributor guarantees the payments by such borrowers.

Other Dealer Financing

We provide fixed and variable rate working capital loans, revolving lines of credit, and real estate financing to dealers and various multi-franchise organizations referred to as dealer groups for facilities construction and refurbishment, working capital requirements, real estate purchases, business acquisitions and other general business purposes. These loans are typically secured with liens on real estate, vehicle inventory, and/or other dealership assets, as appropriate, and may be guaranteed by individual or corporate guarantees of affiliated dealers, dealer groups, or dealer principals. Although the loans are typically collateralized or guaranteed, the value of the underlying collateral or guarantees may not be sufficient to cover our exposure under such agreements. Our pricing reflects market conditions, the competitive environment, the level of support dealers provide our retail, lease and voluntary protection products and the creditworthiness of each dealer.

Before establishing a wholesale loan or other dealer financing agreement, we perform a credit analysis of the dealer. During this analysis, we:

- Review financial statements and we may obtain credit reports and bank references;
- Evaluate the dealer's financial condition and history of servicing debt; and
- Assess the dealer's operations and management.

On the basis of this analysis, we may approve the issuance of a loan or financing agreement and determine the appropriate amount to lend.

As part of our monitoring processes, we require dealers to submit periodic financial statements. We also perform periodic physical audits of vehicle inventory as well as monitor the timeliness of dealer inventory financing payoffs in accordance with the agreed-upon terms to identify possible risks.

Competition

We operate in a highly competitive environment and compete with other financial institutions including national and regional commercial banks, credit unions, savings and loan associations, online banks, and finance companies. To a lesser extent, we compete with other automobile manufacturers' affiliated finance companies that actively seek to purchase retail contracts through Toyota, Lexus, and private label dealers. We also compete with national and regional commercial banks and other automobile manufacturers' affiliated finance companies for dealer financing. No single competitor is dominant in the industry. We compete primarily through service quality, our relationship with TMNA and third-party automotive and mobility companies to whom we provide financial services, and financing rates. We seek to provide exceptional customer service and competitive financing programs to our dealers and to their customers. Our affiliation with TMNA and relationships with third-party automotive and mobility companies to whom we provide financial services offers an advantage in providing financing or leasing of Toyota, Lexus, and private label vehicles.

VOLUNTARY PROTECTION OPERATIONS

TMIS offers voluntary protection products on Toyota, Lexus, and other domestic and import vehicles that are primarily sold by dealers as part of the dealer's sale of a vehicle. The majority of the voluntary protection products offered by TMIS are not regulated as insurance products. However, certain states require the Company's contracts be backed by policies issued by a regulated insurance company. To satisfy the aforementioned requirement, TMIS utilizes its insurance company subsidiaries to underwrite certain risks. Vehicle service contracts offer vehicle owners and lessees mechanical breakdown protection for new and used vehicles secondary to the manufacturer's new vehicle warranty. Guaranteed auto protection contracts provide coverage for a lease or retail contract deficiency balance in the event of a total loss or theft of the covered vehicle. Prepaid maintenance contracts provide maintenance services at manufacturer recommended intervals. Excess wear and use contracts are available on leases and protect against excess wear and use charges that may be assessed at lease termination. Tire and wheel protection contracts provide coverage in the event that a covered vehicle's tires or wheels become damaged as a result of a road hazard or structural failure due to a defect in material or workmanship, to the extent not covered by the manufacturer or the tire distributor warranties. Certain tire and wheel protection contracts also cover expenses related either to replacing or reprogramming a vehicle key or vehicle key remote in the event of loss or damage. Key replacement protection contracts provide stand-alone coverage for expenses related either to replacing or reprogramming a vehicle key or vehicle key remote in the event of loss or damage. Used vehicle limited warranty contracts are included with the purchase of a used vehicle and provides for the repair or replacement of certain covered components that have mechanically failed on the covered used vehicle.

TMIS provides TMNA contractual indemnity insurance coverage for limited warranties on certified Toyota and Lexus pre-owned vehicles. TMIS also provides umbrella liability insurance to TMNA and other affiliates covering certain dollar value layers of risk above various primary or self-insured retentions. On all layers in which TMIS provides coverage, 99 percent of the risk is ceded to a reinsurer.

Competition for the voluntary protection products is primarily from national and regional independent service contract providers. We compete primarily through service quality, our relationship with TMNA and third-party automotive and mobility companies to whom we provide financial services and product benefits. Our affiliation with TMNA provides an advantage in selling our voluntary protection products.

RELATIONSHIPS WITH AFFILIATES

TMCC is party to agreements with TMNA and certain TMNA subsidiaries. For ease of reference herein, we refer solely to the parent entity, TMNA. As a result, all references to the agreements or activities of TMNA herein that are carried out by a TMNA subsidiary are deemed to also make reference to and include the applicable TMNA subsidiary.

TMNA sponsors subvention, cash and contractual residual value support incentive programs on certain new and used Toyota and Lexus vehicles. The level of incentive program activity varies based on TMNA marketing strategies, economic conditions, vehicle inventory levels, and volume of vehicle sales.

TMNA may be obligated by applicable law, or under agreements with us, to repurchase or to reassign new vehicle inventory we financed that meets certain mileage and model year parameters. We also provide financing to certain Toyota and Lexus dealers and other third parties, at the request of TMNA or private Toyota distributors, and TMNA or the applicable private distributor guarantees the payments by such borrowers.

TMNA provides shared services to TMCC, including certain technological and administrative services, such as information systems support, facilities, insurance coverage, human resources and other corporate services. TMCC also provides shared services to TMNA, including certain treasury and procurement services.

TMCC is a participating employer in certain retirement and post-retirement medical care, life insurance and other benefits sponsored by TMNA, as discussed further in Note 10 – Pension and Other Benefit Plans of the Notes to Consolidated Financial Statements.

TMCC is party to agreements with TMNA and other affiliates relating to the team member vehicle benefit program, which allows team members to lease Toyota and Lexus vehicles on terms exclusive to the benefit program. TMNA serves as the chief administrator of the program. TMCC acquires and services team member leases after origination. A portion of the vehicles used for the team member vehicle benefit program are acquired from TMNA. TMCC receives a per vehicle contribution from participating affiliates to assist with the costs of its contribution to the benefit program, and TMCC pays a per vehicle participation fee to TMNA to participate in the benefit program.

TMCC and Toyota Financial Savings Bank (“TFSB”), a Nevada thrift company owned by TFSIC, are parties to a master shared services agreement under which TMCC and TFSB provide certain services to each other. TMCC and TFSB are also parties to an expense reimbursement agreement, which provides that TMCC will reimburse certain expenses incurred by TFSB in connection with providing certain financial products and services to TMCC’s customers and dealers in support of TMCC’s customer loyalty strategy and programs.

TMCC receives support from and provides support to TFSC and other affiliates in the form of promissory notes and various loan and credit facility agreements, including a revolving credit facility with TMS which may be used for general corporate purposes.

Credit support agreements exist between TMCC and TFSC and between TFSC and TMC. These agreements are further discussed in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Liquidity and Capital Resources.”

TMIS provides administrative services and various types of coverage to TMNA and other affiliates, including contractual indemnity coverage for limited warranties on TMNA’s certified pre-owned vehicle program and umbrella liability insurance.

Refer to Note 12 – Related Party Transactions of the Notes to Consolidated Financial Statements for further information.

REGULATORY ENVIRONMENT

Our finance and voluntary protection products are regulated under both federal and state law.

Federal Consumer Finance Regulation

Our finance operations are governed by, among other federal laws, the Equal Credit Opportunity Act, the Truth in Lending Act, the Consumer Leasing Act, the Fair Credit Reporting Act, the Servicemembers Civil Relief Act, the unfair, deceptive and abusive practices (UDAAP) provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and the consumer data privacy and security provisions of the Gramm-Leach Bliley Act.

The Equal Credit Opportunity Act is designed to prevent credit discrimination on the basis of certain protected classes, requires the distribution of specified credit decision notices and limits the information that may be requested and considered in a credit transaction. The Truth in Lending Act and the Consumer Leasing Act place disclosure and substantive transaction restrictions on consumer credit and leasing transactions. The Fair Credit Reporting Act imposes restrictions and requirements regarding our use and sharing of credit reports, the reporting of data to credit reporting agencies including the accuracy and integrity of information reported, credit decision notices, consumer dispute handling procedures and identity theft prevention requirements. The Servicemembers Civil Relief Act provides additional protections for certain customers in the military. For example, it requires us, in most circumstances, to reduce the interest rate charged to customers who have subsequently joined, enlisted, been inducted or called to active military duty, and also requires us to allow eligible servicemembers to terminate their lease agreements with us early without penalty. UDAAP laws prohibit practices that are unfair, deceptive or abusive towards consumers.

Federal privacy and data security laws place restrictions on our use and sharing of consumer data, impose privacy notice requirements, give consumers the right to opt out of certain uses and sharing of their data and impose safeguarding rules regarding the maintenance, storage, transmission and destruction of consumer data. Cybersecurity and data privacy are areas of heightened legislative and regulatory focus. The timing and effects of potential legislative or regulatory changes to data privacy regulations is uncertain.

In addition, the dealers who originate our retail and lease contracts also must comply with federal credit and trade practice statutes and regulations. Failure of the dealers to comply with these statutes and regulations could result in remedies that could have an adverse effect on us.

The Consumer Financial Protection Bureau (“CFPB”) has broad rulemaking, supervisory and enforcement authority over entities offering consumer financial services or products, including non-bank companies, such as TMCC (“Covered Entities”).

The CFPB’s supervisory authority has focused on fair lending compliance, repossessions, debt collection, the treatment of customers during the COVID-19 pandemic, credit reporting, and the marketing and sale of certain optional products, including voluntary protection products we finance or sell through TMIS.

The CFPB’s supervisory authority permits it to examine Covered Entities for compliance with consumer financial protection laws. These examinations could result in enforcement actions, regulatory fines and mandated changes to our business, products, policies and procedures.

The CFPB’s enforcement authority permits it to conduct investigations (which may include a joint investigation with other agencies and regulators) of, and initiate enforcement actions related to, violations of federal consumer financial protection laws, including discriminatory practices not directly covered by the Equal Credit Opportunity Act. The CFPB has the authority to obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other types of affirmative relief), or other forms of remediation, and/or impose monetary penalties. The CFPB and the Federal Trade Commission (“FTC”) may investigate the products, services and operations of credit providers, including banks and other finance companies engaged in auto finance activities. As a result of such investigations, both the CFPB and FTC have announced various enforcement actions against lenders in the past few years involving significant penalties, consent orders, cease and desist orders and similar remedies that, if applicable to us or the products, services and operations we offer, may require us to cease or alter certain business practices, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

State Regulation

A majority of states (and Puerto Rico) have enacted legislation establishing licensing requirements to conduct financing activities. We must renew these licenses periodically. Most states also impose limits on the maximum rate of finance charges, while other state and federal legislatures are also discussing an all-in rate cap that would include finance charges plus charges on our ancillary products such as voluntary protection products. In certain states, the margin between the present statutory maximum interest rates and borrowing costs is sufficiently narrow that, in periods of rapidly increasing or high interest rates, there could be an adverse effect on our operations in these states if we were unable to pass on increased interest costs to our customers. Some state laws impose rate and other restrictions on credit transactions with customers in active military status in addition to those imposed by the Servicemembers Civil Relief Act.

State laws also impose requirements and restrictions on us with respect to, among other matters, required credit application and finance and lease disclosures, late fees and other charges, the right to repossess a vehicle for failure to pay or other defaults under the retail or lease contract, other rights and remedies we may exercise in the event of a default under the retail or lease contract, and other consumer protection matters. Many states are also focusing on cybersecurity and data privacy as areas warranting consumer protection. Some states have passed complex legislation dealing with consumer information, which impacts companies such as TMCC. In some jurisdictions, these laws and regulations provide a private right of action that would allow customers to bring suit directly against us for mishandling their data for certain violations of these laws and regulations.

TMIS operations are subject to state regulations and licensing requirements. State laws vary with respect to which products are regulated and what types of corporate licenses and filings are required to offer certain products. Certain products offered by TMIS are covered by state privacy laws as well as new cybersecurity and data privacy legislation. Our insurance company subsidiaries must be appropriately licensed in certain states in which they conduct business, must maintain minimum capital requirements and file annual financial information as determined by their state of domicile and the National Association of Insurance Commissioners. Failure to comply with these requirements could have an adverse effect on voluntary protection operations in a particular state. We actively monitor applicable laws and regulations in each state in order to maintain compliance.

State regulators are taking a more stringent approach to supervising and regulating providers of financial products and services subject to their jurisdiction. In addition, we are subject to governmental and regulatory examinations, information-gathering requests and investigations from time to time. We expect to continue to face greater supervisory scrutiny and enhanced supervisory requirements for the foreseeable future.

Other Federal and International Regulation

Under the Volcker Rule, companies affiliated with U.S. insured depository institutions are generally prohibited from engaging in “proprietary trading” and certain transactions with certain privately offered funds. The activities prohibited by the Volcker Rule are not core activities for us. However, the federal financial regulatory agencies charged with implementing the Volcker Rule could further amend the rule or change their approach to administering, enforcing or interpreting the rule, which could negatively affect us and potentially require us to limit or change our activities or operations.

The Dodd-Frank Act amended the U.S. Commodity Exchange Act (“CEA”) to establish a comprehensive framework for the regulation of certain over-the-counter (“OTC”) derivatives referred to as swaps. Under the Dodd-Frank Act, the Commodity Futures Trading Commission (“CFTC”) is required to adopt certain rules and regulations governing swaps. The CFTC has completed almost all of its regulations in this area, most of which are in effect.

The OTC derivatives provisions of the CEA, as amended by the Dodd-Frank Act, impose clearing, trading and margin requirements on certain contracts. At present, we qualify for exceptions from these requirements for the swaps that we enter into to hedge our commercial risks. However, if we were to no longer qualify for such exceptions, we could become subject to some or all of these requirements, which would increase our cost of entering into and maintaining such hedging positions.

If we reduce our use of OTC derivatives as a result of the Dodd-Frank Act and resulting regulations, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures.

We continually review our operations for compliance with applicable laws. Future administrative rulings, judicial decisions, legislation, regulations and regulatory guidance, and supervision and enforcement actions may result in monetary penalties, increase our compliance costs, require changes in our business practices, affect our competitiveness, impair our profitability, harm our reputation or otherwise adversely affect our business.

Concern over climate change or other environmental matters may result in new or increased legal and regulatory requirements 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) may require us to alter our proposed business plans, lead to increased compliance costs and changes to our operations and could have an adverse effect on our business, results of operations and financial condition.

Refer to Part 1, Item 1A. Risk Factors – “The regulatory environment in which we operate could have a material adverse effect on our business and results of operations.”

HUMAN CAPITAL

Employees

At March 31, 2022, we had approximately 3,700 employees. We consider our employee relations to be satisfactory. We are not subject to any collective bargaining agreements with our employees.

Culture

Our human capital objective in managing our business is to attract, retain, and fully engage the talent of our team members. Toyota's corporate culture is driven by "The Toyota Philosophy", our roadmap of the company we want to be, which is woven into our core values, including continuous improvement and respect for people. Our team members are actively involved in Toyota's transformation toward becoming a mobility company and promoting our mission of happiness for all and our vision of creating mobility for all. We offer a variety of training opportunities to enhance the skills of our team members and encourage innovation. We encourage teamwork and collaboration and know diverse backgrounds, experiences, and perspectives are the right thing not only for our team members, but also for our business.

Diversity and Inclusion

We envision a world made better by a future of boundless physical and economic mobility for all – driven by the power of engaged, diverse, and inclusive environments. We believe in equality, respect, and the inclusive treatment of all people. We believe that our team members achieve higher levels of productivity, are more creative, and more innovative when we foster a company culture that activates inclusion and diversity at all levels. Our Executive Diversity and Inclusion Committee endeavors to guide, endorse and support our diversity and inclusion strategic efforts. We have also appointed certain team members as Diversity Champions who are responsible for providing diversity and inclusion leadership and strategic support. These Diversity Champions serve as visible role models who create positive impact by helping apply diversity and inclusion subject matter to ongoing business priorities. Toyota's external Diversity Advisory Board works in partnership with our executive and senior leaders who reinforce diversity and inclusion strategies to offer insight and perspective that helps Toyota cultivate a diversity and inclusion mindset across the enterprise.

Health and Safety

We recognize the health, safety, and well-being of our team members is a top priority. Actively cultivating a culture, environment, and team member experience that embraces, empowers, and respects all people - including their health, wellbeing, and safety - drives innovation and relevancy. For example, in response to the COVID-19 pandemic, we consulted with medical professionals and instituted policies and practices to protect our team members and their families. During the pandemic, we transitioned nearly all of our workforce to a remote work arrangement to mitigate health risks. Starting in June 2022, we plan on transitioning our team members to a hybrid or onsite work arrangements depending on business needs and safety protocols.

ITEM 1A. RISK FACTORS

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, results of operations and financial condition. There may be additional risks and uncertainties not presently known to us or that we currently consider immaterial that may also have a material adverse impact on our business, results of operations and financial condition.

INDUSTRY AND BUSINESS RISK

We face various risks related to health epidemics and other outbreaks, which have had and may continue to have material adverse effects on our business, financial condition, results of operations and cash flows.

We face various risks related to health epidemics and other outbreaks, including the global outbreak of coronavirus (“COVID-19”). Although U.S. and global economies have begun to recover from the COVID-19 pandemic as many health and safety restrictions have been lifted and vaccine distribution has increased, the COVID-19 pandemic has led, and may continue to lead, to periodic disruption and volatility in the global capital markets and in the economies of many nations, including the United States.

The negative economic conditions arising from the COVID-19 pandemic have continued to impact certain of our financial results during fiscal year 2022, including continued elevated allowance for credit losses on our retail loan portfolio primarily due to expected credit losses, and a decrease in financing volume due to lower dealer inventory levels, which has resulted in lower levels of subvention and incentives as well as increased competition from other financial institutions.

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

General business, economic, and geopolitical conditions, as well as other market events, may adversely affect our business, results of operations and financial condition.

Our 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, and private label vehicles, the rate of growth in the number and average balance of customer accounts, the U.S. regulatory environment, competition from other financiers, rate of default by our customers, the interest rates we are required to pay on the funding we require to support our business, amounts of funding available to us, changes in the U.S. and international wholesale capital funding markets, our credit ratings, the success of efforts to expand our product lines, levels of operating and administrative expenses including, but not limited to, personnel costs, technology costs and premises costs (including costs associated with reorganization or relocation), general economic conditions, inflation, consequences from changes in tax laws, and fiscal and monetary policies in the U.S., Europe and other countries in which we issue 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 retail, lease and wholesale financing. In turn, lower used vehicle values could affect return rates, charge-offs and depreciation on operating leases.

Economic slowdown and recession in the United States may lead to diminished consumer and business confidence, inflation, lower household incomes, increases in unemployment rates, higher consumer debt levels as well as higher consumer and commercial bankruptcy filings, any of which could adversely affect vehicle sales and discretionary consumer spending. These conditions may decrease the demand for our financing products, as well as increase our delinquencies and credit losses. In addition, because our credit exposures are generally collateralized by vehicles, the severity of losses can be particularly affected by declines in used vehicle values. Dealers are also affected by economic slowdown and recession, which increases the risk of default of certain dealers within our dealer portfolio.

Elevated levels of market disruption and volatility globally or in the U.S. could increase our cost of capital and adversely affect our ability to access the global capital markets and fund our business in a similar manner, and at a similar cost to the funding raised in the past. These market conditions could also have an adverse effect on our results of operations and financial condition by diminishing the value of our investment portfolio and increasing our cost of funding. If as a result we increase the rates we charge to our customers and dealers, our competitive position could be negatively affected.

Challenging market conditions may result in less liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. Changes in investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, will affect (directly or indirectly) our financial performance.

During a continued and sustained period of market disruption and volatility:

- there can be no assurance that we will continue to have access to the capital markets in a similar manner and at a similar cost as we have had in the past;
- issues of debt securities may be undertaken at spreads above benchmark rates that are greater than those on similar issuances undertaken during prior periods;
- we may be subject to over-reliance on a particular funding source or a simultaneous increase in funding costs across a broad range of sources; and
- the ratio of our short-term debt outstanding to total debt outstanding may increase if negative conditions in the debt markets lead us to replace some maturing long-term liabilities with short-term liabilities (for example, commercial paper).

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

Geopolitical conditions and other market events may also impact our results of operations. 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 risk, 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 our results of operations and financial condition.

Our results of operations and financial condition are substantially dependent upon the sale of Toyota, Lexus, and private label vehicles, as well as our ability to offer competitive financing and voluntary protection products.

We primarily provide a variety of finance and voluntary protection products to authorized Toyota, Lexus, and private label dealers and their customers in the U.S. Accordingly, our business is substantially dependent upon the sale of Toyota, Lexus, and private label vehicles in the U.S. Changes in the volume of sales may result from governmental action or changes in governmental regulation or trade policies, changes in consumer demand, new vehicle incentive programs, recalls, the actual or perceived quality, safety or reliability of Toyota, Lexus, and private label vehicles, economic conditions, inflation, increased competition, increases in the price of vehicles due to increased raw material costs, changes in import fees or tariffs on raw materials or imported vehicles, changes to or withdrawals from trade agreements, currency fluctuations, fluctuations in interest rates, decreased or delayed vehicle production due to extreme weather conditions, natural disasters, supply chain interruptions, including shortages of parts, components or raw materials, or other events. For example, the COVID-19 pandemic and restrictions intended to slow the spread of COVID-19 have continued to adversely affect the business of our affiliate, TMNA, and our ultimate parent, TMC, in a number of ways, including a decrease in new inventory resulting from production halts and supply shortages. Any negative impact on the volume of Toyota, Lexus, and private label vehicle sales in the U.S. could have a material adverse effect on our business, results of operations, and financial condition.

TMS, a subsidiary of TMNA, is the primary distributor of Toyota and Lexus vehicles in the U.S. While TMNA conducts extensive market research before launching new or refreshed vehicles and introducing new services, many factors both within and outside TMNA's control affect the success of new or existing products and services in the marketplace. Offering vehicles and services that customers want and value can mitigate the risks of increasing price competition and declining demand, but products and services that are perceived to be less desirable (whether in terms of product mix, price, quality, styling, safety, overall value, fuel efficiency, or other attributes) and the level of availability of products and services that are desirable can exacerbate these risks. With increased consumer interconnectedness through the internet, social media, and other media, mere allegations relating to quality, safety, fuel

efficiency, corporate social responsibility, or other key attributes can negatively impact TMNA's reputation or market acceptance of its products or services, even where such allegations prove to be inaccurate or unfounded.

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

We operate in a highly competitive environment and compete with other financial institutions and, to a lesser extent, other automobile manufacturers' affiliated finance companies primarily through service, quality, our relationship with TMNA, and financing rates. TMNA sponsors subvention, cash, and contractual residual value support incentive programs offered by us on certain new and used Toyota and Lexus vehicles. Our ability to offer competitive financing and voluntary protection products in the U.S. depends in part on the level of TMNA sponsored subvention, cash, and contractual residual value support incentive program activity, which varies based on TMNA marketing strategies, economic conditions, and the volume of vehicle sales, among other factors. Any negative impact on the level of TMNA sponsored subvention, cash, and contractual residual value support incentive programs could in turn have a material adverse effect on our business, results of operations, and financial condition.

Changes in consumer behavior could affect the automotive industry, TMNA and TMC, and, as a result, our business, results of operations and financial condition.

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

Recalls and other related announcements by TMNA or private label companies could affect our business, results of operations and financial condition.

TMNA or other manufacturers of the vehicles we finance periodically conducts vehicle recalls which could include temporary suspensions of sales and production of certain Toyota, Lexus, and private label vehicle models. Because our business is substantially dependent upon the sale of Toyota and Lexus vehicles, such events could adversely affect our business. A decrease in the level of sales, including as a result of the actual or perceived quality, safety or reliability of Toyota, Lexus, and private label vehicles or a change in standards of regulatory bodies will have a negative impact on the level of our financing and voluntary protection products volume, earning assets, Net financing revenues and Voluntary protection contract revenues and insurance earned premiums. The credit performance of our dealer and consumer portfolios may also be adversely affected. In addition, a decline in the values of used Toyota, Lexus, and private label vehicles would have a negative effect on residual values and return rates, which, in turn, could increase depreciation expense and credit losses. Further, certain of TMCC's affiliated entities are or may become subject to litigation and governmental investigations and have been or may become subject to fines or other penalties. These factors could affect sales of Toyota, Lexus and private label vehicles and, accordingly, could have a negative effect on our business, results of operations and financial condition.

If we are unable to compete successfully or if competition increases in the businesses in which we operate, our results of operations could be negatively affected.

We operate in a highly competitive environment. We compete with other financial institutions including national and regional commercial banks, credit unions, savings and loan associations, finance companies, and to a lesser extent, other automobile manufacturers' affiliated finance companies. In addition, online financing options provide consumers with alternative financing sources. Increases in competitive pressures could have an adverse impact on our contract volume, market share, Net financing revenues, Voluntary protection contract revenues and insurance earned premiums. Further, the financial condition and viability of our competitors and peers may have an adverse impact on the financial services industry in which we operate, resulting in a decrease in the demand for our products and services. This could have an adverse impact on the volume of our business and our results of operations.

A failure or interruption in our operations could adversely affect our results of operations and financial condition.

Operational risk is the risk of loss resulting from, among other factors, lack of established processes, inadequate or failed processes, systems or internal controls, theft, fraud, extreme weather conditions, natural disasters (such as wildfires, floods, tornadoes, earthquakes, hurricanes including an increase in the frequency of such conditions and disasters as the result of climate change) or other catastrophes (including without limitation, explosions, terrorist attacks, riots, civil disturbances and health epidemics and other outbreaks). Operational risk can occur in many forms including, but not limited to, errors, business interruptions, failure of controls, failure of systems or other technology, deficiencies in our voluntary protection product operations risk management program, inappropriate behavior or misconduct by our employees or those contracted to perform services for us, and vendors that do not perform in accordance with their contractual agreements. We have established business recovery plans to address interruptions in our operations, but we can give no assurance that these plans will be adequate to remediate all events that we may face. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could harm our ability to conduct normal business operations. These events can potentially result in financial losses or other damage to us, including damage to our reputation.

We rely on a framework of internal controls designed to provide a sound and well-controlled operating environment. Due to the complexity of our business and the challenges inherent in implementing control structures across large organizations, control issues could be identified in the future that could have a material adverse effect on our operations.

We are currently in the process of restructuring our customer service operations to better serve our customers by relocating and streamlining the customer service operation, moving our three regional CSCs to be co-located with the regional DSCs, and investing in new technology. We can give no assurance that the restructuring of our customer service operations will be completed as planned or within the expected timing or budget, and the expected benefits may not be fully realized due to associated disruption to customer service operations and personnel.

In addition, many parts of our business, including software, technology, marketing and finance, are dependent on key personnel. Competition for such employees is intense, which may increase our operating and administrative expenses and lead to other changes including flexible work arrangements and other considerations. Our future success depends on our ability to retain existing, and attract, hire and integrate new key personnel and other necessary employees. Any failure to do so could adversely affect our business, results of operations and financial condition.

Our private label financial services for third-party automotive and mobility companies may expose us to additional risks that could adversely affect our business, results of operations and financial condition.

On April 1, 2020, we began providing private label financial services to third-party automotive and mobility companies commencing with the provision of services to Mazda Motor of America, Inc. (“Mazda”). Pursuant to the agreement with Mazda, we currently offer exclusive private label automotive retail, lease, voluntary protection products and dealer financing products and services marketed under the brands Mazda Financial Services and Mazda Protection Products to Mazda customers and dealers in the United States. The agreement with Mazda is for an initial term of approximately five years.

On November 19, 2021, we announced that we entered into a nonbinding letter of intent with Great American Outdoors Group LLC, the parent company of Bass Pro Shops, Cabela’s and the White River Marine Group (“Bass Pro Shops”) to provide private label financial services for Bass Pro Shop’s boats, all-terrain vehicle products, and other mobility products. The Company expects to provide inventory financing for Bass Pro Shops, its affiliates, and authorized independent dealers, starting in fiscal 2023, with additional private label services, including consumer financing and voluntary protection products and services, to be added over time.

We are currently leveraging our existing processes and personnel to originate and service the new assets; however, we will continue to evaluate the private label financial services business, which may include partnering with or transitioning the business to our affiliates, some of which are not consolidated with TMCC.

Although we intend to leverage our strengths and capabilities to serve and retain new private label customers, we may encounter additional costs and may fail to realize the anticipated benefits of our private label financial services program. The provision and or servicing of wholesale and retail financing to private label dealers and customers may result in additional credit risk exposure, which if we are unable to appropriately monitor and mitigate may result in an adverse effect on our results of operations and financial condition. Our private label financial services may also expose us to additional operating risks related to consumer demand for private label vehicles or mobility products, the profitability and financial condition of private label companies, the level of the private label incentivized retail financing, recalls announced by the private label and the perceived quality, safety or reliability of the private label vehicles or mobility products, and changes in prices of the private label used vehicles and their effect on residual

values of the private label off-lease vehicles and return rates, each of which may adversely affect our business, results of operations and financial condition.

FINANCIAL MARKET AND ECONOMIC RISKS

Our borrowing costs and access to the unsecured debt capital markets depend significantly on the credit ratings of TMCC and its parent companies and our credit support arrangements.

The availability and cost of financing is influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security or obligation. Our credit ratings depend, in large part, on the existence of the credit support arrangements with TFSC and TMC and on the financial condition and results of operations of TMC. If these arrangements (or replacement arrangements acceptable to the rating agencies) become unavailable to us, or if the credit ratings of the credit support providers were lowered, our credit ratings would be adversely impacted.

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

A disruption in our funding sources and access to the capital markets would have an adverse effect on our liquidity.

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

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, "Liquidity and Capital Resources" for further discussion of liquidity risk.

Our allowance for credit losses may not be adequate to cover actual losses, which may adversely affect our results of operations and financial condition.

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

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, "Critical Accounting Estimates" for further discussion of the estimates involved in determining the allowance for credit losses and Note 4 – Allowance for Credit Losses of the Notes to Consolidated Financial Statements for further discussion of the methodology used in determining the allowance for credit losses.

Our business and operations make extensive use of quantitative models, estimates and assumptions. If our design, implementation or use of models is flawed or if actual results differ from our estimates or assumptions, our results of operations and financial condition could be materially and adversely affected.

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

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

Fluctuations in the valuation of investment securities or significant fluctuations in investment market prices could negatively affect our Net financing revenues and results of operations.

Investment market prices, in general, are subject to fluctuation, which may result from perceived changes in the underlying characteristics of the investment, the relative price of alternative investments, geopolitical conditions, or general market conditions. Negative fluctuations in the fair value of equity investments and credit losses on available-for-sale debt securities may adversely affect our Net financing revenues and results of operations. Additionally, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value and could negatively affect our Net financing revenues and other revenues.

A decrease in the residual values of our off-lease vehicles and a higher number of returned lease assets could negatively affect our results of operations and financial condition.

We are exposed to residual value risk on the disposition of leased vehicles if sales proceeds realized upon the sale of returned lease assets are not sufficient to cover the residual value that was estimated at lease inception and if the number of returned lease assets is higher than anticipated. To the extent the estimated end-of-term market value of a leased vehicle is lower than the residual value established at lease inception, the residual value of the leased vehicle is adjusted downward resulting in additional depreciation expense over the term of the lease contract so that the carrying value at lease-end will approximate the estimated end-of-term market value. Among other factors, local, regional and national economic conditions, inflation, new vehicle pricing, new vehicle incentive programs, new vehicle sales, the actual or perceived quality, safety or reliability of our vehicles, future plans for new Toyota, Lexus, and private label product introductions, competitive actions and behavior, product attributes of popular vehicles, the mix of used vehicle supply, the level of current used vehicle values and inventory levels, and fuel prices heavily influence used vehicle values and thus the actual residual value of off-lease vehicles. Differences between the actual residual values realized on leased vehicles and our estimates of such values at lease inception could have a negative impact on our results of operations and financial condition, due to the impact of higher-than-anticipated Depreciation on operating leases recorded in our Consolidated Statements of Income. Actual return volumes may be higher than expected which can be impacted by higher contractual lease-end residual values relative to market values, a higher market supply of certain models of used vehicles, new vehicle incentive programs, and general economic conditions. The return of a higher number of leased vehicles could also impact the amount of depreciation expense recorded in our Consolidated Statements of Income, which could adversely affect our results of operations and financial condition.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, "Financial Condition – Residual Value Risk", "Financial Condition – Disposition of Off-Lease Vehicles" and "Financial Condition – Depreciation on Operating Leases" for further discussion of current lease trends.

We are exposed to customer and dealer credit risk, which could negatively affect our results of operations and financial condition.

Credit risk is the risk of loss arising from the failure of a customer or dealer to meet the terms of any retail, lease or dealer financing contract with us or otherwise fail to perform as agreed. An increase in credit risk would increase our provision for credit losses, which would have a negative impact on our results of operations and financial condition.

There can be no assurance that our monitoring of credit risk and our efforts to mitigate credit risk are or will be sufficient to prevent an adverse effect on our results of operations and financial condition.

The level of credit risk in our retail loan portfolio is influenced primarily by two factors: the total number of contracts that experience default (“default frequency”) and the amount of loss per occurrence (“loss severity”), which in turn are influenced by various economic factors, the used vehicle market, purchase quality mix, contract term length, and operational changes. The used vehicle market is impacted by the supply of, and demand for, used vehicles, interest rates, inflation, new vehicle incentive programs, the manufacturer’s actual or perceived reputation for quality, safety, and reliability, and the general economic outlook.

The level of credit risk in our dealer portfolio is influenced primarily by the financial strength of dealers within our portfolio, dealer concentration, collateral quality, and other economic factors. The financial strength of dealers within our portfolio is influenced by general macroeconomic conditions, the overall demand for new and used vehicles, and the financial condition of automotive manufacturers, among other factors.

Economic slowdown and recession in the U.S., extreme weather conditions, natural disasters, health epidemics, and other factors increase the risk that a customer or dealer may not meet the terms of a retail, lease or dealer financing contract with us or may otherwise fail to perform as agreed. A weak economic environment evidenced by, among other things, unemployment, underemployment, and consumer bankruptcy filings, may affect some of our customers’ and dealers’ ability to make their scheduled payments.

Our results of operations, financial condition and cash flows may be adversely affected by changes in interest rates, foreign currency exchange rates and market prices.

Market risk is the risk that changes in interest rates and foreign currency exchange rates cause volatility in our results of operations, financial condition and cash flows. An increase in interest rates (due to inflationary pressure or other factors) could have an adverse effect on our business, financial condition and results of operations by increasing our cost of capital and the rates we charge to our customers and dealers, which could, in turn, decrease our financing volumes and market share, thereby resulting in a decline in our competitive position. We use various derivative instruments to manage our market risk. However, changes in interest rates, foreign currency exchange rates and market prices cannot always be predicted or hedged. Changes in interest rates or foreign currency exchange rates (due to inflationary pressure or other factors) could affect our interest expense and the value of our derivatives, which could result in volatility in our results of operations, financial condition, and cash flows.

The transition away from the London Interbank Offered Rate (“LIBOR”) and the adoption of alternative reference rates could adversely impact our business and results of operations.

We are exposed to LIBOR-based financial instruments, including through our dealer financing activities, derivative contracts, secured and unsecured debt, and investment securities.

The publication of non-U.S. dollar LIBOR rates on a representative basis, as well as the publication of the lesser used 1-week and 2-month U.S. dollar LIBOR tenors, ceased as of the end of December 2021. While the most commonly used U.S. dollar LIBOR tenors are expected to continue to be published until June 30, 2023, U.S. banking agencies issued guidance that financial institutions should cease using U.S. dollar LIBOR as a reference rate in new contracts after December 31, 2021. A transition away from the widespread use of LIBOR to alternative rates and other potential interest rate benchmark reforms has begun and is continuing. These reforms have caused and may in the future cause such rates to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted.

In June 2017, the New York Federal Reserve’s Alternative Reference Rates Committee announced the Secured Overnight Financing Rate (“SOFR”) as its recommended alternative to U.S. dollar LIBOR. The composition and characteristics of SOFR are not the same as those of LIBOR. As a result, there can be no assurance that SOFR or any alternative reference rate will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, regulatory, judicial or other events. With limited operating history, it remains unknown whether SOFR will be broadly accepted, whether it will continue to evolve, and what the effects of its implementation may be on the markets for financial instruments. If SOFR or another rate does not achieve wide acceptance as the alternative to LIBOR, there likely will be disruption to the markets relying on the availability of a broadly accepted reference rate.

To facilitate an orderly transition from LIBOR to alternative reference rates, we have established an initiative led by senior management, with Board and committee oversight. As a result of this initiative, we have committed to using SOFR linked rates in connection with various borrowing arrangements and Prime in connection with various lending arrangements, and we continue to evaluate other alternatives as potential alternative reference rates to LIBOR. Even if an alternative reference rate becomes widely accepted, we may continue to be subject to risk on outstanding instruments which rely on LIBOR. Those risks arise in connection with transitioning such instruments to a new reference rate, the taking of discretionary actions (for example, under fallback provisions) or the negotiation of fallback provisions and final amendments to existing LIBOR based agreements. If a contract or instrument is not transitioned to a new reference rate and LIBOR ceases to exist, we may experience increased interest rate risk. In addition, we may be dependent on third parties to upgrade their systems, software, and other critical functions to assist in our orderly transition from LIBOR. A failure to properly transition away from LIBOR could expose us to various financial, operational, and regulatory risks, which could have a significant impact on our financial condition and results of operations.

The failure or commercial soundness of our counterparties and other financial institutions may have an effect on our liquidity, results of operations or financial condition.

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

Our voluntary protection operations could suffer losses if our reserves are insufficient to absorb actual losses.

Our voluntary protection operations are subject to the risk of loss if our reserves for unearned voluntary protection contract revenues and insurance earned premiums on contracts in force are not sufficient. Using historical loss experience as a basis for recognizing revenue over the term of the contract or policy may result in the timing of revenue recognition varying materially from the actual loss development. Our voluntary protection operations are also subject to the risk of loss if our reserves for reported losses, losses incurred but not reported, and loss adjustment expenses are not sufficient. Because we use estimates in establishing reserves, actual losses may vary from amounts established in earlier periods as a result of changes in frequency and severity.

We are exposed to risk transfer credit risk which could negatively impact our voluntary protection operations.

Risk transfer credit risk is the risk that a reinsurer or other company assuming liabilities relating to our voluntary protection operations will be unable to meet its obligations under the terms of our agreement with them. Such failure could result in losses to our voluntary protection operations.

REGULATORY, LEGAL AND OTHER RISKS

Changes in accounting standards issued by the Financial Accounting Standards Board (“FASB”) could adversely affect our results of operations and financial condition.

Our accounting and financial reporting policies conform to accounting principles generally accepted in the U.S., which are periodically revised and/or expanded. The application of accounting principles is also subject to varying interpretations over time. Accordingly, we are required to adopt new or revised accounting standards or comply with revised interpretations that are issued from time to time by various parties, including accounting standard setters and those who interpret the standards, such as the FASB and the SEC and our independent registered public accounting firm. The FASB has proposed new financial accounting standards that may result in significant changes that could adversely affect our results of operations and financial condition.

Refer to Note 1 – Basis of Presentation and Significant Accounting Policies of the Notes to the Consolidated Financial Statements for further discussion of these new accounting standards, including the potential impact to TMCC’s consolidated financial statements.

A failure or interruption of our information systems could adversely affect our business, results of operations and financial condition.

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

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

A security breach or a cyber-attack could adversely affect our business, results of operations and financial condition.

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

We rely on encryption and other information security technologies licensed from third parties to provide security controls necessary to help in securing online transmission of confidential information pertaining to customers, employees and other aspects of our business. Advances in information system capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the technology that we use to protect sensitive data. A party who is able to circumvent our security measures by methods such as hacking, fraud, trickery or other forms of deception could misappropriate proprietary information or cause interruption in our operations. We may be required to expend capital and other resources to protect against such security breaches or cyber-attacks or to remediate problems caused by such breaches or attacks. Our security measures are designed to protect against security breaches and cyber-attacks, but our failure to prevent such security breaches and cyber-attacks could subject us to liability, decrease our profitability and damage our reputation. Even if a failure of, or interruption in, our systems or facilities is resolved timely or an attempted cyber incident or other security breach is successfully

avoided or thwarted, it may require us to expend substantial resources or to take actions that could adversely affect customer satisfaction or behavior and expose us to reputational harm.

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

Our enterprise data practices, including the collection, use, sharing, disposal and security of personal and financial information of our customers, employees, and third-party individuals are subject to increasingly complex, restrictive, and punitive laws and regulations which could adversely affect our business, results of operations and financial condition.

Under these laws and regulations, the failure to maintain compliant data practices could result in consumer complaints, lawsuits and regulatory inquiry, resulting in civil or criminal penalties, as well as brand impact or other harm to our business. In addition, increased consumer sensitivity to real or perceived failures in maintaining acceptable data practices could damage our reputation and deter current and potential customers from using our products and services. For example, well-publicized allegations involving the misuse or inappropriate sharing of personal information have led to expanded governmental scrutiny of practices relating to the safeguarding of personal information and the use or sharing of personal data by companies in the U.S. and other countries. That scrutiny has in some cases resulted in, and could in the future lead to, the adoption of stricter laws and regulations relating to the use and sharing of personal information. For example, some states have enacted and others are considering enacting data protection regimes that grant consumers broad new rights including access to, deletion of, and limiting the sharing of personal information that is collected by businesses and requiring regulated entities to establish measures to identify, manage, secure, track, produce, update and delete personal information. In some jurisdictions, these laws and regulations provide a private right of action that would allow customers to bring suit directly against us for certain violations of these laws and regulations. These types of laws and regulations could prohibit or significantly restrict financial services providers such as TMCC from sharing information among affiliates or with third parties such as vendors, and thereby increase compliance costs, or could restrict TMCC's use of personal data when developing or offering products or services to customers. These restrictions could inhibit TMCC's development or marketing of certain products or services or increase the costs of offering them to customers. Because many of these laws and regulations are new, there is little clarity as to their interpretation, as well as a lack of precedent for the scope of enforcement. In addition, these laws are state specific and have specific details that are not uniform state-to-state. The cost of compliance with these laws and regulations will be high and is likely to increase in the future. Any failure or perceived failure to comply with applicable privacy or data protection laws and regulations could result in requirements to modify or cease certain operations or practices, significant liabilities or fines, penalties or other sanctions.

The regulatory environment in which we operate could have a material adverse effect on our business and results of operations.

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

Consumer Finance Regulation

As a provider of finance and voluntary protection products, we operate in a highly regulated environment. We are subject to state licensing requirements and state, and federal laws and regulations. In addition, we are subject to governmental and regulatory examinations, information-gathering requests, and investigations from time to time at the state and federal levels. Compliance with applicable law is costly and can affect our results of operations. Compliance requires forms, processes, procedures, controls and the infrastructure to support these requirements. Compliance may create operational constraints and place limits on pricing, as the laws and regulations in the financial services industry are designed primarily for the protection of consumers. Changes in laws and regulations could restrict our ability to operate our business as currently operated, could impose substantial additional costs or require us to implement new processes, which could adversely affect our business, prospects, financial performance or financial condition. The failure to comply with applicable laws and regulations could result in significant statutory civil and criminal fines, penalties, monetary damages, attorney or legal fees and costs, restrictions on our ability to operate our business, possible revocation of licenses and damage to our reputation, brand and valued customer relationships. Any such costs, restrictions, revocations or damage could adversely affect our business, prospects, results of operations or financial condition.

Our principal consumer finance regulator at the federal level is the CFPB, which has broad regulatory, supervisory and enforcement authority over us. The CFPB's supervisory authority allows it, among other things, to conduct comprehensive and rigorous examinations to assess our compliance with consumer financial protection laws, which could result in enforcement actions, regulatory fines and mandated changes to our business products, policies and procedures.

The CFPB's rulemaking authority includes the authority to promulgate rules regarding, among other practices, debt collection practices that would apply to third-party collectors and first-party collectors, such as ourselves, and rules regarding consumer credit reporting practices. The timing and impact of these rules on our business remain uncertain. In addition, the CFPB has focused on the area of auto finance, particularly with respect to indirect financing arrangements, dealer compensation and fair lending compliance, and questioned the value and increased scrutiny of the marketing and sale of certain ancillary or add-on products, including products similar to those we finance or sell through TMIS.

The CFPB and FTC may investigate the products, services and operations of credit providers, including banks and other finance companies engaged in auto finance activities. As a result of such investigations, the CFPB and FTC have announced various enforcement actions against lenders in the past few years involving significant penalties, consent orders, cease and desist orders and similar remedies that, if applicable to us or the products, services and operations we offer, may require us to cease or alter certain business practices, which could have a material adverse effect on our results of operations, financial condition, and liquidity. Supervision and investigations by these agencies may result in monetary penalties, increase our compliance costs, require changes in our business practices, affect our competitiveness, impair our profitability, harm our reputation or otherwise adversely affect our business.

Refer to Item 1. Business, "Regulatory Environment" for further discussion of the CFPB's authority and activities.

At the state level, state regulators are taking a more stringent approach to supervising and regulating financial products and services subject to their jurisdiction. For example, certain states have proposed rate cap bills that would put limits on the maximum rate of finance charges. We expect to continue to face greater supervisory scrutiny and enhanced supervisory requirements for the foreseeable future.

Other Federal Regulation

Under the Volcker Rule companies affiliated with U.S. insured depository institutions are generally prohibited from engaging in "proprietary trading" and certain transactions with certain privately offered funds. The activities prohibited by the Volcker Rule are not core activities for us. However, the federal financial regulatory agencies charged with implementing the Volcker Rule could further amend the rule or change their approach to administering, enforcing or interpreting the rule, which could negatively affect us and potentially require us to limit or change our activities or operations.

The Dodd-Frank Act amended the CEA to establish a framework for the regulation of certain OTC derivatives referred to as swaps. The OTC derivatives provisions of the CEA, as amended by the Dodd-Frank Act, impose clearing, trading and margin requirements on certain contracts. At present, we qualify for exceptions from these requirements for the swaps that we enter into to hedge our commercial risks. However, if we were to no longer qualify for such exceptions, we could become subject to some or all of these requirements, which would increase our cost of entering into and maintaining such hedging positions.

If we reduce our use of OTC derivatives as a result of the Dodd-Frank Act and resulting regulations, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures.

Environmental Related Regulation

Concern over climate change or other environmental matters may result in new or increased legal and regulatory requirements 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) may require us to alter our proposed business plans, lead to increased compliance costs and changes to our operations and could have an adverse effect on our business, results of operations and financial condition.

Refer to Item 1. Business, “Regulatory Environment” for additional information on our regulatory environment.

Adverse economic conditions or changes in state laws in states in which we have customer concentrations may negatively affect our results of operations and financial condition.

We are exposed to geographic customer concentration risk on our retail, lease, dealer, and voluntary protection products in certain states. Factors adversely affecting the economies and applicable laws in the states where we have concentration risk could have an adverse effect on our results of operations and financial condition.

Refer to Note 1 – Basis of Presentation and Significant Accounting Policies of the Notes to Consolidated Financial Statements for additional information and disclosure about customer concentrations in certain states.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved SEC staff comments to report.

ITEM 2. PROPERTIES

Our headquarters operations are located in Plano, Texas, and our facilities are leased from TMNA.

Additional operations for both finance and voluntary protection products are located in three CSCs and three DSCs. The Central region CSC is located in Cedar Rapids, Iowa, and is leased from TMNA. The Western region CSC is located in Chandler, Arizona. The Eastern region CSC is located in Owings Mills, Maryland. The Central DSC is located in Plano, Texas. The Western DSC is located in Chandler, Arizona. The Eastern DSC is located in Alpharetta, Georgia. Our dealer lending function is centralized at the Central DSC. We also have a sales and operations office in Puerto Rico. All premises are occupied under lease.

While we believe that our properties are suitable to meet the current requirements of our business, over the next year, we plan to complete the process of moving our three CSCs to be co-located with the regional DSCs to better serve our customers. Refer to Item 1. Business, “General” for further discussion of the field operations restructuring.

ITEM 3. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 9 – Commitments and Contingencies of the Notes to Consolidated Financial Statements - Litigation and Governmental Proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

TMCC is a wholly-owned subsidiary of TFSIC, and accordingly, all shares of TMCC's stock are owned by TFSIC. There is no market for TMCC's stock.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in this Form 10-K are “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and currently available information. However, since these statements are based on factors that involve risks and uncertainties, our performance and results may differ materially from those described or implied by such forward-looking statements. Words such as “believe,” “anticipate,” “expect,” “estimate,” “project,” “should,” “intend,” “will,” “may” or words or phrases of similar meaning are intended to identify forward-looking statements. We caution that the forward-looking statements involve known and unknown risks, uncertainties and other important factors such as the following that may cause actual results to differ materially from those stated:

- Risks related to health epidemics and other outbreaks;
- Changes in general business, economic, and geopolitical conditions, including trade policy, as well as in consumer demand and the competitive environment in the automotive markets in the United States;
- A decline in TMNA or any private label sales volume and the level of TMNA or any private label sponsored subvention, cash, and contractual residual value support incentive programs;
- Extreme weather conditions, natural disasters, changes in fuel prices, manufacturing disruptions and production suspensions of Toyota, Lexus, and private label vehicles and related parts supply;
- Increased competition from other financial institutions seeking to increase their share of financing Toyota, Lexus, and private label vehicles;
- Changes in consumer behavior;
- Recalls announced by TMNA or private label companies and the perceived quality of Toyota, Lexus, and any private label vehicles;
- Availability and cost of financing;
- Failure or interruption in our operations, including our communications and information systems, or as a result of our failure to retain existing or to attract new key personnel;
- Increased cost, credit and operating risk exposure, or our failure to realize the anticipated benefits from our private label financial services to third-party automotive and mobility companies, including Mazda and Bass Pro Shops;
- Changes in our credit ratings and those of our ultimate parent, TMC and changes in our credit support arrangements;
- Changes in our financial position and liquidity, or changes or disruptions in our funding sources or access to the global capital markets;
- Revisions to the estimates and assumptions for our allowance for credit losses;
- Flaws in the design, implementation and use of quantitative models and revisions to the estimates and assumptions that are used to determine the value of certain assets;
- Fluctuations in the value or market prices of our investment securities;
- Changes in prices of used vehicles and their effect on residual values of our off-lease vehicles and return rates;
- Failure of our customers or dealers to meet the terms of any contract with us, or otherwise perform as agreed;
- Fluctuations in interest rates and foreign currency exchange rates;
- Failure or changes in commercial soundness of our counterparties and other financial institutions;
- Insufficient establishment of reserves, or the failure of a reinsurer to meet its obligations, in our voluntary protection operations;

- *Changes to existing, or adoption of new, accounting standards;*
- *A security breach or a cyber-attack;*
- *Failure to maintain compliant enterprise data practices, including the collection, use, sharing, and security of personally identifiable and financial information of our customers and employees;*
- *Compliance with current laws and regulations or becoming subject to more stringent laws, regulatory requirements and regulatory scrutiny;*
- *Changes in the economies and applicable laws in the states where we have concentration risk; and*
- *Other risks and uncertainties set forth in Part I, Item 1A. Risk Factors.*

Forward-looking statements speak only as of the date they are made. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements.

OVERVIEW

Key Performance Indicators and Factors Affecting Our Business

In our finance operations, we generate revenue, income, and cash flows by providing retail, lease, and dealer financing to dealers and their customers. We measure the performance of our finance operations using the following metrics: financing volume, market share, Net financing revenues, Operating and administrative expense, residual value and credit loss metrics.

In our voluntary protection operations, we generate revenue primarily through marketing, underwriting, and providing claims administration for products that cover certain risks of customers. We measure the performance of our voluntary protection operations using the following metrics: issued contract volume, average number of contracts in force, loss metrics and investment income.

Our financial results are affected by a variety of economic and industry factors including, but not limited to, new and used vehicle markets, Toyota, Lexus, and private label new vehicle production volume, vehicle inventory levels, vehicle sales and incentive programs, consumer behavior, employment levels, our ability to respond to changes in interest rates with respect to both contract pricing and funding, the actual or perceived quality, safety or reliability of Toyota, Lexus, and private label vehicles, the financial health of the dealers we finance, and competitive pressure. Our financial results may also be affected by the regulatory environment in which we operate, including as a result of new legislation or changes in regulation and any compliance costs or changes we may be required to make to our business practices. All of these factors can influence consumer contract and dealer financing volume, the number of consumer contracts and dealers that default and the loss per occurrence, our inability to realize originally estimated contractual residual values on leased vehicles, the volume and performance of our voluntary protection operations, and our Net financing revenues on consumer and dealer financing volume. Changes in the volume of vehicle sales, sales of our voluntary protection products, or the level of voluntary protection expenses and insurance losses could materially and adversely impact our voluntary protection operations. Additionally, our funding programs and related costs are influenced by changes in the global capital markets, prevailing interest rates, and our credit ratings and those of our parent companies, which may affect our ability to obtain cost effective funding to support earning asset growth.

Our primary competitors are other financial institutions including national and regional commercial banks, credit unions, savings and loan associations, independent voluntary protection product contract providers, online banks, finance companies and, to a lesser extent, other automobile manufacturers' affiliated finance companies that actively seek to purchase consumer contracts through Toyota, Lexus, and private label dealers. We strive to achieve the following:

Exceptional Customer Service: Our relationship with Toyota, Lexus, and private label dealers and their customers offers us a competitive advantage. We seek to leverage this opportunity by providing exceptional service to the dealers and their customers. Through our DSCs and CSCs, we work closely with the dealers to improve the quality of service we provide to them. We also focus on assisting the dealers with the quality of their customer service operations to enhance customer loyalty for the dealers and the Toyota, Lexus, and private label brands. By providing consistent and reliable support, training, and resources to our dealer network, we continue to develop and improve our dealer relationships. In addition to marketing programs targeted toward customer retention, we work closely with TMNA, private label companies, and other third-party distributors to offer special retail, lease, dealer financing, and voluntary protection products. We also focus on providing a positive customer experience to existing retail, lease, and voluntary protection product customers through our CSCs.

Risk-Based Origination and Pricing: We price and structure our retail and lease contracts to compensate us for the credit risk we assume. The objective of this strategy is to maximize operating results and better match contract rates across a broad range of risk levels. To achieve this objective, we evaluate our existing portfolio for key opportunities to expand volume in targeted markets. We deliver timely strategic information to the dealers to assist them in benefiting from market opportunities. We continuously strive to refine our strategy and methodology for risk-based pricing.

Liquidity: Our liquidity strategy is to maintain the capacity to fund assets and repay liabilities in a timely and cost-effective manner even in adverse market conditions. This capacity is primarily driven by our ability to raise funds in the global capital markets and through loans, credit facilities, and other transactions, as well as our ability to generate liquidity from our earnings assets. Our pursuit of this strategy has led us to develop a diversified borrowing base that is distributed across a variety of markets, geographies, investors, and financing structures, among other factors.

Fiscal 2022 Operating Environment

During the fiscal year ending March 31, 2022 (“fiscal 2022”), the U.S. economy continued to be impacted by the global pandemic of COVID-19 and related variants and the extraordinary governmental measures intended to slow its spread. In conjunction with increases in vaccination rates and the easing of restrictive measures throughout fiscal 2022, there has been improvement in unemployment levels and consumer confidence from fiscal 2021 pandemic lows, but neither measure has returned to its pre-pandemic level. There remains uncertainty around the duration and the severity of the COVID-19 pandemic, the timing and strength of the economy’s recovery, and the impacts of government support and lender relief programs ending. In addition, during fiscal 2022, inflation has increased significantly from pandemic lows in fiscal 2021 and has remained at elevated levels. The impact of the COVID-19 pandemic on our future operations is difficult to predict, but the curtailment of economic activities as a result of further outbreak of COVID-19, extended or additional government restrictions intended to slow the spread of the virus, ending of government support programs, delayed consumer response to the lifting of restrictive measures, or permanent behavior changes in consumer spending could have further negative impact on consumer economics, dealerships, and auction sites, which could have a material adverse impact on our business, financial condition, and future results of operations. In addition, changes in the economy that adversely impact the consumer, such as inflation, higher interest rates, elevated debt levels and an increase in unemployment from the current levels could adversely impact our results of operations.

Economic conditions caused by the COVID-19 pandemic, including production halts and supply shortages affecting the automotive industry and additional delays affecting the supply chain and logistics networks, have resulted in a decrease in dealer new vehicle inventory levels. This includes the global shortage of semiconductor chips and other parts and raw materials the automotive industry continues to face. The duration and severity of the supply chain disruptions and shortages, including but not limited to the semiconductor chips, are difficult to predict, but should these persist or become more severe, the negative impact to the manufacturers’ vehicle production and dealer new vehicle inventory levels could adversely impact our results of operations.

Average used vehicle values further increased in fiscal 2022 compared to fiscal 2021 and remain elevated compared to historical levels, primarily due to the lack of availability of new vehicles. Future declines in used vehicle values resulting from increases in the supply of new and used vehicles and increases in new vehicle sales incentives could unfavorably impact return rates, residual values, depreciation expense and credit losses in the future.

Conditions in the global capital markets were generally stable during the first nine months of fiscal 2022; however, during the fourth quarter of fiscal 2022, credit spreads widened and markets experienced periods of volatility in response to the conflict in Ukraine, increases in the inflation rate, and uncertainty regarding the path of U.S. monetary policy. While we continue to maintain broad global access to both domestic and international markets, these events could lead to cause further disruptions in the global capital markets and increases to our funding costs. Future changes in interest rates in the U.S. and foreign markets could result in volatility in our interest expense, which could affect our results of operations.

RESULTS OF OPERATIONS

(Dollars in millions)	Years ended March 31,		
	2022	2021	2020
Net income:			
Finance operations ¹	\$ 2,416	\$ 1,606	\$ 684
Voluntary protection operations ¹	119	411	229
Total net income	<u>\$ 2,535</u>	<u>\$ 2,017</u>	<u>\$ 913</u>

¹ Refer to Note 14 – Segment Information of the Notes to Consolidated Financial Statement for the total asset balances of our finance operations and voluntary protection operations.

Fiscal 2022 Compared to Fiscal 2021

Our consolidated net income was \$2,535 million in fiscal 2022, compared to \$2,017 million in fiscal 2021. The increase in net income for fiscal 2022 compared to fiscal 2021 was primarily due to a \$901 million decrease in interest expense, a \$190 million decrease in provision for credit losses, a \$121 million increase in total financing revenues, a \$86 million decrease in depreciation on operating leases, partially offset by a \$436 million decrease in investment and other income, net, a \$210 million increase in operating and administrative expense, and a \$157 million increase in provision for income taxes.

Our overall capital position increased \$2.5 billion, bringing total shareholder's equity to \$18.1 billion at March 31, 2022, as compared to \$15.6 billion at March 31, 2021. Our debt decreased to \$109.2 billion at March 31, 2022 from \$109.7 billion at March 31, 2021. Our debt-to-equity ratio decreased to 6.0 at March 31, 2022 from 7.0 at March 31, 2021.

Fiscal 2021 Compared to Fiscal 2020

Our consolidated net income was \$2,017 million in fiscal 2021, compared to \$913 million in fiscal 2020. The increase in net income for fiscal 2021 compared to fiscal 2020 was primarily due to an \$888 million decrease in depreciation on operating leases, a \$532 million decrease in interest expense, a \$164 million decrease in provision for credit losses, an \$88 million increase in investment and other income, net, an \$86 million decrease in voluntary protection contract expenses and insurance losses, and a \$74 million decrease in operating and administrative expense, partially offset by a \$521 million increase in provision for income taxes, and a \$230 million decrease in total financing revenues.

Our overall capital position, taking into account the payment of a \$700 million dividend in March 2021 to TFSIC, increased \$1.1 billion, bringing total shareholder's equity to \$15.6 billion at March 31, 2021, as compared to \$14.5 billion at March 31, 2020. The adoption of ASU 2016-13 resulted in a cumulative-effect adjustment to decrease opening retained earnings by approximately \$218 million, net of taxes, resulting from a pretax increase to our allowance for credit losses on finance receivables of approximately \$292 million. Our debt increased to \$109.7 billion at March 31, 2021 from \$97.7 billion at March 31, 2020. Our debt-to-equity ratio increased to 7.0 at March 31, 2021 from 6.7 at March 31, 2020.

Finance Operations

The following table summarizes key results of our Finance Operations:

(Dollars in millions)	Years ended March 31,			Percentage change	
	2022	2021	2020	2022 to 2021	2021 to 2020
Financing revenues:					
Operating lease	\$ 8,337	\$ 8,481	\$ 8,775	(2)%	(3)%
Retail	3,254	2,905	2,558	12%	14%
Dealer	329	413	696	(20)%	(41)%
Total financing revenues	11,920	11,799	12,029	1%	(2)%
Depreciation on operating leases ¹	5,846	5,932	6,820	(1)%	(13)%
Interest expense	1,401	2,302	2,854	(39)%	(19)%
Net financing revenues	4,673	3,565	2,355	31%	51%
Investment and other income, net	45	93	155	(52)%	(40)%
Net financing and other revenues	4,718	3,658	2,510	29%	46%
Expenses:					
Provision for credit losses ¹	236	426	590	(45)%	(28)%
Operating and administrative	1,311	1,124	1,197	17%	(6)%
Total expenses	1,547	1,550	1,787	-%	(13)%
Income before income taxes	3,171	2,108	723	50%	192%
Provision for income taxes	755	502	39	50%	1187%
Net income from finance operations	\$ 2,416	\$ 1,606	\$ 684	50%	135%

¹ In conjunction with the adoption of ASU 2016-13 in fiscal 2021, we updated our depreciation policy for operating leases and changed our presentation for reporting early termination expenses related to our investments in operating leases. We now present the effects of operating lease early terminations in Depreciation on operating leases. The information for the comparative period continues to be reported within the Provision for credit losses.

Our finance operations reported net income of \$2,416 million and \$1,606 million during fiscal 2022 and 2021, respectively. The increase in net income from finance operations for fiscal 2022 compared to fiscal 2021 was due to a \$901 million decrease in interest expense, a \$190 million decrease in provision for credit losses, a \$121 million increase in total financing revenues, and an \$86 million decrease in depreciation on operating leases, partially offset by a \$253 million increase in provision for income taxes, a \$187 million increase in operating and administrative expenses, and a \$48 million decrease in investment and other income, net.

Financing Revenues

Total financing revenues increased 1 percent during fiscal 2022 compared to fiscal 2021 due to the following:

- Operating lease revenues decreased 2 percent in fiscal 2022 as compared to fiscal 2021, due to lower average outstanding earning asset balances partially offset by higher portfolio yields.
- Retail financing revenues increased 12 percent in fiscal 2022 as compared to fiscal 2021, due to higher average outstanding earning asset balances partially offset by lower portfolio yields.
- Dealer financing revenues decreased 20 percent in fiscal 2022 as compared to fiscal 2021, due to lower average outstanding earning asset balances from lower average inventory levels partially offset by higher portfolio yields.

As a result of the above, our total portfolio yield, which includes operating lease, retail and dealer financing revenues, decreased to 5.0 percent for fiscal 2022, compared to 5.1 percent for fiscal 2021.

Depreciation on Operating Leases

We recorded depreciation on operating leases of \$5,846 million during fiscal 2022 compared to \$5,932 million during fiscal 2021. The decrease is primarily due to lower average operating lease units outstanding, partially offset by residual value losses. The economic conditions caused by the COVID-19 pandemic and the current conflict in Ukraine, including production halts and supply shortages affecting the automotive industry and additional delays affecting the supply chain and logistics networks, have resulted in a decrease in the availability of new vehicles. The lower levels of new vehicle inventory and higher off-lease vehicle purchases by dealers have led to historically high levels of average used vehicle values. Declines in used vehicle values resulting from increases in the supply of new vehicles and increases in new vehicle sales incentives could unfavorably impact return rates, residual values, and depreciation expense in the future.

Interest Expense

Our liabilities consist mainly of fixed and variable rate debt, denominated in U.S. dollars and various other currencies, which we issue in the global capital markets, while our assets consist primarily of U.S. dollar denominated, fixed rate receivables. We enter into interest rate swaps and foreign currency swaps to economically hedge the interest rate and foreign currency risks that result from the different characteristics of our assets and liabilities. The following table summarizes the components of interest expense:

(Dollars in millions)	Years ended March 31,		
	2022	2021	2020
Interest expense on debt	\$ 1,498	\$ 1,954	\$ 2,488
Interest expense on derivatives	107	420	180
Interest expense on debt and derivatives	1,605	2,374	2,668
(Gains) losses on debt denominated in foreign currencies	(438)	1,402	(703)
Losses (gains) on foreign currency swaps	818	(1,351)	650
(Gains) losses on U.S. dollar interest rate swaps	(584)	(123)	219
Total interest expense	<u>\$ 1,401</u>	<u>\$ 2,302</u>	<u>\$ 2,834</u>

During fiscal 2022, total interest expense decreased to \$1,401 million from \$2,302 million in fiscal 2021. The decrease is attributable to a decrease in interest expense on debt and derivatives combined and higher gains on U.S. dollar interest rate swaps, partially offset by losses on foreign currency swaps net of gains from debt denominated in foreign currencies.

Interest expense on debt and derivatives primarily represents contractual net interest settlements and changes in accruals on secured and unsecured notes and loans payable and derivatives, and includes amortization of discounts, premiums, and debt issuance costs. During fiscal 2022, interest expense on debt and derivatives decreased to \$1,605 million from \$2,374 million in fiscal 2021. The decrease in interest expense on debt is primarily due to decrease in weighted average interest rates. The decrease in interest expense on derivatives is primarily due to decrease in interest expense on pay fixed swaps.

Gains or losses on debt denominated in foreign currencies represent the impact of translation adjustments. We use foreign currency swaps to economically hedge the debt denominated in foreign currencies. During fiscal 2022 and fiscal 2021, we recorded net losses of \$380 million and \$51 million, respectively, primarily due to increases in foreign currency swap rates across the various currencies in which our debt is denominated.

Gains or losses on U.S. dollar interest rate swaps represent the change in the valuation of interest rate swaps. During fiscal 2022 and fiscal 2021, we recorded gains of \$584 million and \$123 million, respectively, primarily due to increases in U.S. dollar swap rates and net interest income on our pay-fixed swaps exceeding losses on our pay-float swaps.

Future changes in interest and foreign currency exchange rates could continue to result in significant volatility in our interest expense, thereby affecting our results of operations.

Investment and Other Income, Net

We recorded investment and other income, net of \$45 million for fiscal 2022, compared to \$93 million for fiscal 2021. The decrease in investment and other income, net for fiscal 2022 compared to fiscal 2021 was primarily due to lower average balances in our cash equivalents and investment in marketable securities portfolio.

Provision for Credit Losses

We recorded a provision for credit losses of \$236 million for fiscal 2022, compared to \$426 million for fiscal 2021. In fiscal 2022, in conjunction with continued improved dealer financial performance and lower charge-offs, the lower volatility in the macroeconomic conditions resulted in a lower provision for credit losses for our retail loan portfolio. In contrast, in fiscal 2021, we increased the expected credit losses for our retail loan portfolio due to a decline in economic conditions caused by the COVID-19 pandemic and the restrictions designed to slow the spread of COVID-19, which resulted in stay-at-home orders, increased unemployment, and decreased consumer spending.

Operating and Administrative Expenses

We recorded operating and administrative expenses of \$1,311 million during fiscal 2022 compared to \$1,124 million during fiscal 2021. The increase in operating and administrative expenses for fiscal 2022, compared to fiscal 2021, was primarily due to increases in employee expenses and general operating expenses.

Voluntary Protection Operations

The following table summarizes key results of our Voluntary Protection Operations:

	Years ended March 31,			Percentage change	
	2022	2021	2020	2022 to 2021	2021 to 2020
Contracts (units in thousands)					
Issued	3,020	2,604	2,593	16%	-%
Average in force	9,989	9,525	9,301	5%	2%
(Dollars in millions)					
Voluntary protection contract revenues and insurance earned premiums	\$ 1,015	\$ 956	\$ 933	6%	2%
Investment and other (loss) income, net	(71)	317	187	(122)%	70%
Revenues from voluntary protection operations	944	1,273	1,120	(26)%	14%
Expenses:					
Voluntary protection contract expenses and insurance losses	405	369	455	10%	(19)%
Operating and administrative	386	363	364	6%	-%
Total expenses	791	732	819	8%	(11)%
Income before income taxes	153	541	301	(72)%	80%
Provision for income taxes	34	130	72	(74)%	81%
Net income from voluntary protection operations	<u>\$ 119</u>	<u>\$ 411</u>	<u>\$ 229</u>	(71)%	79%

Our voluntary protection operations reported net income of \$119 million for fiscal 2022 compared to \$411 million for fiscal 2021. The decrease in net income from voluntary protection operations for fiscal 2022 compared to fiscal 2021 was primarily due to a \$388 million decrease in investment and other (loss) income, net, and a \$36 million increase in voluntary protection contract expenses and insurance losses, partially offset by a \$96 million decrease in provision for income taxes and a \$59 million increase in voluntary protection contract revenues and insurance earned premiums.

Contracts issued increased 16 percent primarily due to prepaid maintenance, vehicle service, and tire and wheel protection contracts during fiscal 2022 compared to fiscal 2021. The higher contract issuances for fiscal 2022, compared to fiscal 2021, was mainly due to the continued growth of our private label services and our issuances were negatively impacted in fiscal year 2021 by the decline in economic conditions caused by the COVID-19 pandemic and the restrictions designed to slow the spread of COVID-19. The average number of contracts in force increased 5 percent during fiscal 2022 compared to fiscal 2021, due to net growth in the voluntary protection portfolio in recent years, most notably in prepaid maintenance, guaranteed auto protection and vehicle service contracts.

Revenue from Voluntary Protection Operations

Our voluntary protection operations reported voluntary protection contract revenues and insurance earned premiums of \$1,015 million for fiscal 2022 compared to \$956 million for fiscal 2021. Voluntary protection contract revenues and insurance earned premiums represent revenues from in force contracts and are affected by issuances as well as the level, age, and mix of in force contracts. Voluntary protection contract revenues and insurance earned premiums are recognized over the term of the contracts in relation to the timing and level of anticipated claims. The increase in voluntary protection contract revenues and insurance earned premiums in fiscal 2022 compared to fiscal 2021 was primarily due to an increase in our average in force contracts resulting from net growth in the voluntary protection portfolio in recent years.

Investment and Other (Loss) Income, Net

Our voluntary protection operations reported investment and other loss, net of \$71 million for fiscal 2022 compared to investment and other income, net of \$317 million for fiscal 2021. Investment and other (loss) income, net, consists primarily of dividend and interest income, realized gains and losses on investments in marketable securities, changes in fair value from equity and available-for-sale debt securities for which the fair value option was elected, and credit loss expense on available-for-sale debt securities, if any. The decrease in investment and other income, net in fiscal 2022, compared to fiscal 2021, was primarily due to losses from the changes in fair value on our equity investments and available-for-sale debt securities for which the fair value option was elected as a result of market volatility, and a decrease in dividend income. Should market volatility persist or become more severe, it could continue to negatively impact our results of operations.

Voluntary Protection Contract Expenses and Insurance Losses

Our voluntary protection operations reported voluntary protection contract expenses and insurance losses of \$405 million for fiscal 2022 compared to \$369 million for fiscal 2021. Voluntary protection contract expenses and insurance losses incurred are a function of the amount of covered risks, the frequency and severity of claims associated with in force contracts and the level of risk retained by our voluntary protection operations. Voluntary protection contract expenses and insurance losses include amounts paid and accrued for reported losses, estimates of losses incurred but not reported, and any related claim adjustment expenses. The increase in voluntary protection contract expenses and insurance losses in fiscal 2022 compared to fiscal 2021 was primarily due to an increase in frequency of claims in our prepaid maintenance, tire and wheel protection and vehicle service contracts. These higher losses were partially offset by a decrease in losses on our guaranteed auto protection contracts in fiscal 2022, compared to fiscal 2021, which was driven by a decrease in frequency of claims. Our voluntary protection contract expenses and insurance losses in fiscal 2021 were impacted by lower claims as a result of changes in consumer driving patterns caused by the COVID-19 pandemic, including restrictions and other changes in behavior.

Operating and Administrative Expenses

Our voluntary protection operations reported operating and administrative expenses of \$386 million for fiscal 2022 compared to \$363 million for fiscal 2021. The increase in operating and administrative expenses in fiscal 2022 as compared to fiscal 2021 was attributable to higher product expenses driven by the continued growth of our voluntary protection product business as well as higher dealer back-end expenses. Dealer back-end program expenses are incentives or expense reduction programs we offer to dealers based on certain performance criteria.

Provision for Income Taxes

We recorded a provision for income taxes of \$789 million for fiscal 2022, compared to \$632 million for fiscal 2021. Our effective tax rate for both fiscal 2022 and fiscal 2021 was 24 percent. The increase in the provision for income taxes for fiscal 2022, compared to fiscal 2021, was primarily due to an increase in income before income taxes.

FINANCIAL CONDITION

Vehicle Financing Volume and Net Earning Assets

The composition of our vehicle contract volume and market share is summarized below:

(units in thousands):	Years ended March 31,			Percentage change	
	2022	2021	2020	2022 to 2021	2021 to 2020
Vehicle financing volume ¹:					
New retail contracts	697	748	630	(7)%	19%
Used retail contracts	466	482	337	(3)%	43%
Lease contracts	423	498	470	(15)%	6%
Total	<u>1,586</u>	<u>1,728</u>	<u>1,437</u>	<u>(8)%</u>	<u>20%</u>
TMNA subvented vehicle financing volume ²:					
New retail contracts	253	300	201	(16)%	49%
Used retail contracts	32	61	48	(48)%	27%
Lease contracts	247	364	426	(32)%	(15)%
Total	<u>532</u>	<u>725</u>	<u>675</u>	<u>(27)%</u>	<u>7%</u>
Market share of TMNA sales ³:	54.9%	61.8%	63.4%		

¹ Total financing volume was comprised of approximately 65 percent Toyota, 15 percent Lexus, 13 percent Mazda, and 7 percent non-Toyota/Lexus/Mazda for fiscal 2022. Total financing volume was comprised of approximately 66 percent Toyota, 15 percent Lexus, 13 percent Mazda, and 6 percent non-Toyota/Lexus for fiscal 2021. Total financing volume was comprised of approximately 79 percent Toyota, 17 percent Lexus and 4 percent non-Toyota/Lexus for fiscal 2020.

² TMNA subvented volume units are included in the total vehicle financing. Units exclude third-party subvented units.

³ Represents the percentage of total domestic TMNA sales of new Toyota and Lexus vehicles financed by us, excluding sales under dealer rental car and commercial fleet programs, sales of a private Toyota distributor and private label vehicles financed.

Vehicle Financing Volume

The volume of our retail and lease contracts, which are acquired primarily from Toyota, Lexus, and private label dealers, is substantially dependent upon TMNA and private label sales volume, the level of TMNA, private label, and third-party sponsored subvention and other incentive programs, as well as TMCC competitive rate and other incentive programs.

Our financing volume decreased 8 percent in fiscal 2022, compared to fiscal 2021, primarily due to lower new vehicles inventory levels. The economic conditions caused by the COVID-19 pandemic and the current conflict in Ukraine, including production halts and supply shortages affecting the automotive industry and additional delays affecting the supply chain and logistics networks, have resulted in a decrease in the availability of new vehicles. This has led to lower levels of incentives and subvention on new and used retail contracts and lease contracts, which has resulted in increased competition from other financial institutions.

Our market share of TMNA sales decreased approximately 7 percentage points for fiscal 2022, compared to the same period in fiscal 2021, due to lower levels of incentives and subvention on new and used retail and lease contracts and increased competition from other financial institutions.

The composition of our net earning assets is summarized below:

(Dollars in millions)	Years ended March 31,			Percentage change	
	2022	2021	2020	2022 to 2021	2021 to 2020
Net Earning Assets					
Finance receivables, net					
Retail finance receivables, net ²	\$ 72,185	\$ 65,653	\$ 56,364	10%	16%
Dealer financing, net ^{1,2}	10,247	13,539	17,632	(24)%	(23)%
Total finance receivables, net ²	82,432	79,192	73,996	4%	7%
Investments in operating leases, net	35,455	37,091	36,387	(4)%	2%
Net earning assets	<u>\$ 117,887</u>	<u>\$ 116,283</u>	<u>\$ 110,383</u>	<u>1%</u>	<u>5%</u>
Average original contract term in months					
Lease contracts ³	37	37	36		
Retail contracts ⁴	69	68	69		

Dealer Financing

(Number of dealers serviced)

Toyota, Lexus, and private label dealers ¹	966	1,002	953	(4)%	5%
Dealers outside of the Toyota/Lexus/private label dealer network	399	395	371	1%	6%
Total number of dealers receiving wholesale financing	<u>1,365</u>	<u>1,397</u>	<u>1,324</u>	<u>(2)%</u>	<u>6%</u>
Dealer inventory outstanding (units in thousands)	64	185	294	(65)%	(37)%

¹ Includes wholesale and other credit arrangements in which we participate as part of a syndicate of lenders.

² In conjunction with the adoption of ASU 2016-13 in fiscal 2021, we changed the presentation of accrued interest on the Consolidated Balance Sheets from Finance receivables, net to Other assets. The information for the comparative period continues to be reported within Finance receivables, net.

³ Lease contract terms range from 24 months to 60 months.

⁴ Retail contract terms range from 24 months to 85 months.

Retail Contract Volume and Earning Assets

Our new retail contract volume decreased 7 percent during fiscal 2022, compared to fiscal 2021, primarily due to a decrease in the availability of new vehicles and lower levels of incentives and subvention on new contracts. Economic conditions caused by the COVID-19 pandemic and the current conflict in Ukraine, including production halts and supply shortages affecting the automotive industry and additional delays affecting the supply chain and logistics networks, have resulted in a decrease in the availability of new vehicles.

Our used retail contracts decreased 3 percent during fiscal 2022, compared to the same period in fiscal 2021, primarily due to increased competition in the used vehicle marketplace caused by the reduction in new vehicle inventory levels.

Our retail finance receivables, net increased 10 percent at March 31, 2022 as compared to March 31, 2021 due to higher retail contracts outstanding and higher average amount financed.

Lease Contract Volume and Earning Assets

Our lease contract volume decreased 15 percent during fiscal 2022, compared to fiscal 2021, primarily due to the decrease in the availability of new vehicles and lower levels of incentive and subvention programs. Our investments in operating leases, net, decreased 4 percent at March 31, 2022 as compared to March 31, 2021, due to lower average operating lease units outstanding, partially offset by higher vehicle values.

Dealer Financing and Earning Assets

Dealer financing, net decreased 24 percent at March 31, 2022, as compared to March 31, 2021, primarily due to a decrease in dealer inventory and related financing. Economic conditions caused by the COVID-19 pandemic and the current conflict in Ukraine, including production halts and supply shortages affecting the automotive industry and additional delays affecting the supply chain and logistics networks, have resulted in a decrease in dealer new vehicle inventory levels.

Residual Value Risk

We are exposed to risk on the disposition of leased vehicles that are not purchased by lessees, dealers, or third parties at contractual residual value to the extent that sales proceeds realized upon the sale of returned lease vehicles are not sufficient to cover the contractual residual value that was estimated at lease inception.

Factors Affecting Exposure to Residual Value Risk

Residual value represents an estimate of the end-of-term market value of a leased vehicle. The primary factors affecting our exposure to residual value risk are the levels at which residual values are established at lease inception, current economic conditions and outlook, projected end-of-term market values, and the resulting impact on depreciation expense and lease return rates. Higher average operating lease units outstanding and the resulting increase in future maturities, a higher supply of used vehicles, as well as further deterioration in actual and expected used vehicle values for Toyota, Lexus, and private label vehicles could unfavorably impact return rates, residual values, and depreciation expense. The evaluation of these factors involves significant assumptions, complex analyses, and management judgment. Refer to “Critical Accounting Estimates” for further discussion of the estimates involved in the determination of accumulated depreciation on investments in operating leases.

Residual Values at Lease Inception

Residual values of lease vehicles are estimated at lease inception by examining external industry data, the anticipated Toyota, Lexus, and private label product pipeline and our own experience. Factors considered in this evaluation include, macroeconomic forecasts, historical portfolio trends, new vehicle pricing, new vehicle incentive programs, new vehicle sales, product attributes of popular vehicles, the mix and level of used vehicle supply, current and projected used vehicle values, the actual or perceived quality, safety or reliability of Toyota, Lexus, and private label vehicles, and fuel prices. We use various channels to sell vehicles returned at lease-end. Refer to Part 1, Item 1. Business, “Finance Operations – Retail and Lease Financing – Remarketing” for additional information on remarketing.

End-of-term Market Values

On a quarterly basis, we review the estimated end-of-term market values of leased vehicles to assess the appropriateness of our carrying values. To the extent the estimated end-of-term market value of a leased vehicle is lower than the residual value established at lease inception, the residual value of the leased vehicle is adjusted downward so that the carrying value at lease end will approximate the estimated end-of-term market value. Factors affecting the estimated end-of-term market value are similar to those considered in the evaluation of residual values at lease inception discussed above. These factors are evaluated in the context of their historical trends to anticipate potential changes in the relationship among these factors in the future. For investments in operating leases, adjustments are made on a straight-line basis over the remaining terms of the lease contracts and are included in Depreciation on operating leases in our Consolidated Statements of Income as a change in accounting estimate.

Lease Return Rate

The lease return rate represents the number of leased vehicles returned to us for sale as a percentage of lease contracts that were originally scheduled to mature in the same period less certain qualified early terminations. When the market value of a leased vehicle at contract maturity is less than its contractual residual value (i.e., the price at which the lease customer or dealer may purchase the leased vehicle), there is a higher probability that the vehicle will be returned to us. In addition, a higher market supply of certain models of used vehicles generally results in a lower market value for those vehicles, resulting in a higher probability that the vehicle will be returned to us. A higher rate of vehicle returns exposes us to greater residual value risk which impacts depreciation expense at lease termination.

Impairment of Operating Leases

We evaluate our investment in operating leases portfolio for potential impairment when we determine a triggering event has occurred. When a triggering event has occurred, we perform a test of recoverability by comparing the expected undiscounted future cash flows (including expected residual values) over the remaining lease terms to the carrying value of the asset group. If the test of recoverability identifies a possible impairment, the asset group’s fair value is measured in accordance with the fair value measurement framework. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value and would be recorded in our Consolidated Statements of Income. As of March 31, 2022, 2021, and 2020 and during the years then ended, there was no impairment in our investment in operating leases portfolio.

Disposition of Off-Lease Vehicles

The following table summarizes scheduled maturities on our operating lease portfolio and off-lease vehicles sold at lease termination:

(Units in thousands)	Years ended March 31,			Percentage Change	
	2022	2021	2020	2022 to 2021	2021 to 2020
Scheduled maturities	504	511	562	(1)%	(9)%
Vehicles sold through:					
Dealer Direct program					
Grounding dealer	34	110	119	(69)%	(8)%
Dealer Direct online program	3	31	60	(90)%	(48)%
Physical auction	7	74	137	(91)%	(46)%
Total vehicles sold at lease termination ¹	44	215	316	(80)%	(32)%

¹ Excludes leased vehicles purchased by lessees or dealers at contractual residual value prior to an authorized dealer securing the vehicle.

Scheduled maturities decreased 1 percent in fiscal 2022 compared to fiscal 2021, primarily due to lower operating lease units outstanding. Total vehicles sold at lease termination decreased 80 percent in fiscal 2022, compared to fiscal 2021, due to lower units being processed through the dealer direct program and physical auction. Higher average used vehicle values as well as lower new vehicle inventory during fiscal 2022 resulted in an increase of off-lease vehicles purchased by lessees and dealers at contractual residual value prior to an authorized dealer securing the vehicle. Refer to Part 1, Item 1. Business, “Finance Operations – Retail and Lease Financing - Remarketing” for additional information on disposal of lease vehicles.

Depreciation on Operating Leases

Depreciation expense is recorded on a straight-line basis over the lease term and is based upon the depreciable basis of the leased vehicle. The depreciable basis is originally established as the difference between a leased vehicle’s original acquisition cost and its residual value established at lease inception. Changes to residual values have an effect on depreciation expense. To the extent the estimated end-of-term market value of a leased vehicle is lower than the residual value established at lease inception, the residual value of the leased vehicle is adjusted downward so that the carrying value at lease-end will approximate the estimated end-of-term market value. Refer to “Critical Accounting Estimates” for a further discussion of the assumptions involved in the determination of residual values.

In conjunction with the adoption of ASU 2016-13 in fiscal 2021, we updated our depreciation policy for operating leases and changed our presentation for reporting early termination expenses related to our investments in operating leases. We now present the effects of operating lease early terminations in Depreciation on operating leases. The information for the comparative period continues to be reported within the provision for credit losses.

Depreciation on operating leases and average operating lease units outstanding are as follows:

	Years ended March 31,			Percentage Change	
	2022	2021	2020	2022 to 2021	2021 to 2020
Depreciation on operating leases (dollars in millions)	\$ 5,846	\$ 5,932	\$ 6,820	(1)%	(13)%
Average operating lease units outstanding (in thousands)	1,314	1,336	1,400	(2)%	(5)%

We recorded depreciation expense on operating leases of \$5,846 million for fiscal 2022, compared to \$5,932 million for fiscal 2021. The decrease is primarily due to lower average operating lease units outstanding, partially offset by residual value losses. The economic conditions caused by the COVID-19 pandemic and the current conflict in Ukraine, including production halts and supply shortages affecting the automotive industry and additional delays affecting the supply chain and logistics networks, have resulted in a decrease in the availability of new vehicles. The lower levels of new vehicle inventory and higher off-lease vehicle purchases by dealers have led to historically high levels of average used vehicle values. Declines in used vehicle values resulting from increases in the supply of new vehicles and increases in new vehicle sales incentives could unfavorably impact return rates, residual values, and depreciation expense in the future.

Credit Risk

We are exposed to credit risk on our retail loans and dealer portfolios. Credit risk on our finance receivables is the risk of loss arising from the failure of consumers or dealers to make contractual payments. The level of credit risk on our retail loan portfolio is influenced by two factors: default frequency and loss severity, which in turn are influenced by various factors such as economic conditions, the used vehicle market, purchase quality mix, and operational changes.

The level of credit risk on our dealer portfolio is influenced by the financial strength of dealers within our portfolio, dealer concentration, collateral quality, and other economic factors. The financial strength of dealers within our portfolio is influenced by, among other factors, general economic conditions, the overall demand for new and used vehicles and the financial condition of automotive manufacturers in general.

Factors Affecting Retail Loan Portfolio Credit Risk

Economic Factors

General economic conditions such as changes in unemployment rates, housing values, bankruptcy rates, consumer debt levels, fuel prices, consumer credit performance, interest rates, inflation, household disposable income, US Government stimulus and relief programs, and unforeseen events such as natural disasters, severe weather, health epidemics or geopolitical conflicts, among other factors, can influence both default frequency and loss severity.

Used Vehicle Market

Changes in used vehicle values directly affect the proceeds from sales of repossessed vehicles, and accordingly, the level of loss severity we experience. The supply of, and demand for, used vehicles, interest rates, inflation, new vehicle inventory, the level of manufacturer incentive programs on new vehicles, the manufacturer's actual or perceived reputation for quality, safety, or reliability, and general economic outlook are some of the factors affecting the used vehicle market.

Purchase Quality Mix

A change in the mix of contracts acquired at various risk levels may change the amount of credit risk we assume. An increase in the number of contracts acquired with lower credit quality (as measured by scores that establish a consumer's creditworthiness based on present financial condition, experience, and credit history) can increase the amount of credit risk. Conversely, an increase in the number of contracts with higher credit quality can lower credit risk. An increase in the mix of contracts with lower credit quality can also increase operational risk unless appropriate controls and procedures are established. We strive to price contracts to achieve an appropriate risk adjusted return on our investment.

The average original contract term of retail loan contracts influences credit losses. Longer term contracts generally experience a higher rate of default and thus affect default frequency. In addition, the carrying values of vehicles under longer term contracts decline at a slower rate, resulting in a longer period during which we may be subject to used vehicle market volatility, which may in turn lead to increased loss severity.

The types and models of the vehicles in our retail loan portfolio has an effect on loss severity. Vehicle product mix can be influenced by factors such as customer preferences, fuel efficiency and fuel prices. These factors impact the demand for and values of used vehicles and consequently, loss severity.

Operational Changes

Operational changes and ongoing implementation of new information and transaction systems and improved methods of consumer evaluation are designed to have a positive effect on the credit risk profile of our retail loan portfolio. Customer service improvements in the management of delinquencies and credit losses increase operational efficiency and effectiveness. We remain focused on our service operations and credit loss mitigation methods. We are exposed to operational risk related to potential changes in the regulatory landscape which may limit our ability to conduct pre and post charge-off collections activity.

In an effort to mitigate credit losses, we regularly evaluate our purchasing practices. We limit our risk exposure by limiting approvals of lower credit quality contracts and requiring certain loan-to-value ratios.

We continue to refine our credit risk management and analysis to ensure that the appropriate level of collection resources are aligned with portfolio risk, and we adjust capacity accordingly. We continue to focus on early and late stage delinquencies to increase the likelihood of resolution. We have also increased efficiency in our collections through the use of technology.

Factors Affecting Dealer Portfolio Credit Risk

The financial strength of dealers to which we extend credit directly affects our credit risk. Lending to dealers with lower credit quality, or a negative change in the credit quality of existing dealers, increases the risk of credit loss we assume. Extending a substantial amount of financing or commitments to a specific dealer or group of dealers creates a concentration of credit risk, particularly when the financing may not be secured by fully realizable collateral assets. Collateral quality influences credit risk in that lower quality collateral increases the risk that in the event of default and subsequent liquidation of collateral, the value of the collateral may be less than the amount owed to us.

We assign risk classifications to each of our dealers and dealer groups based on their financial condition, the strength of the collateral, and other quantitative and qualitative factors including input from our field personnel. Our monitoring processes of the dealers and dealer groups are based on these risk classifications. We periodically update the risk classifications based on changes in financial condition. As part of our monitoring processes, we require dealers to submit periodic financial statements. We also perform periodic physical audits of vehicle inventory as well as monitor the timeliness of dealer inventory financing payoffs in accordance with the agreed-upon terms in order to identify possible risks. We continue to enhance our risk management processes to mitigate dealer portfolio risk and to focus on higher risk dealers through enhanced risk governance, inventory audits, and credit watch processes. Where appropriate, we increase the frequency of our audits and examine more closely the financial condition of the dealer or dealer group. We continue to be diligent in underwriting dealers and have conducted targeted personnel training to address dealer credit risk.

Additionally, TMNA and other manufacturers may be obligated by applicable law, or under agreements with us, to repurchase or to reassign new vehicle inventory we financed that meets certain mileage and model year parameters, curtailing our risk. We also provide other types of financing to certain Toyota and Lexus dealers and other third parties at the request of TMNA or private Toyota distributors, and the credit risk associated with such financing is mitigated by guarantees from TMNA or the applicable private distributors.

We also provide financing for some dealerships which sell products not distributed by TMNA or any of its affiliates. A significant adverse change in a non-Toyota/Lexus manufacturer such as restructuring or bankruptcy may increase the risk associated with the dealers we have financed that sell these products.

Origination, Credit Loss, and Delinquency Experience

Our credit loss experience may be affected by a number of factors including the economic environment, our purchasing, servicing, and collections practices, used vehicle market conditions and subvention. Changes in the economy that impact the consumer such as increasing interest rates, and a rise in the unemployment rate as well as higher debt balances, coupled with deterioration in actual and expected used vehicle values, could increase our credit losses. In addition, a decline in the effectiveness of our collection practices could also increase our credit losses. We continuously evaluate and refine our purchasing practices and collection efforts to minimize risk. In addition, subvention contributes to our overall portfolio quality, as subvented contracts typically have higher credit scores than non-subvented contracts. For information regarding the potential impact of current market conditions, refer to Part I. Item 1A. Risk Factors.

The following table provides information related to our origination experience:

	Years Ended March 31,		
	2022	2021	2020
Average consumer portfolio origination FICO score	742	744	754
Average retail loan origination term (months) ¹	69	68	69

¹ Retail loan origination greater than or equal to 78 months was 10%, 8%, 7% as of March 31, 2022, 2021, and 2020, respectively.

While we have included the average origination FICO score to illustrate origination trends, we also use a proprietary credit scoring system to evaluate an applicant's risk profile. Refer to Part I. Item 1. Business "Finance Operations" for further discussion of the proprietary manner in which we evaluate risk.

The following table provides information related to our consumer finance receivables and investment in operating leases:

	Years ended March 31,		
	2022	2021	2020
Net charge-offs as a percentage of average finance receivables ^{4,5}	0.22%	0.29%	0.44%
Default frequency as a percentage of outstanding finance receivables contracts ⁵	0.72%	0.90%	1.09%
Average finance receivables loss severity per unit ^{1,5}	\$ 9,012	\$ 10,035	\$ 9,555
Aggregate balances for accounts 60 or more days past due as a percentage of earning assets ^{2,3,4}			
Finance receivables	0.43%	0.27%	0.41%
Operating leases	0.26%	0.20%	0.34%

¹ Average loss per unit upon disposition of repossessed vehicles or charge-off prior to repossession.

² Substantially all retail receivables do not involve recourse to the dealer in the event of customer default.

³ Includes accounts in bankruptcy and excludes accounts for which vehicles have been repossessed.

⁴ In conjunction with the adoption of ASU 2016-13 in fiscal 2021, we changed the presentation of accrued interest from Finance receivables, net to Other assets. Accordingly, accrued interest is excluded from average finance receivables with effect from April 1, 2020. The information for the comparative period continues to be reported for that period.

⁵ In conjunction with the adoption of ASU 2016-13 in fiscal 2021, we updated our depreciation policy for operating leases and changed our presentation for reporting early termination expenses related to operating leases. Accordingly, with effect from April 1, 2020, early termination expenses related to operating leases are excluded from the net charge-off ratio, default frequency ratio and average loss per unit.

Management considers historical credit loss information when assessing the allowance for credit losses. Historical credit losses are primarily driven by two factors: default frequency and loss severity. Net charge-offs as a percentage of average finance receivables decreased to 0.22 percent at March 31, 2022 from 0.29 percent at March 31, 2021 and default frequency as a percentage of outstanding finance receivables contracts decreased to 0.72 percent for fiscal 2022 compared to 0.90 percent for fiscal 2021. Our average finance receivables loss severity per unit for fiscal 2022 decreased to \$9,012 from \$10,035 in fiscal 2021. The changes in our net charge-offs, default frequency, and loss severity per unit were primarily due to historically high levels of average used vehicle values, which reduced net charge-offs, default frequency, and loss per unit.

Our aggregate balances for accounts 60 or more days past due on finance receivables increased to 0.43 percent at March 31, 2022, compared to 0.27 percent at March 31, 2021. Our aggregate balances for accounts 60 or more days past due on operating leases increased to 0.26 percent at March 31, 2022, compared to 0.20 percent at March 31, 2021. The finance receivables delinquency rate in fiscal 2021 was positively impacted by the retail payment extension programs offered to our customers and dealers impacted by COVID-19, as well as influenced by government stimulus and other external programs in fiscal 2021, which are no longer available. In addition, for a portion of fiscal 2021, as a result of a decline in economic conditions caused by the COVID-19 pandemic, there were government restrictions on repossession activities in certain states for which we have a high percentage of lease contracts which had a negative impact on our operating lease payments delinquency. If the negative economic conditions caused by the COVID-19 pandemic and the conflict in Ukraine continue, delinquencies and charge-offs could increase.

Allowance for Credit Losses

We maintain an allowance for credit losses which is measured by an impairment model that reflects lifetime expected losses.

The allowance for credit losses for our retail loan portfolio is measured on a collective basis when loans have similar risk characteristics such as loan-to-value ratio, book payment-to-income ratio, FICO score at origination, collateral type, contract term, and other relevant factors. We use statistical models to estimate lifetime expected credit losses of our retail loan portfolio segment by applying probability of default and loss given default to the exposure at default on a loan level basis. Probability of default models are developed from internal risk scoring models which consider variables such as delinquency status, historical default frequency, and other credit quality indicators. Other credit quality indicators include loan-to-value ratio, book payment-to-income ratio, FICO score at origination, collateral type (new or used, Lexus, Toyota, or private label), and contract term. Loss given default models forecast the extent of losses given that a default has occurred and consider variables such as collateral, trends in recoveries, historical loss severity, and other contract structure variables. Exposure at default represents the expected outstanding principal balance, including the effects of expected prepayment when applicable. The lifetime expected credit losses incorporate the probability-weighted forward-looking macroeconomic forecasts for baseline, favorable, and adverse scenarios. The loan lifetime is regarded by management as the reasonable and supportable period. We use macroeconomic forecasts from a third party and update such forecasts quarterly. On an ongoing basis, we review our models, including macroeconomic factors, the selection of macroeconomic scenarios and their weighting to ensure they reflect the risk of the portfolio.

For the allowance for credit losses for our dealer portfolio, an allowance for credit losses is established for both outstanding dealer finance receivables and certain unfunded off-balance sheet lending commitments. The allowance for credit losses is measured on a collective basis when loans have similar risk characteristics such as dealer group internal risk rating and loan-to-value ratios. We measure lifetime expected credit losses of our dealer products portfolio segment by applying probability of default and loss given default to the exposure at default on a loan level basis. Probability of default is primarily established based on internal risk assessments. The probability of default model also considers qualitative factors related to macroeconomic outlooks. Loss given default is established based on the nature and market value of the collateral, loan-to-value ratios and other credit quality indicators. Exposure at default represents the expected outstanding principal balance. The lifetime of the loan or lending commitment is regarded by management as the reasonable and supportable period. On an ongoing basis, we review our models, including macroeconomic outlooks, to ensure they reflect the risk of the portfolio.

If management does not believe the models reflect lifetime expected credit losses, a qualitative adjustment is made to reflect management judgment regarding observable changes in recent or expected economic trends and conditions, portfolio composition, and other relevant factors.

The following table provides information related to our allowance for credit losses for finance receivables and certain off-balance sheet lending commitments:

(Dollars in millions)	Years ended March 31,		
	2022	2021	2020
Allowance for credit losses at beginning of period	\$ 1,215	\$ 727	\$ 499
Adoption of ASU 2016-13 ¹	-	292	-
Charge-offs	(237)	(287)	(370)
Recoveries	58	57	50
Provision for credit losses	236	426	548
Allowance for credit losses at end of period ²	<u>\$ 1,272</u>	<u>\$ 1,215</u>	<u>\$ 727</u>

¹ Cumulative pre-tax adjustments recorded to retained earnings as of April 1, 2020.

² Ending balance as of March 31, 2022 and 2021 includes allowance for credit losses related to off-balance-sheet commitments of \$26 million and \$37 million, respectively, which is included in Other liabilities on the Consolidated Balance Sheets.

	Years ended March 31,		
	2022	2021	2020
Allowance for credit losses as a percentage of finance receivables ^{1,2}	1.49%	1.47%	0.97%

¹ Ending balance as of March 31, 2022 and 2021 excludes allowance for credit losses related to off-balance-sheet commitments of \$26 million and \$37 million, respectively, which is included in Other liabilities on the Consolidated Balance Sheets.

² In conjunction with the adoption of ASU 2016-13 in fiscal 2021, we changed the presentation of accrued interest from Finance receivables, net to Other assets. Accordingly, accrued interest is excluded from average finance receivables with effect from April 1, 2020. The information for the comparative period continues to be reported for that period.

Our allowance for credit losses increased from \$1,215 million at March 31, 2021 to \$1,272 million at March 31, 2022 and the allowance for credit losses as a percentage of finance receivables increased to 1.49 percent in fiscal 2022 from 1.47 percent in fiscal 2021. The increase of \$57 million in the allowance for credit losses was primarily due to the increase in size of our retail loan portfolio and an increase in delinquencies, as well as the economic conditions caused by the conflict in Ukraine, partially offset by continued improved dealer financial performance in fiscal 2022.

Future changes in the economy that impact the consumer and consumer confidence such as increasing interest rates and a rise in the unemployment rate as well as higher debt balances, coupled with deterioration in actual and expected used vehicle values, could result in further increases to our allowance for credit losses. In addition, a decline in the effectiveness of our collection practices could also increase our allowance for credit losses.

LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements, Obligations, and Arrangements

Our primary material cash requirements include the acquisition of finance receivables and investment in operating leases from dealers, providing various financing to dealers, payments related to debt, interest and interest rate swaps, operating expenses, voluntary protection contract expenses, income taxes, and dividend payments. In conjunction with our cash requirements, we have certain obligations to make future payments under contracts and commitments. Aggregate contractual obligations and commitments in existence at March 31, 2022, are summarized as follows:

(Dollars in millions)	Payments due by period						Total
	2023	2024	2025	2026	2027	Thereafter	
Contractual obligations							
Debt ¹	\$ 51,171	\$ 20,889	\$ 13,466	\$ 9,642	\$ 7,279	\$ 7,002	\$ 109,449
Estimated interest payments for debt ²	1,175	777	532	365	258	452	3,559
Premises occupied under lease	19	16	14	13	12	45	119
Purchase obligations ³	27	16	-	-	-	-	43
Total	<u>\$ 52,392</u>	<u>\$ 21,698</u>	<u>\$ 14,012</u>	<u>\$ 10,020</u>	<u>\$ 7,549</u>	<u>\$ 7,499</u>	<u>\$ 113,170</u>

¹ Debt reflects the remaining principal obligation. Foreign currency denominated debt principal is based on exchange rates as of March 31, 2022. Debt excludes unamortized premium/discount and debt issuance costs of \$297 million.

² Interest payments for debt payable in foreign currencies or based on variable interest rates are estimated using the applicable current rates as of March 31, 2022.

³ Purchase obligations represent fixed or minimum payment obligations under supplier contracts. The amounts included herein represent the minimum contractual obligations in certain situations; however, actual amounts incurred may be substantially higher depending on the particular circumstance, including in the case of information technology contracts, the amount of usage once we have implemented it. Contracts that do not specify fixed payments or provide for a minimum payment are not included. The contracts noted herein contain voluntary provisions under which the contract may be terminated for a specified fee depending upon the contract.

The contractual obligations and commitments in the above table do not include our contractual obligations on derivative instruments because future cash obligations under these contracts are inherently uncertain. We recognize all derivative instruments on our consolidated balance sheet at fair value. The amounts recognized as fair value do not represent the amounts that will be ultimately paid or received upon settlement under these contracts. Refer to Note 6 – Derivatives, Hedging Activities and Interest Expense of the Notes to the Consolidated Financial Statements for additional discussion and disclosure.

In addition, the contractual obligations and commitments in the above table do not include term loans and revolving lines of credit we extend to dealers and dealer groups and other off-balance sheet guarantees and commitments, as the amount, if any, and timing of future payments is uncertain.

We provide fixed and variable rate credit facilities to dealers and various multi-franchise organizations referred to as dealer groups. These credit facilities are typically used for facilities construction and refurbishment, working capital requirements, real estate purchases, business acquisitions, and other general business purposes. These loans are typically secured with liens on real estate, vehicle inventory, and/or other dealership assets, as appropriate, and may be guaranteed by the individual or corporate guarantees of the affiliated dealers, dealer groups, or dealer principals. Refer to Note 9 – Commitments and Contingencies of the Notes to Consolidated Financial Statements for additional discussion and disclosure on credit facility commitments with dealers.

We have also extended credit facilities to affiliates as described in Note 12 – Related Party Transactions of the Notes to Consolidated Financial Statements.

TMCC has guaranteed the payments of principal and interest with respect to the bond obligations that were issued by Putnam County, West Virginia and Gibson County, Indiana to finance the construction of pollution control facilities at manufacturing plants of certain TMCC affiliates. TMCC would be required to perform under the guarantees in the event of non-payment on the bonds and other related obligations. TMCC is entitled to reimbursement by the applicable affiliates for any amounts paid. TMCC receives a nominal annual fee for guaranteeing such payments. Other than this fee, there are no corresponding expenses or cash flows arising from our guarantees. The nature, business purpose, and amounts of these guarantees are described in Note 9 – Commitments and Contingencies of the Notes to Consolidated Financial Statements.

In the ordinary course of business, we enter into agreements containing indemnification provisions standard in the industry related to several types of transactions. Refer to Note 9 – Commitments and Contingencies of the Notes to Consolidated Financial Statements for a description of agreements containing indemnification provisions. We have not made any material payments in the past as a result of these provisions, and as of March 31, 2022, we determined that it is not probable that we will be required to make any material payments in the future. As of March 31, 2022 and 2021, no amounts have been recorded under these indemnification provisions.

Liquidity

Liquidity risk is the risk relating to our ability to meet our financial obligations when they come due. Our liquidity strategy is to ensure that we maintain the ability to fund assets and repay liabilities in a timely and cost-effective manner, even in adverse market conditions. Our strategy includes raising funds via the global capital markets and through loans, credit facilities, and other transactions, as well as generating liquidity from our earning assets. This strategy has led us to develop a diversified borrowing base that is distributed across a variety of markets, geographies, investors, and financing structures.

Liquidity management involves forecasting and maintaining sufficient capacity to meet our cash needs, including unanticipated events. To ensure adequate liquidity through a full range of potential operating environments and market conditions, we conduct our liquidity management and business activities in a manner that will preserve and enhance funding stability, flexibility and diversity. Key components of this operating strategy include a strong focus on developing and maintaining direct relationships with commercial paper investors and wholesale market funding providers and maintaining the ability to sell certain assets when and if conditions warrant.

We develop and maintain contingency funding plans and regularly evaluate our liquidity position under various operating circumstances, allowing us to assess how we will be able to operate through a period of stress when access to normal sources of capital is constrained. The plans project funding requirements during a potential period of stress, specify and quantify sources of liquidity, and outline actions and procedures for effectively managing through the problem period. In addition, we monitor the ratings and credit exposure of the lenders that participate in our credit facilities to ascertain any issues that may arise with potential draws on these facilities if that contingency becomes warranted.

We maintain broad access to a variety of domestic and global markets and may choose to realign our funding activities depending upon market conditions, relative costs, and other factors. We believe that our funding sources, combined with operating and investing activities, provide sufficient liquidity to meet future funding requirements and business growth. For liquidity purposes, we hold cash in excess of our immediate funding needs. These excess funds are invested in short-term, highly liquid and investment grade money market instruments as well as certain available-for-sale debt securities, which provide liquidity for our short-term funding needs and flexibility in the use of our other funding sources. We maintained excess funds ranging from \$6.6 billion to \$11.7 billion with an average balance of \$9.1 billion during fiscal 2022. The amount of excess funds we hold may fluctuate, depending on market conditions and other factors. We also have access to liquidity under the \$5.0 billion credit facility with TMS, which as of March 31, 2022 had no outstanding amount and is further described in Note 7 – Debt and Credit Facilities of the Notes to the Consolidated Financial Statements. We believe we have sufficient capacity to meet our short-term funding requirements and manage our liquidity.

Credit support is provided to us by our indirect parent TFSC, and, in turn, to TFSC by TMC. Taken together, these credit support agreements provide an additional source of liquidity to us, although we do not rely upon such credit support in our liquidity planning and capital and risk management. The credit support agreements are not a guarantee by TMC or TFSC of any securities or obligations of TFSC or TMCC, respectively. The fees paid pursuant to these agreements are disclosed in Note 12 – Related Party Transactions of the Notes to Consolidated Financial Statements.

TMC's obligations under its credit support agreement with TFSC rank pari passu with TMC's senior unsecured debt obligations. Refer to Part I, Item 1A. Risk Factors – "Our borrowing costs and access to the unsecured debt capital markets depend significantly on the credit ratings of TMCC and its parent companies and our credit support arrangements" for further discussion.

We routinely monitor global financial conditions and our financial exposure to our global counterparties, particularly in those countries experiencing significant economic, fiscal or political strain, and the corresponding likelihood of default. As of March 31, 2022, our exposure to foreign sovereign and non-sovereign counterparties was not significant. Refer to the "Liquidity and Capital Resources - Credit Facilities and Letters of Credit" section and Part I, Item 1A. Risk Factors – "The failure or commercial soundness of our counterparties and other financial institutions may have an effect on our liquidity, results of operations or financial condition" for further discussion.

Funding

The following table summarizes the components of our outstanding debt which includes unamortized premiums, discounts, debt issuance costs and the effects of foreign currency translation adjustments:

(Dollars in millions)	March 31, 2022			March 31, 2021		
	Face value	Carrying value	Weighted average contractual interest rates	Face value	Carrying value	Weighted average contractual interest rates
Unsecured notes and loans payable						
Commercial paper	\$ 16,896	\$ 16,876	0.43%	\$ 17,027	\$ 17,021	0.20%
U.S. medium term note ("MTN") program	46,387	46,235	1.55%	44,294	44,149	1.64%
Euro medium term note ("EMTN") program	13,891	13,813	1.54%	16,262	16,173	1.57%
Other debt	5,368	5,364	1.28%	8,176	8,170	1.33%
Total Unsecured notes and loans payable	82,542	82,288	1.30%	85,759	85,513	1.31%
Secured notes and loans payable	26,907	26,864	1.01%	24,256	24,212	1.29%
Total debt	<u>\$ 109,449</u>	<u>\$ 109,152</u>	1.23%	<u>\$ 110,015</u>	<u>\$ 109,725</u>	1.31%

Unsecured notes and loans payable

The following table summarizes the significant activities by program of our Unsecured notes and loans payable:

(Dollars in millions)	Commercial paper ¹	MTNs	EMTNs	Other	Total Unsecured notes and loans payable
Balance at March 31, 2021	\$ 17,027	\$ 44,294	\$ 16,262	\$ 8,176	\$ 85,759
Issuances	-	17,205	2,141	2,006	21,352
Maturities and terminations	(131)	(15,112)	(4,150)	(4,810)	(24,203)
Non-cash changes in foreign currency rates	-	-	(362)	(4)	(366)
Balance at March 31, 2022	<u>\$ 16,896</u>	<u>\$ 46,387</u>	<u>\$ 13,891</u>	<u>\$ 5,368</u>	<u>\$ 82,542</u>
Issuances during the one month ended April 30, 2022	\$ 4,518	\$ 250	\$ -	\$ 124	\$ 4,892

¹ Changes in Commercial paper are shown net due to its short duration.

Commercial paper

Short-term funding needs are met through the issuance of commercial paper in the U.S. Commercial paper outstanding under our commercial paper programs ranged from approximately \$16.7 billion to \$18.5 billion during fiscal 2022, with an average outstanding balance of \$17.2 billion. Our commercial paper programs are supported by the credit facilities discussed under the heading "Credit Facilities and Letters of Credit." We believe we have sufficient capacity to meet our short-term funding requirements and manage our liquidity.

MTN program

We maintain a shelf registration statement with the SEC to provide for the issuance of debt securities in the U.S. capital markets to retail and institutional investors. We currently qualify as a well-known seasoned issuer under SEC rules, which allows us to issue under our registration statement an unlimited amount of debt securities during the three-year period ending January 2024. Debt securities issued under the U.S. shelf registration statement are issued pursuant to the terms of an indenture which requires TMCC to comply with certain covenants, including negative pledge and cross-default provisions. We are currently in compliance with these covenants.

EMTN program

Our EMTN program, shared with our affiliates Toyota Motor Finance (Netherlands) B.V., Toyota Credit Canada Inc. and Toyota Finance Australia Limited (TMCC and such affiliates, the “EMTN Issuers”), provides for the issuance of debt securities in the international capital markets. In September 2021, the EMTN Issuers renewed the EMTN program for a one-year period. The maximum aggregate principal amount authorized under the EMTN Program to be outstanding at any time is €60.0 billion or the equivalent in other currencies, of which €28.1 billion was available for issuance at April 30, 2022. The authorized amount is shared among all EMTN Issuers. The authorized aggregate principal amount under the EMTN program may be increased from time to time. Debt securities issued under the EMTN program are issued pursuant to the terms of an agency agreement. Certain debt securities issued under the EMTN program are subject to negative pledge provisions. We are currently in compliance with these covenants.

We may issue other debt securities through the global capital markets or enter into other unsecured financing arrangements, including those in which we agree to use the proceeds solely to acquire retail or lease contracts financing new Toyota and Lexus vehicles of specified “green” models. The terms of these “green” bond transactions have been consistent with the terms of other similar transactions except that the proceeds we receive are included in Restricted cash and cash equivalents on our Consolidated Balance Sheets, when applicable.

Other debt

TMCC has entered into term loan agreements with various banks. These term loan agreements contain covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross-default provisions and limitations on certain consolidations, mergers and sales of assets. We are currently in compliance with these covenants and conditions.

We may borrow from affiliates on terms based upon a number of business factors such as funds availability, cash flow timing, relative cost of funds, and market access capabilities. Amounts borrowed from affiliates are recorded in Other liabilities on our Consolidated Balance Sheets and are therefore excluded from Debt amounts.

Secured notes and loans payable

Asset-backed securitization of our earning asset portfolio provides us with an alternative source of funding. We regularly execute public or private securitization transactions.

The following table summarizes the significant activities of our Secured notes and loans payable:

(Dollars in millions)	Secured notes and loans payable
Balance at March 31, 2021	\$ 24,256
Issuances	16,726
Maturities and terminations	(14,075)
Balance at March 31, 2022	\$ 26,907
Issuances during the one month ended April 30, 2022	\$ 3,489

We securitize finance receivables and beneficial interests in investments in operating leases (“Securitized Assets”) using a variety of structures. Our securitization transactions involve the transfer of Securitized Assets to bankruptcy-remote special purpose entities. These bankruptcy-remote entities are used to ensure that the Securitized Assets are isolated from the claims of creditors of TMCC and that the cash flows from these assets are available solely for the benefit of the investors in these asset-backed securities. Investors in asset-backed securities do not have recourse to our Other assets, and neither TMCC nor our affiliates guarantee these obligations. We are not required to repurchase or make reallocation payments with respect to the Securitized Assets that become delinquent or default after securitization. As seller and servicer of the Securitized Assets, we are required to repurchase or make a reallocation payment with respect to the underlying assets that are subsequently discovered not to have met specified eligibility requirements. This repurchase obligation is customary in securitization transactions. With the exception of our revolving asset-backed securitization program, funding obtained from our securitization transactions is repaid as the underlying Securitized Assets amortize.

We service the Securitized Assets in accordance with our customary servicing practices and procedures. Our servicing duties include collecting payments on Securitized Assets and submitting them to a trustee for distribution to security holders and other interest holders. We prepare monthly servicer certificates on the performance of the Securitized Assets, including collections, investor distributions, delinquencies, and credit losses. We also perform administrative services for the special purpose entities.

Our use of special purpose entities in securitizations is consistent with conventional practice in the securitization market. None of our officers, directors, or employees hold any equity interests or receive any direct or indirect compensation from our special purpose entities. These entities do not own our stock or the stock of any of our affiliates. Each special purpose entity has a limited purpose and generally is permitted only to purchase assets, issue asset-backed securities, and make payments to the security holders, other interest holders and certain service providers as required under the terms of the transactions.

Our securitizations are structured to provide credit enhancement to reduce the risk of loss to security holders and other interest holders in the asset-backed securities. Credit enhancement may include some or all of the following:

- **Overcollateralization:** The principal of the Securitized Assets that exceeds the principal amount of the related secured debt.
- **Excess spread:** The expected interest collections on the Securitized Assets that exceed the expected fees and expenses of the special purpose entity, including the interest payable on the debt, net of swap settlements, if any.
- **Cash reserve funds:** A portion of the proceeds from the issuance of asset-backed securities may be held by the securitization trust in a segregated reserve fund and may be used to pay principal and interest to security holders and other interest holders if collections on the underlying receivables are insufficient.
- **Yield supplement arrangements:** Additional overcollateralization may be provided to supplement the future contractual interest payments from securitized receivables with relatively low contractual interest rates.
- **Subordinated notes:** The subordination of principal and interest payments on subordinated notes may provide additional credit enhancement to holders of senior notes.

In addition to the credit enhancement described above, we may enter into interest rate swaps with our special purpose entities that issue variable rate debt. Under the terms of these swaps, the special purpose entities are obligated to pay TMCC a fixed rate of interest on payment dates in exchange for receiving a floating rate of interest on notional amounts equal to the outstanding balance of the secured notes and loans payable. This arrangement enables the special purpose entities to mitigate the interest rate risk inherent in issuing variable rate debt that is secured by fixed rate Securitized Assets.

Securitized Assets and the related debt remain on our Consolidated Balance Sheets. We recognize financing revenue on the Securitized Assets. We also recognize interest expense on the secured notes and loans payable issued by the special purpose entities and maintain an allowance for credit losses on the Securitized Assets to cover estimated lifetime expected credit losses using a methodology consistent with that used for our non-securitized asset portfolio. The interest rate swaps between TMCC and the special purpose entities are considered intercompany transactions and therefore are eliminated in our consolidated financial statements.

We periodically enter into term securitization transactions whereby we agree to use the proceeds solely to acquire retail and lease contracts financing new Toyota and Lexus vehicles of certain specified “green” models. The terms of these “green” securitization transactions have been consistent with the terms of our other similar transactions except that the proceeds we receive are included in Restricted cash and cash equivalents on our Consolidated Balance Sheets, when applicable.

Our secured notes also include a revolving asset-backed securitization program, backed by a revolving pool of finance receivables and cash collateral. Cash flows from these receivables during the revolving period in excess of what is needed to pay certain expenses of the securitization trust and contractual interest payments on the related secured notes may be used to purchase additional receivables, provided that certain conditions are met following the purchase. The secured notes feature a scheduled revolving period, with the ability to repay the secured notes in full, after which an amortization period begins. The revolving period may also end with the amortization period beginning upon the occurrence of certain events that include certain segregated account balances falling below their required levels, credit losses or delinquencies on the pool of assets supporting the secured notes exceeding specified levels, the adjusted pool balance falling to less than 50% of the initial principal amount of the secured notes, or interest not being paid on the secured notes.

Public Securitization

We maintain a shelf registration statement with the SEC to provide for the issuance of securities backed by Securitized Assets in the U.S. capital markets during the three-year period ending December 2024. We regularly sponsor public securitization trusts that issue securities backed by retail finance receivables, including registered securities that we retain. None of these securities have defaulted, experienced any events of default or failed to pay principal in full at maturity. As of March 31, 2022 and 2021, we did not have any outstanding lease securitization transactions registered with the SEC.

Credit Facilities and Letters of Credit

For additional liquidity purposes, we maintain credit facilities, which may be used for general corporate purposes, as described below:

364-Day Credit Agreement, Three-Year Credit Agreement and Five-Year Credit Agreement

TMCC, Toyota Credit de Puerto Rico Corp. (“TCPR”), a wholly-owned subsidiary, and other Toyota affiliates are party to a \$5.0 billion 364-day syndicated bank credit facility, a \$5.0 billion three-year syndicated bank credit facility, and a \$5.0 billion five-year syndicated bank credit facility, expiring in fiscal 2023, 2025, and 2027, respectively.

The ability to make draws is subject to covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross-default provisions and limitations on certain consolidations, mergers and sales of assets. These agreements were not drawn upon and had no outstanding balances as of March 31, 2022 and 2021. We are currently in compliance with the covenants and conditions of the credit agreements described above.

Committed Revolving Asset-backed Facility

We are party to a 364-day revolving securitization facility with certain bank-sponsored asset-backed conduits and other financial institutions expiring in fiscal 2023. Under the terms and subject to the conditions of this facility, the committed lenders under the facility have committed to make advances up to a facility limit of \$7.0 billion backed by eligible retail finance receivables transferred by us to a special-purpose entity acting as borrower. We utilized \$3.2 billion of this facility as of March 31, 2022 and 2021, respectively.

Other Unsecured Credit Agreements

TMCC is party to additional unsecured credit facilities with various banks. As of March 31, 2022, TMCC had committed bank credit facilities totaling \$4.6 billion of which \$2.3 billion, \$300 million, and \$2.0 billion mature in fiscal 2023, 2024, and 2025 respectively.

These credit agreements contain covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross-default provisions and limitations on certain consolidations, mergers and sales of assets. These credit facilities were not drawn upon and had no outstanding balances as of March 31, 2022 and 2021. We are currently in compliance with the covenants and conditions of the credit agreements described above.

TMCC is party to a \$5.0 billion three-year revolving credit facility with TMS expiring in fiscal 2025. This credit facility was not drawn upon and had no outstanding balance as of March 31, 2022 and 2021.

From time to time, we may borrow from affiliates based upon a number of business factors such as funds availability, cash flow timing, relative cost of funds, and market access capabilities.

Credit Ratings

The cost and availability of unsecured financing is influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security, or obligation. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets. Credit ratings are not recommendations to buy, sell, or hold securities, and are subject to revision or withdrawal at any time by the assigning credit rating organization. Each credit rating organization may have different criteria for evaluating risk, and therefore ratings should be evaluated independently for each organization. Our credit ratings depend in part on the existence of the credit support agreements of TFSC and TMC. Refer to Part I, Item 1A. Risk Factors – “Our borrowing costs and access to the unsecured debt capital markets depend significantly on the credit ratings of TMCC and its parent companies and our credit support arrangements.”

Credit Support Agreements

Under the terms of a credit support agreement between TMC and TFSC, TMC has agreed to:

- maintain 100 percent ownership of TFSC;
- cause TFSC and its subsidiaries to have a tangible net worth (the aggregate amount of issued capital, capital surplus and retained earnings less any intangible assets) of at least JPY 10 million, equivalent to \$82 thousand at March 31, 2022; and
- make sufficient funds available to TFSC so that TFSC will be able to (i) service the obligations arising out of its own bonds, debentures, notes and other investment securities and commercial paper and (ii) honor its obligations incurred as a result of guarantees or credit support agreements that it has extended (collectively, “Securities”).

The agreement is not a guarantee by TMC of any securities or obligations of TFSC. TMC’s obligations under the credit support agreement rank *pari passu* with TMC’s senior unsecured debt obligations. Either party may terminate the agreement upon 30 days written notice to the other party. However, such termination cannot take effect unless and until (1) all Securities issued on or prior to the date of the termination notice have been repaid or (2) each rating agency that has issued a rating in respect of TFSC or any Securities upon the request of TMC or TFSC has confirmed to TFSC that the debt ratings of all such Securities will be unaffected by such termination. In addition, with certain exceptions, the agreement may be modified only by the written agreement of TMC and TFSC, and no modification or amendment can have any adverse effect upon any holder of any Securities outstanding at the time of such modification or amendment. The agreement is governed by, and construed in accordance with, the laws of Japan.

Under the terms of a similar credit support agreement between TFSC and TMCC, TFSC has agreed to:

- maintain 100 percent ownership of TMCC;
- cause TMCC and its subsidiaries to have a tangible net worth (the aggregate amount of issued capital, capital surplus and retained earnings less any intangible assets) of at least \$100,000; and
- make sufficient funds available to TMCC so that TMCC will be able to service the obligations arising out of its own bonds, debentures, notes and other investment securities and commercial paper (collectively, “TMCC Securities”).

The agreement is not a guarantee by TFSC of any TMCC Securities. The agreement contains termination and modification provisions that are similar to those in the agreement between TMC and TFSC as described above. The agreement is governed by, and construed in accordance with, the laws of Japan. TMCC Securities do not include the securities issued by securitization trusts in connection with TMCC’s securitization programs or any indebtedness under TMCC’s credit facilities or term loan agreements.

Holders of TMCC Securities have the right to claim directly against TFSC and TMC to perform their respective obligations under the credit support agreements by making a written claim together with a declaration to the effect that the holder will have recourse to the rights given under the credit support agreements. If TFSC and/or TMC receive such a claim from any holder of TMCC Securities, TFSC and/or TMC shall indemnify, without any further action or formality, the holder against any loss or damage resulting from the failure of TFSC and/or TMC to perform any of their respective obligations under the credit support agreements. The holder of TMCC Securities who made the claim may then enforce the indemnity directly against TFSC and/or TMC.

In addition, TMCC and TFSC are parties to a credit support fee agreement which requires TMCC to pay to TFSC a fee which is based upon the weighted average outstanding amount of TMCC Securities entitled to credit support.

TCPR is the beneficiary of a credit support agreement with TFSC containing the same provisions as the credit support agreement between TFSC and TMCC but pertaining to TCPR bonds, debentures, notes and other investment securities and commercial paper (collectively, "TCPR Securities"). Holders of TCPR Securities have the right to claim directly against TFSC and TMC to perform their respective obligations as described above. This agreement is not a guarantee by TFSC of any securities or other obligations of TCPR. TCPR has agreed to pay TFSC a fee which is based upon the weighted average outstanding amount of TCPR Securities entitled to credit support.

Derivative Instruments

Our liabilities consist mainly of fixed and variable rate debt, denominated in U.S dollars and various other currencies, which we issue in the global capital markets, while our assets consist primarily of U.S. dollar denominated, fixed rate receivables. We enter into interest rate swaps and foreign currency swaps to economically hedge the interest rate and foreign currency risks that result from the different characteristics of our assets and liabilities. Our use of derivative transactions is intended to reduce long-term fluctuations in the fair value of assets and liabilities caused by market movements. All of our derivatives are categorized as not designated for hedge accounting, and all of our derivative activities are authorized and monitored by our management and our Asset-Liability Committee ("ALCO") which provides a framework for financial controls and governance to manage market risk.

Refer to Note 6 – Derivatives, Hedging Activities and Interest Expense of the Notes to Consolidated Financial Statements for further discussion and disclosure on derivative instruments.

LIBOR TRANSITION

The publication of non-U.S. dollar LIBOR rates on a representative basis, as well as the publication of the lesser used 1-week and 2-month U.S. dollar LIBOR tenors, ceased as of the end of December 2021. While the most commonly used U.S. dollar LIBOR tenors are expected to continue to be published until June 30, 2023, U.S. banking agencies issued guidance that financial institutions should cease using U.S. dollar LIBOR as a reference rate in new contracts after December 31, 2021. We are exposed to LIBOR-based financial instruments, including through our dealer financing activities, derivative contracts, secured and unsecured debt, and investment securities. To facilitate an orderly transition from LIBOR to alternative reference rates (“ARRs”), we have established an initiative led by senior management, with Board and committee oversight, to assess, monitor and mitigate risks associated with the expected discontinuation of LIBOR, to achieve operational readiness and engage impacted borrowers and counterparties in connection with the transition to ARR. Our efforts under this initiative include monitoring developments and the usage of ARRs, monitoring the regulatory and financial reporting guidance, as well as reviewing and updating current legal contracts, internal systems and processes to accommodate the use of ARRs. For example, we have committed to using Secured Overnight Financing Rate (“SOFR”) linked rates in connection with various borrowing arrangements and Prime in connection with various lending arrangements, and we continue to evaluate other alternatives as potential ARRs to LIBOR. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions.

We are also continuously assessing how the expected discontinuation of LIBOR will impact accounting and financial reporting. For example, on April 1, 2021, we adopted ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting, as further discussed in Note 1 – Basis of Presentation and Significant Accounting Policies of the Notes to Consolidated Financial Statements.

Refer to Part I, Item 1A. Risk Factors – “The transition away from the London Interbank Offered Rate (“LIBOR”) and the adoption of alternative reference rates could adversely impact our business and results of operations” for further discussion.

NEW ACCOUNTING GUIDANCE

Refer to Note 1 – Basis of Presentation and Significant Accounting Policies of the Notes to Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make certain estimates which affect reported financial results. The evaluation of the factors used in determining each of our critical accounting estimates involves significant assumptions, complex analyses, and management judgment. Changes in the evaluation of these factors may have a significant impact on the consolidated financial statements. Additionally, due to inherent uncertainties in making estimates, actual results could differ from those estimates, and those differences could be material. The accounting estimates we consider to be critical are the following:

- Accumulated depreciation on investment in operating leases; and
- Allowance for credit losses

Accumulated Depreciation on Investment in Operating Leases

Accumulated depreciation on investment in operating leases reduces the value of the leased vehicles from their original value at acquisition to their expected market value at the end of the lease term. Refer to Note 5 – Investments in Operating Leases, Net of the Notes to Consolidated Financial Statements for further discussion and disclosure of our investment in operating leases, including accumulated depreciation.

Nature of Estimates and Assumptions Required

The accumulated depreciation on investment in operating leases is based on assumptions of end-of-term market value of the leased vehicles and the number of vehicles that will be returned at maturity. At the inception of a lease, the residual values are estimated by examining external industry data, the anticipated Toyota and Lexus product pipeline and our own experience. Factors considered in this evaluation include, but are not limited to, local, regional and national economic forecasts, new vehicle pricing, new vehicle incentive programs, new vehicle sales, competitor actions and behavior, product attributes of popular vehicles, the mix and level of used vehicle supply, current and projected used vehicle values, the actual or perceived quality, safety or reliability of Toyota and Lexus vehicles, buying and leasing behavior trends, and fuel prices. We review the estimated end-of-term market values of leased vehicles to assess the appropriateness of their carrying values on a quarterly basis. To the extent the estimated end-of-term market value of a leased vehicle is lower than the contractual residual value established at lease inception, the residual value of the leased vehicle is adjusted downward so that the carrying value at lease end will approximate the estimated end-of-term market value. Factors affecting the estimated end-of-term market value are similar to those considered in the evaluation of the contractual residual values 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 us for sale as a percentage of lease contracts that were originally scheduled to mature in the same period less certain qualified early terminations. When the market value of a leased vehicle at maturity is less than its contractual residual value (i.e., the price at which the lease customer may purchase the leased vehicle), there is a higher probability that the vehicle will be returned. In addition, a higher market supply of certain models of used vehicles generally results in a lower relative level of demand for those vehicles, resulting in a higher probability that the vehicle will be returned.

Sensitivity Analysis

At March 31, 2022, holding other estimates constant, if end-of-term market values for returned units were to decrease by one percent from our present estimates, the effect would be to increase depreciation expense by approximately \$92 million. If the forecasted end-of-term market value of a leased vehicle is less than the contractual residual value, additional depreciation expense is recorded.

At March 31, 2022, holding other estimates constant, if the return rate for our existing lease portfolio were to increase by one percentage point from our present estimates, the effect would be to increase depreciation expense by approximately \$15 million. Adjustments are made on a straight-line basis over the remaining terms of the leases and are included in Investment in operating leases, net on our Consolidated Balance Sheets and in Depreciation on operating leases in our Consolidated Statements of Income.

Allowance for Credit Losses

We maintain an allowance for credit losses to cover lifetime expected credit losses as of the balance sheet date on our earning assets resulting from the failure of customers or dealers to make required payments. For evaluation purposes, exposures to credit losses are segmented into the two primary categories of “retail loan” and “dealer”. Our retail loan portfolio consists, for accounting purposes, of our retail loan portfolio segment which is characterized by smaller contract balances than our dealer portfolio. Our dealer portfolio consists, for accounting purposes, of our dealer products portfolio segment. The overall allowance is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether allowances are considered adequate to cover lifetime expected credit losses as of the balance sheet date. Refer to Note 4 – Allowance for Credit Losses of the Notes to Consolidated Financial Statements for further discussion and disclosure of our allowance for credit losses.

Retail Loan Portfolio

The level of credit risk for the retail loan portfolio is influenced by various factors such as economic conditions, the used vehicle market, credit quality, contract structure, and collection strategies and practices. The allowance for credit losses is measured on a collective basis when loans have similar risk characteristics such as loan-to-value ratio, book payment-to-income ratio, FICO score at origination, collateral type, contract term, and other relevant factors. We use statistical models to estimate lifetime expected credit losses of our retail loan portfolio segment by applying probability of default and loss given default to the exposure at default on a loan level basis. Probability of default models are developed from internal risk scoring models which consider variables such as delinquency status, historical default frequency, and other credit quality indicators such as loan-to-value ratio, book payment to income ratio, FICO score at origination, collateral type (new or used, Lexus, Toyota, or private label), and contract term. Loss given default models forecast the extent of losses given that a default has occurred and considers variables such as collateral, trends in recoveries, historical loss severity, and other contract structure variables. Exposure at default represents the expected outstanding principal balance, including the effects of expected prepayment when applicable. The lifetime expected credit losses incorporate the probability-weighted forward-looking macroeconomic forecasts for baseline, favorable, and adverse scenarios. The loan lifetime is regarded by management as the reasonable and supportable period. We use macroeconomic forecasts from a third party and update such forecasts quarterly. On an ongoing basis, we review our models, including macroeconomic factors, the selection of macroeconomic scenarios and their weighting to ensure they reflect the risk of the portfolio.

If management does not believe the models reflect lifetime expected credit losses, a qualitative adjustment is made to reflect management judgment regarding observable changes in recent or expected economic trends and conditions, portfolio composition, and other relevant factors.

Dealer Portfolio

The level of credit risk in the dealer portfolio is influenced primarily by the financial strength of dealers within our portfolio, dealer concentration, collateral quality, and other economic factors. The financial strength of dealers within our portfolio is influenced by, among other factors, general economic conditions, the overall demand for new and used vehicles and the financial condition of automotive manufacturers. The allowance for credit losses is established for both outstanding dealer finance receivables and certain unfunded off-balance sheet lending commitments. The allowance for credit losses is measured on a collective basis when loans have similar risk characteristics such as dealer group internal risk rating and loan-to-value ratios. We measure lifetime expected credit losses of our dealer products portfolio segment by applying probability of default and loss given default to the exposure at default on a loan level basis. Probability of default is primarily established based on internal risk assessments. The probability of default model also considers qualitative factors related to macroeconomic outlooks. Loss given default is established based on the nature and market value of the collateral, loan-to-value ratios and other credit quality indicators. Exposure at default represents the expected outstanding principal balance. The lifetime of the loan or lending commitment is regarded by management as the reasonable and supportable period. On an ongoing basis, we review our models, including macroeconomic outlooks, to ensure they reflect the risk of the portfolio.

If management does not believe the models reflect lifetime expected credit losses, a qualitative adjustment is made to reflect management judgment regarding observable changes in recent or expected economic trends and conditions, portfolio composition, and other relevant factors.

Sensitivity Analysis

The assumptions used in evaluating our exposure to credit losses involve estimates and significant judgment. The majority of our credit losses are related to our retail loan portfolio. Holding other estimates constant, a 10 percent increase or decrease in the assumptions used to derive probability of default and loss given default would have resulted in a change in the allowance for credit losses of \$120 million as of March 31, 2022.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

Our business and global capital market activities give rise to market sensitive assets and liabilities. This sensitivity is considered market risk and is caused by changes in market prices of our financial instruments on the balance sheet which is driven by various market factors such as interest rates, foreign exchange rates, credit spreads, and other market driven factors. Market risk is inherent in the financial instruments associated with our operations such as cash equivalents, finance receivables, debt and equity securities, debt, and derivatives.

ALCO is responsible for the execution of our market risk management strategies and their activities are governed by written policies and procedures. The principal objective of asset and liability management is to manage the sensitivity of net interest margin to changing interest rates. When evaluating risk management strategies, we consider a variety of factors, including, but not limited to, management's risk tolerance, market conditions and portfolio composition.

We manage our exposure to certain market risks through our regular operating and financing activities and when deemed appropriate, through the use of derivative instruments. These instruments are used to manage underlying exposures; we do not use derivatives for trading, market making or speculative purposes. Refer to "Derivative Instruments" within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for information on risk management strategies, corporate governance and derivatives usage.

Interest Rate Risk

Interest rate risk can result from timing differences in the maturity or re-pricing of assets and liabilities. Changes in the level and volatility of market interest rate curves also create interest rate risk as the re-pricing of assets and liabilities are a function of implied forward interest rates. We are also exposed to basis risk, which is the difference in re-pricing characteristics of two floating rate indices.

We use sensitivity simulations to assess and manage interest rate risk. Our simulations allow us to analyze the sensitivity of our existing portfolio as well as the expected sensitivity of our new business. We measure the potential volatility in our net interest margin and manage our interest rate risk by assessing the dollar impact given a 100-basis point increase or decrease in the implied yield curve. We have established risk limits to monitor and control our exposures. ALCO reviews the amount at risk and prescribes steps, if needed, to mitigate our exposure. Our current exposure is considered within tolerable limits.

Sensitivity Model Assumptions

Interest rate scenarios were derived from implied forward curves based on market expectations. Internal and external data sources were used for the reinvestment of maturing assets, refinancing of maturing debt and replacement of maturing derivatives. The prepayment of retail and lease contracts was based on our historical experience and attrition projections, voluntary or involuntary. We monitor our balance sheet positions, economic trends and market conditions, internal forecasts and expected business growth in an effort to maintain the reasonableness of the sensitivity model.

The table below reflects the potential 12-month change in pre-tax cash flows based on hypothetical movements in future market interest rates. The sensitivity analysis assumes instantaneous, parallel shifts in interest rate yield curves. These interest rate scenarios do not represent management's view of future interest rate movements. In reality, interest rate movements are rarely instantaneous or parallel and rates could move more or less than the rate scenarios reflected in the table below. In situations where existing interest rates are below one percent, the assumption of a 100-basis point decrease in interest rates is subject to a floor of zero percent, which is reflected in the "-100bp" scenario for both March 31, 2022 and 2021.

Sensitivity analysis (in millions)	Immediate change in rates	
	+100bp	-100bp
March 31, 2022	\$ 56.1	\$ (38.4)
March 31, 2021	\$ (24.9)	\$ 7.6

Our net interest cash flow sensitivity results from the "+100bp" scenario show a slightly asset sensitive position on March 31, 2022 and slightly liability sensitive position March 31, 2021. We regularly assess the viability of our business and hedging strategies to reduce unacceptable risks to earnings and implement strategies to protect our net interest margins from the potential negative effects of changes in interest rates.

Foreign Currency Risk

Foreign currency risk represents exposure to changes in the values of our current holdings and future cash flows denominated in other currencies. To meet our funding objectives, we issue fixed and variable rate debt denominated in a number of different currencies. Our policy is to minimize exposures to changes in foreign exchange rates. Currency exposure related to foreign currency debt is economically hedged at issuance through the execution of foreign currency swaps which effectively convert our obligations on foreign denominated debt into U.S. dollar denominated 3-month LIBOR or SOFR based payments. As a result, our economic exposure to foreign currency risk is minimized.

Certain equity investments in our investment securities portfolio are exposed to foreign currency risk. The equity investments may invest directly in foreign currencies, in securities that trade in and receive revenues in foreign currencies, or in financial derivatives that provide exposure to foreign currencies. The equity investments may also enter into foreign currency derivative contracts to hedge the currency exposure associated with some or all of the equity investments' securities. The market value of these holdings is translated into U.S. dollars based on the current exchange rates each business day. The effect of changes in foreign currency on our portfolio is reflected in the net asset value of the equity investment.

Derivative Counterparty Credit Risk

We manage derivative counterparty credit risk by maintaining policies for entering into derivative contracts, exercising our rights under our derivative contracts, requiring the posting of collateral and actively monitoring our exposure to counterparties.

All of our derivative counterparties to which we had credit exposure at March 31, 2022 were assigned investment grade ratings by a credit rating organization. Our counterparty credit risk could be adversely affected by deterioration of the global economy and financial distress in the banking industry.

Our ISDA Master Agreements permit multiple transactions to be cancelled and settled with a single net balance paid to either party in the event of default or other termination event outside the normal course of business, such as a ratings downgrade of either party to the contract. These ISDA Master Agreements also contain reciprocal collateral arrangements which help mitigate our exposure to the credit risk associated with our counterparties. As of March 31, 2022, we have daily valuation and collateral exchange arrangements with all of our counterparties. Our collateral agreements with substantially all our counterparties include a zero threshold, full collateralization requirement, which has significantly reduced counterparty credit risk exposure. Under our ISDA Master Agreements, cash is the only permissible form of collateral. Neither we nor our counterparties are required to hold collateral in a segregated account. Upon default, the collateral agreement grants the party in a net asset position the right to set-off amounts receivable against any posted collateral.

We also enter into centrally cleared derivatives which are subject to master netting agreements and perform valuation and margin exchange on a daily basis.

Issuer Credit Risk

Issuer credit risk represents exposures to changes in the creditworthiness of individual issuers or groups of issuers. Changes in economic conditions may expose us to issuer credit risk where the value of an asset may be adversely impacted by changes in the levels of credit spreads, by credit migration, or by defaults.

The following tables summarize our investments in marketable securities distribution by credit rating as of:

(Dollars in millions)	March 31, 2022							
	Amortized cost	Fair value	Distribution by credit rating					BB or below
			AAA	AA	A	BBB		
Available-for-sale debt securities:								
U.S. government and agency obligations	\$ 538	\$ 509	\$ 509	\$ -	\$ -	\$ -	\$ -	
Foreign government and agency obligations	26	23	-	4	8	1	10	
Municipal debt securities	9	10	3	6	1	-	-	
Certificates of deposit	-	-	-	-	-	-	-	
Commercial paper	-	-	-	-	-	-	-	
Corporate debt securities	598	568	-	7	150	310	101	
Mortgage-backed securities	119	116	65	16	16	-	19	
Asset-backed securities	82	78	17	11	22	22	6	
Total available-for-sale debt securities:	<u>\$ 1,372</u>	<u>\$ 1,304</u>	<u>\$ 594</u>	<u>\$ 44</u>	<u>\$ 197</u>	<u>\$ 333</u>	<u>\$ 136</u>	
Fixed income mutual funds		<u>\$ 2,713</u>	<u>\$ 1,462</u>	<u>\$ 218</u>	<u>\$ 154</u>	<u>\$ 819</u>	<u>\$ 60</u>	
Total		<u>\$ 4,017</u>	<u>\$ 2,056</u>	<u>\$ 262</u>	<u>\$ 351</u>	<u>\$ 1,152</u>	<u>\$ 196</u>	

(Dollars in millions)	March 31, 2021							
	Amortized cost	Fair value	Distribution by credit rating					BB or below
			AAA	AA	A	BBB		
Available-for-sale debt securities:								
U.S. government and agency obligations	\$ 217	\$ 211	\$ 211	\$ -	\$ -	\$ -	\$ -	
Municipal debt securities	8	10	2	7	1	-	-	
Certificates of deposit	-	-	-	-	-	-	-	
Commercial paper	196	196	-	-	196	-	-	
Corporate debt securities	177	187	-	8	61	118	-	
Mortgage-backed securities	79	80	42	13	11	3	11	
Asset-backed securities	49	52	9	7	19	10	7	
Total available-for-sale debt securities:	<u>\$ 726</u>	<u>\$ 736</u>	<u>\$ 264</u>	<u>\$ 35</u>	<u>\$ 288</u>	<u>\$ 131</u>	<u>\$ 18</u>	
Fixed income mutual funds		<u>\$ 3,201</u>	<u>\$ -</u>	<u>\$ 1,409</u>	<u>\$ 1,048</u>	<u>\$ 723</u>	<u>\$ 21</u>	
Total		<u>\$ 3,937</u>	<u>\$ 264</u>	<u>\$ 1,444</u>	<u>\$ 1,336</u>	<u>\$ 854</u>	<u>\$ 39</u>	

Equity Price Risk

We are exposed to equity price risk related to our investments in equity mutual funds included in our investment portfolio. These investments, classified as available-for-sale on our Consolidated Balance Sheet, consist of passively managed mutual funds that are designed to track the performance of major equity market indices. Fair market values of the equity investments are determined using a net asset value that is quoted in an active market.

We utilize the Value at Risk (“VaR”) methodology to simulate the potential loss in fair value of our investment portfolio due to adverse market movements. The model is based on historical data for the previous two years assuming a holding period of 30 business days and a loss methodology approximating a 99 percent confidence interval. The table below shows the VaR, excluding taxation impact, of our equity investment portfolio as of and for the period ending:

(Dollars in millions)	March 31, 2022
Average	\$ 260
Minimum	\$ 129
Maximum	\$ 262

These hypothetical scenarios, derived from historical market price fluctuations, represent an estimate of reasonably possible net losses and are not necessarily indicative of actual results that may occur. Additionally, the hypothetical scenarios do not represent the maximum possible loss or any expected loss that may occur, since actual future gains and losses will differ from estimates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of Toyota Motor Credit Corporation:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Toyota Motor Credit Corporation and its subsidiaries (the “Company”) as of March 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, shareholder’s equity and cash flows for each of the three years in the period ended March 31, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses in fiscal year 2021.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Retail Loan Portfolio Allowance for Credit Losses

As described in Notes 3 and 4 to the consolidated financial statements, the Company had retail loans of \$73,380 million, for which an allowance for credit losses of \$1,195 million was recorded as of March 31, 2022. The allowance for credit losses represents management's estimate of expected credit losses over the expected lifetime of the loans. The loan lifetime is regarded by management as the reasonable and supportable period. Management uses statistical models to estimate lifetime expected credit losses of the retail loan portfolio by applying probability of default and loss given default to the exposure at default on a loan level basis. Probability of default models are developed from internal risk scoring models which consider variables such as delinquency status, historical default frequency and other credit quality indicators such as loan-to-value ratio, book payment-to-income ratio, FICO score at origination, collateral type, and contract term. Loss given default models forecast the extent of losses given that a default has occurred and consider variables such as collateral, trends in recoveries, historical loss severity and other contract structure variables. Exposure at default represents the expected outstanding principal balance, including the effects of expected prepayment when applicable. The lifetime expected credit losses incorporate the probability weighted forward looking macroeconomic forecasts for baseline, favorable, and adverse scenarios. If management does not believe the models reflect lifetime expected credit losses, a qualitative adjustment is made to reflect management judgment regarding observable changes in recent or expected economic trends and conditions, portfolio composition, and other relevant factors.

The principal considerations for our determination that performing procedures relating to the retail loan portfolio allowance for credit losses is a critical audit matter are (i) the significant judgment by management in determining the estimate of the retail loan portfolio allowance for credit losses, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to probability of default and loss given default assumptions and the qualitative adjustment used in estimating the allowance for credit losses, and (ii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures also included, among others, testing management's process for estimating the retail loan portfolio allowance for credit losses by (i) evaluating the appropriateness of the models used to estimate the retail loan portfolio allowance for credit losses, (ii) testing certain data used in the estimate, and (iii) evaluating the reasonableness of probability of default and loss given default assumptions and the qualitative adjustment, which also involved the use of professionals with specialized skill and knowledge to perform these procedures to test management's process.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas
June 3, 2022

We have served as the Company's auditor since 1983.

TOYOTA MOTOR CREDIT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in millions)

	Years ended March 31,		
	2022	2021	2020
Financing revenues:			
Operating lease	\$ 8,337	\$ 8,481	\$ 8,775
Retail	3,254	2,905	2,558
Dealer	<u>329</u>	<u>413</u>	<u>696</u>
Total financing revenues	11,920	11,799	12,029
Depreciation on operating leases	5,846	5,932	6,820
Interest expense	<u>1,401</u>	<u>2,302</u>	<u>2,834</u>
Net financing revenues	4,673	3,565	2,375
Voluntary protection contract revenues and insurance earned premiums	1,015	956	933
Investment and other (loss) income, net	<u>(26)</u>	<u>410</u>	<u>322</u>
Net financing revenues and other revenues	<u>5,662</u>	<u>4,931</u>	<u>3,630</u>
Expenses:			
Provision for credit losses	236	426	590
Operating and administrative	1,697	1,487	1,561
Voluntary protection contract expenses and insurance losses	<u>405</u>	<u>369</u>	<u>455</u>
Total expenses	<u>2,338</u>	<u>2,282</u>	<u>2,606</u>
Income before income taxes	3,324	2,649	1,024
Provision for income taxes	<u>789</u>	<u>632</u>	<u>111</u>
Net income	<u>\$ 2,535</u>	<u>\$ 2,017</u>	<u>\$ 913</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)

	Years ended March 31,		
	2022	2021	2020
Net income	\$ 2,535	\$ 2,017	\$ 913
Other comprehensive income, net of tax			
Net unrealized (losses) gains on available-for-sale marketable securities [net of tax benefit (provision) of \$8, (\$2) and (\$4), respectively]	(28)	9	13
Reclassification adjustment for net gains on available-for-sale marketable securities included in investment and other income, net [net of tax provision of \$0, \$5 and \$0, respectively]	<u>(1)</u>	<u>(16)</u>	<u>(1)</u>
Other comprehensive (loss) income	<u>(29)</u>	<u>(7)</u>	<u>12</u>
Comprehensive income	<u>\$ 2,506</u>	<u>\$ 2,010</u>	<u>\$ 925</u>

Refer to the accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR CREDIT CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in millions except share data)

	<u>March 31,</u> <u>2022</u>	<u>March 31,</u> <u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 7,670	\$ 8,195
Restricted cash and cash equivalents	2,065	1,957
Investments in marketable securities	4,953	4,820
Finance receivables, net of allowance for credit losses of \$1,246 and \$1,178	82,432	79,192
Investments in operating leases, net	35,455	37,091
Other assets	2,466	2,473
Total assets	<u>\$ 135,041</u>	<u>\$ 133,728</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Debt	\$ 109,152	\$ 109,725
Deferred income taxes	1,564	2,860
Other liabilities	6,224	5,548
Total liabilities	<u>116,940</u>	<u>118,133</u>
Commitments and contingencies (Refer to Note 9)		
Shareholder's equity:		
Capital stock, no par value (100,000 shares authorized; 91,500 issued and outstanding) at March 31, 2022 and 2021	915	915
Additional paid-in capital	2	2
Accumulated other comprehensive (loss) income	(21)	8
Retained earnings	17,205	14,670
Total shareholder's equity	<u>18,101</u>	<u>15,595</u>
Total liabilities and shareholder's equity	<u>\$ 135,041</u>	<u>\$ 133,728</u>

The following table presents the assets and liabilities of our consolidated variable interest entities (Refer to Note 8).

	<u>March 31,</u> <u>2022</u>	<u>March 31,</u> <u>2021</u>
ASSETS		
Finance receivables, net	\$ 20,932	\$ 21,745
Investments in operating leases, net	11,886	6,599
Other assets	66	89
Total assets	<u>\$ 32,884</u>	<u>\$ 28,433</u>
LIABILITIES		
Debt	\$ 26,864	\$ 24,212
Other liabilities	10	14
Total liabilities	<u>\$ 26,874</u>	<u>\$ 24,226</u>

Refer to the accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR CREDIT CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(Dollars in millions)

	Capital stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at March 31, 2019	\$ 915	\$ 2	\$ 3	\$ 12,658	\$ 13,578
Net income	-	-	-	913	913
Other comprehensive income, net of tax	-	-	12	-	12
Balance at March 31, 2020	<u>\$ 915</u>	<u>\$ 2</u>	<u>\$ 15</u>	<u>\$ 13,571</u>	<u>\$ 14,503</u>
Cumulative-effect of adoption of ASU 2016-13	-	-	-	(218)	(218)
Net income	-	-	-	2,017	2,017
Other comprehensive loss, net of tax	-	-	(7)	-	(7)
Dividends	-	-	-	(700)	(700)
Balance at March 31, 2021	<u>\$ 915</u>	<u>\$ 2</u>	<u>\$ 8</u>	<u>\$ 14,670</u>	<u>\$ 15,595</u>
Net income	-	-	-	2,535	2,535
Other comprehensive loss, net of tax	-	-	(29)	-	(29)
Balance at March 31, 2022	<u>\$ 915</u>	<u>\$ 2</u>	<u>\$ (21)</u>	<u>\$ 17,205</u>	<u>\$ 18,101</u>

Refer to the accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR CREDIT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Years ended March 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 2,535	\$ 2,017	\$ 913
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,963	6,049	6,930
Recognition of deferred income	(2,396)	(2,496)	(2,485)
Provision for credit losses	236	426	590
Amortization of deferred costs	1,019	789	707
Foreign currency and other adjustments to the carrying value of financial instruments, net	(230)	1,401	(515)
Net losses (gains) from investments in marketable securities	181	(149)	(47)
Net change in:			
Derivative assets	(7)	(3)	10
Other assets and accrued interest	(465)	142	(482)
Deferred income taxes	(1,288)	(2,521)	2
Derivative liabilities	24	(44)	19
Other liabilities	652	632	122
Net cash provided by operating activities	<u>6,224</u>	<u>6,243</u>	<u>5,764</u>
Cash flows from investing activities:			
Purchase of investments in marketable securities	(2,468)	(2,215)	(2,392)
Proceeds from sales of investments in marketable securities	1,769	422	345
Proceeds from maturities of investments in marketable securities	338	932	1,200
Acquisition of finance receivables	(41,057)	(38,702)	(29,375)
Collection of finance receivables	34,335	28,009	25,668
Net change in wholesale and certain working capital receivables	3,339	4,793	(2)
Acquisition of investments in operating leases	(15,064)	(16,778)	(15,350)
Disposals of investments in operating leases	12,510	11,821	11,775
Long term loans to affiliates	(200)	(200)	(600)
Payments on long term loans from affiliates	300	506	25
Net change in financing support provided to affiliates	(26)	-	-
Other, net	(71)	(79)	(51)
Net cash used in investing activities	<u>(6,295)</u>	<u>(11,491)</u>	<u>(8,757)</u>
Cash flows from financing activities:			
Proceeds from issuance of debt	37,266	50,281	26,847
Payments on debt	(38,156)	(30,648)	(23,375)
Net change in commercial paper and other short-term financing	555	(9,049)	1,861
Loan from affiliate	-	-	3,000
Payment on loan from affiliate	-	(3,000)	-
Net change in financing support provided by affiliates	(11)	(13)	16
Dividend paid	-	(700)	(10)
Net cash (used in) provided by financing activities	<u>(346)</u>	<u>6,871</u>	<u>8,339</u>
Net (decrease) increase in cash and cash equivalents and restricted cash and cash equivalents	(417)	1,623	5,346
Cash and cash equivalents and restricted cash and cash equivalents at the beginning of the period	<u>10,152</u>	<u>8,529</u>	<u>3,183</u>
Cash and cash equivalents and restricted cash and cash equivalents at the end of the period	<u>\$ 9,735</u>	<u>\$ 10,152</u>	<u>\$ 8,529</u>
Supplemental disclosures:			
Interest paid, net	\$ 1,649	\$ 2,445	\$ 2,568
Income taxes paid, net	\$ 1,797	\$ 2,463	\$ 269

Refer to the accompanying Notes to Consolidated Financial Statements.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 1 – Basis of Presentation and Significant Accounting Policies

Nature of Operations

Toyota Motor Credit Corporation (“TMCC”) is a wholly-owned subsidiary of Toyota Financial Services International Corporation (“TFSIC”), a California corporation, which is a wholly-owned subsidiary of Toyota Financial Services Corporation (“TFSC”), a Japanese corporation. TFSC, in turn, is a wholly-owned subsidiary of Toyota Motor Corporation (“TMC”), a Japanese corporation. TFSC manages TMC’s worldwide financial services operations. References herein to the “Company”, “we”, “our”, and “us” denote TMCC and its consolidated subsidiaries. TMCC is marketed under the brands of Toyota Financial Services, Lexus Financial Services, and Mazda Financial Services.

We provide a variety of finance and voluntary vehicle and payment protection products and services to authorized Toyota and Lexus dealers or dealer groups, private label dealers or dealer groups, and, to a lesser extent, other domestic and import franchise dealers (collectively referred to as “dealers”) and their customers in the United States of America (excluding Hawaii) (the “U.S.”) and Puerto Rico. Our business is substantially dependent upon the sale of Toyota, Lexus, and private label vehicles.

Our products and services fall primarily into the following categories:

- ***Finance Operations*** - We acquire retail installment sales contracts from dealers in the U.S. and Puerto Rico (“retail contracts”) and leasing contracts accounted for as operating leases (“lease contracts”) from dealers in the U.S. We collectively refer to our retail and lease contracts as the “consumer portfolio.” We also provide dealer financing, including wholesale financing, working capital loans, revolving lines of credit and real estate financing to dealers in the U.S. and Puerto Rico. We collectively refer to our dealer financing portfolio as the “dealer portfolio.”
- ***Voluntary Protection Operations*** - Through Toyota Motor Insurance Services, Inc., a wholly-owned subsidiary, and its insurance company subsidiaries (collectively referred to as “TMIS”), we provide marketing, underwriting, and claims administration for voluntary vehicle and payment protection products sold by dealers in the U.S. Our voluntary vehicle and payment protection products include vehicle service, guaranteed auto protection, prepaid maintenance, excess wear and use, tire and wheel protection, key replacement protection, and used vehicle limited warranty contracts (“voluntary protection products”). TMIS also provides coverage and related administrative services to certain of our affiliates in the U.S.

Our finance operations are located in the U.S. and Puerto Rico with earning assets principally sourced through Toyota, Lexus, and private label dealers. As of March 31, 2022, approximately 22 percent of retail and lease contracts were concentrated in California, 12 percent in Texas, 7 percent in New York, and 5 percent in New Jersey. Our voluntary protection operations are located in the U.S. As of March 31, 2022, approximately 25 percent of voluntary protection contracts were concentrated in California, 6 percent in New York, and 5 percent in Maryland and Virginia, respectively. Any material adverse changes to the economies or applicable laws in these states could have an adverse effect on our financial condition and results of operations.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Other Matters

In fiscal 2021, TMCC began providing private label financial services to third-party automotive and mobility companies commencing with the provision of services to Mazda Motor of America, Inc. (“Mazda”). We are currently leveraging our existing processes and personnel to originate and service the new assets; however, we will continue to evaluate the private label financial services business, which includes partnering with or transitioning a portion of the business to our affiliates, some of which are not consolidated with TMCC. We have also made certain technology investments to support the Mazda program and future private label customers.

In fiscal 2021, we announced the restructuring of our customer service operations to better serve our customers by relocating and streamlining the customer service operation and investing in new technology. The restructuring is in progress and over the next year, we plan to complete the process of moving our three regional CSCs to be co-located with the regional DSCs to become regional experience centers. Costs associated with this restructure are not expected to be significant.

On November 19, 2021, TMCC announced, in furtherance of its private label financial services initiative for third party automotive and mobility companies, that we entered into a nonbinding letter of intent with Great American Outdoors Group LLC, the parent company of Bass Pro Shops, Cabela’s and the White River Marine Group (“Bass Pro Shops”) to provide private label financial services for Bass Pro Shop’s boats, all-terrain vehicle products, and other mobility products. The Company expects to provide inventory financing for Bass Pro Shops, its affiliates, and authorized independent dealers, starting in fiscal 2023, with additional private label services, including consumer financing and voluntary protection products and services, to be added over time.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Basis of Presentation and Principles of Consolidation

Our accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”). Related party transactions presented in the Consolidated Financial Statements are disclosed in Note 12 – Related Party Transactions.

The consolidated financial statements include the accounts of TMCC, its wholly-owned subsidiaries and all variable interest entities (“VIE”) of which we are the primary beneficiary. All intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Because of inherent uncertainty involved in making estimates, actual results could differ from those estimates and assumptions. The accounting estimates that are most important to our business are the accumulated depreciation related to our investments in operating leases and the allowance for credit losses.

Significant Accounting Policies

Our significant accounting policies are found in the respective Note for which the policy is applicable.

Recently Adopted Accounting Guidance

In fiscal 2021, we adopted Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), along with the subsequently issued guidance amending and clarifying various aspects of ASU 2016-13, using the modified retrospective method as required. In accordance with that method, the comparative period’s information continues to be reported under the relevant accounting guidance in effect for that period. Upon adoption of ASU 2016-13, the incurred loss impairment method was replaced with a new impairment model that reflects lifetime expected losses for our finance receivables. The adoption of ASU 2016-13 resulted in a cumulative-effect adjustment to decrease opening retained earnings by approximately \$218 million, net of taxes, resulting from a pretax increase to our allowance for credit losses on finance receivables of approximately \$292 million. Additionally, we have changed the presentation of accrued interest related to finance receivables in the Consolidated Balance Sheets from Finance receivables, net to Other assets. As of April 1, 2020, we have reclassified accrued interest of \$190 million from Finance receivables, net to Other assets. The adoption of this new guidance did not result in a material impact to our available-for-sale debt securities portfolio.

Refer to Note 2 – Investments in Marketable Securities, Note 3 – Finance Receivables, Net, and Note 4 – Allowance for Credit Losses for additional information.

In conjunction with the adoption of ASU 2016-13, we updated our depreciation policy for operating leases so that the useful life of the vehicles incorporates our historical experience on early terminations due to customer defaults. As a result, we changed the presentation for reporting early termination expenses related to customer defaults on investments in operating leases. We now present the effects of operating lease early terminations as part of accumulated depreciation within Investments in operating leases, net in the Consolidated Balance Sheets and Depreciation on operating leases in the Consolidated Statements of Income. The comparative period’s information continues to be reported under the relevant accounting presentation in effect for that period. Refer to Note 5 – Investments in Operating Leases, Net for additional information.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

On April 1, 2021, we adopted the following new accounting standards:

We adopted Accounting Standards Update (“ASU”) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, along with the subsequently issued guidance, which provides temporary optional expedients and exceptions for applying generally accepted accounting principles to transactions affected by reference rate reform if certain criteria are met. The provisions of this update are available to us until December 31, 2022. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

We adopted ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs*, which requires an entity to reevaluate the amortization period for callable debt securities held at a premium each reporting period. The premium is amortized to the earliest call date of the debt security. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

Accounting Guidance Issued But Not Yet Adopted

In July 2021, the FASB issued ASU 2021-05, *Lessors-Certain Leases with Variable Lease Payments (Topic 842)*, which modifies the lease classification for certain leases. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or rate as an operating lease if certain criteria are met. This ASU is effective for us on April 1, 2022, with early application permitted. The adoption of this guidance will not have a material impact on our consolidated financial statements and related disclosures.

In March 2022, the FASB issued ASU 2022-02, *Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the accounting guidance for Troubled Debt Restructurings by creditors that have adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, while enhancing disclosure requirements for certain loan refinancing and restructurings made to borrowers experiencing financial difficulty. Additionally, the ASU adds the requirement to disclose current period gross write-offs by year of origination for financing receivables. This ASU is effective for us on April 1, 2023, with early application permitted. We are currently evaluating the impact of this standard on our consolidated financial statements and related disclosures.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 2 – Cash and Cash Equivalents and Investments in Marketable Securities

Cash and cash equivalents

Cash and cash equivalents represent highly liquid investments with maturities of three months or less from the date of acquisition and may include money market instruments, commercial paper, certificates of deposit, U.S. government and agency obligations, or similar instruments.

Restricted cash and cash equivalents

Restricted cash and cash equivalents include customer collections on securitized receivables to be distributed to investors as payments on the related secured notes and loans payable, which are primarily related to securitization trusts. Restricted cash equivalents may also contain proceeds from certain debt issuances for which the use of the cash is restricted.

Investments in marketable securities

Investments in marketable securities consist of debt securities and equity investments.

We classify all of our debt securities as available-for-sale (“AFS”). Except when the fair value option is elected, AFS debt securities are recorded at fair value with unrealized gains or losses included in accumulated other comprehensive income (“AOCI”), net of applicable taxes. Realized gains and losses from sales of AFS debt securities are determined using the specific identification method or first in first out method and are included in Investment and other income, net in our Consolidated Statements of Income.

In fiscal 2021, we adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, on a modified retrospective basis. Under the new guidance, an allowance for credit losses is established when it is determined that a credit loss has occurred. Prior to the adoption of this standard, when a decline in fair value of a debt security was determined to be other-than-temporary, an impairment charge for the credit component was recorded in Investment and other income, net and a new cost basis in the investment was established. As of March 31, 2022, management determined that credit losses did not exist for securities in an unrealized loss position. This analysis considered a variety of factors including, but not limited to, performance indicators of the issuer, default rates, industry analyst reports, credit ratings, and other relevant information, which indicated that contractual cash flows are expected to occur.

In fiscal 2022, we have elected the fair value option for certain debt securities held within one of our affiliate investment portfolios for operational ease given the size and composition of this portfolio. All debt securities within this specific portfolio are recorded at fair value with changes in fair value included in Investment and other income, net in our Consolidated Statements of Income. AFS debt securities for which the fair value option is elected are not subject to credit loss impairment. As of March 31, 2022, we held AFS debt securities for which the fair value option was elected of \$674 million. The difference between the aggregate fair value and the aggregate unpaid principal balance of long-term AFS debt securities for which the fair value option was elected was not significant.

All equity investments are recorded at fair value with changes in fair value included in Investment and other income, net in our Consolidated Statements of Income. Realized gains and losses from sales of equity investments are determined using the first in first out method and are included in Investment and other income, net in our Consolidated Statements of Income.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 2 – Cash and Cash Equivalents and Investments in Marketable Securities (Continued)

Investments in marketable securities consisted of the following:

	March 31, 2022			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale debt securities:				
U.S. government and agency obligations	\$ 538	\$ -	\$ (29)	\$ 509
Foreign government and agency obligations	26	-	(3)	23
Municipal debt securities	9	1	-	10
Corporate debt securities	598	4	(34)	568
Mortgage-backed securities:				
U.S. government agency	20	-	-	20
Non-agency residential	11	-	(1)	10
Non-agency commercial	88	1	(3)	86
Asset-backed securities	82	-	(4)	78
Total available-for-sale debt securities	<u>\$ 1,372</u>	<u>\$ 6</u>	<u>\$ (74)</u>	<u>\$ 1,304</u>
Equity investments				3,649
Total investments in marketable securities				<u>\$ 4,953</u>

	March 31, 2021			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale debt securities:				
U.S. government and agency obligations	\$ 217	\$ 4	\$ (10)	\$ 211
Municipal debt securities	8	2	-	10
Commercial paper	196	-	-	196
Corporate debt securities	177	12	(2)	187
Mortgage-backed securities:				
U.S. government agency	31	1	-	32
Non-agency residential	1	-	-	1
Non-agency commercial	47	2	(2)	47
Asset-backed securities	49	3	-	52
Total available-for-sale debt securities	<u>\$ 726</u>	<u>\$ 24</u>	<u>\$ (14)</u>	<u>\$ 736</u>
Equity investments				4,084
Total investments in marketable securities				<u>\$ 4,820</u>

A portion of our equity investments are investments in funds that are privately placed and managed by an open-end investment management company (the “Trust”). If we elect to redeem shares, the Trust will normally redeem all shares for cash, but may, in unusual circumstances, redeem amounts exceeding the lesser of \$250 thousand or 1 percent of the Trust’s asset value by payment in kind of securities held by the respective fund during any 90-day period.

We also invest in actively traded open-end mutual funds. Redemptions are subject to normal terms and conditions as described in each fund’s prospectus.

Non-cash investing activities related to in-kind redemptions and subsequent purchases amounted to \$1.1 billion in fiscal 2022. We had no non-cash investing activities related to in-kind redemptions in fiscal 2021.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 2 – Cash and Cash Equivalents and Investments in Marketable Securities (Continued)

Unrealized Losses on Securities

Available-for-sale debt securities in a continuous loss position for greater than twelve months were not significant as of March 31, 2022 and 2021.

Gains and Losses on Securities

The following table represents gains and losses on our investments in marketable securities presented in our Consolidated Statements of Income:

	Years ended March 31,		
	2022	2021	2020
Available-for-sale debt securities:			
Unrealized losses on securities for which the fair value option was elected	\$ (41)		
Realized (losses) gains on sales	\$ (4)	\$ 20	\$ 9
Other-than-temporary impairment			\$ (8)
Equity investments:			
Unrealized (losses) gains	\$ (158)	\$ 114	\$ 41
Realized gains on sales	\$ 22	\$ 15	\$ 5

Contractual Maturities

The amortized cost and fair value by contractual maturities of available-for-sale debt securities are summarized in the following table. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations.

	March 31, 2022	
	Amortized cost	Fair value
Available-for-sale debt securities:		
Due within 1 year	\$ 53	\$ 53
Due after 1 year through 5 years	378	367
Due after 5 years through 10 years	381	360
Due after 10 years	359	330
Mortgage-backed and asset-backed securities ¹	201	194
Total	<u>\$ 1,372</u>	<u>\$ 1,304</u>

¹ Mortgage-backed and asset-backed securities are shown separately from other maturity groupings as these securities have multiple maturity dates.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 3 – Finance Receivables, Net

Finance receivables, net consists of retail loan and dealer products portfolio segments, and includes deferred origination costs, deferred income, and allowance for credit losses. Finance receivables, net also includes securitized retail receivables, which represent retail receivables that have been sold for legal purposes to securitization trusts but continue to be included in our consolidated financial statements, as discussed further in Note 8 – Variable Interest Entities. Cash flows from these securitized retail receivables are available only for the repayment of debt issued by these trusts and other obligations arising from the securitization transactions. They are not available for payment of our other obligations or to satisfy claims of our other creditors.

Finance receivables are classified as held-for-investment if the Company has the intent and ability to hold the receivables for the foreseeable future or until maturity or payoff. As of March 31, 2022 and 2021, all finance receivables were classified as held-for-investment.

Revenues associated with retail and dealer financing are recognized to approximate a constant effective yield over the contract term. Incremental direct fees and costs incurred in connection with the acquisition of retail contracts and dealer financing receivables, including incentive and rate participation payments made to dealers, are capitalized and amortized to approximate a constant effective yield over the term of the related contracts. Payments received on subvention and other consumer incentives are deferred and recognized to approximate a constant effective yield over the term of the related contracts.

Accrued interest related to finance receivables are presented within Other assets on the Consolidated Balance Sheet and was \$214 million and \$187 million at March 31, 2022 and 2021, respectively.

For both retail loan and dealer products portfolio segments, accrued interest, deferred income, and deferred origination costs, if any, are written off within Provision for credit losses at the earlier of when an account is deemed to be uncollectible or when an account is greater than 120 days past due.

Finance receivables, net consisted of the following:

	March 31, 2022	March 31, 2021
Retail receivables ¹	\$ 73,152	\$ 66,991
Dealer financing	<u>10,298</u>	<u>13,642</u>
	83,450	80,633
Deferred origination costs	1,330	1,145
Deferred income	(1,102)	(1,408)
Allowance for credit losses		
Retail receivables	(1,195)	(1,075)
Dealer financing	<u>(51)</u>	<u>(103)</u>
Total allowance for credit losses	(1,246)	(1,178)
Finance receivables, net	<u>\$ 82,432</u>	<u>\$ 79,192</u>

¹ Includes securitized retail receivables of \$21.2 billion and \$22.1 billion as of March 31, 2022 and 2021, respectively.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 3 – Finance Receivables, Net (Continued)

Credit Quality Indicators

We are exposed to credit risk on our finance receivables. Credit risk is the risk of loss arising from the failure of customers or dealers to meet the terms of their contracts with us or otherwise fail to perform as agreed.

Retail Loan Portfolio Segment

The retail loan portfolio segment consists of one class of finance receivables. While we use various credit quality metrics to develop our allowance for credit losses on the retail loan portfolio segment, we primarily utilize the aging of the individual accounts to monitor the credit quality of these finance receivables. Based on our experience, the payment status of borrowers is the strongest indicator of the credit quality of the underlying receivables. Payment status also impacts charge-offs.

Individual borrower accounts within the retail loan portfolio segment are segregated into aging categories based on the number of days past due. The aging of finance receivables is updated monthly.

The following tables present the amortized cost basis of our retail loan portfolio by origination fiscal year by credit quality indicator based on number of days past due:

	Amortized Cost Basis by Origination Fiscal Year at March 31, 2022						Total
	2022	2021	2020	2019	2018	2017 and Prior	
Aging of finance receivables:							
Current	\$ 32,382	\$ 21,917	\$ 9,624	\$ 4,774	\$ 2,674	\$ 718	\$ 72,089
30-59 days past due	275	304	153	101	63	36	932
60-89 days past due	68	82	40	25	16	11	242
90 days or greater past due	33	39	17	13	8	7	117
Total	<u>\$ 32,758</u>	<u>\$ 22,342</u>	<u>\$ 9,834</u>	<u>\$ 4,913</u>	<u>\$ 2,761</u>	<u>\$ 772</u>	<u>\$ 73,380</u>

	Amortized Cost Basis by Origination Fiscal Year at March 31, 2021						Total
	2021	2020	2019	2018	2017	2016 and Prior	
Aging of finance receivables:							
Current	\$ 32,026	\$ 16,047	\$ 8,972	\$ 5,977	\$ 2,435	\$ 496	\$ 65,953
30-59 days past due	147	145	114	83	46	27	562
60-89 days past due	37	39	28	21	11	8	144
90 days or greater past due	18	18	13	9	5	6	69
Total	<u>\$ 32,228</u>	<u>\$ 16,249</u>	<u>\$ 9,127</u>	<u>\$ 6,090</u>	<u>\$ 2,497</u>	<u>\$ 537</u>	<u>\$ 66,728</u>

The amortized cost of retail loan portfolio excludes accrued interest of \$192 million and \$160 million at March 31, 2022 and 2021, respectively. The previous tables include contracts greater than 120 days past due, which are recorded at the fair value of collateral less estimated costs to sell, and contracts in bankruptcy.

TOYOTA MOTOR CREDIT CORPORATION
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(Dollars in millions)

Note 3 – Finance Receivables, Net (Continued)

Dealer Products Portfolio Segment

The dealer products portfolio segment consists of three classes of finance receivables: wholesale, real estate and working capital. All loans outstanding for an individual dealer or dealer group, which includes affiliated entities, are aggregated and evaluated collectively by dealer or dealer group. This reflects the interconnected nature of financing provided to our individual dealer and dealer group customers, and their affiliated entities.

When assessing the credit quality of the finance receivables within the dealer products portfolio segment, we segregate the finance receivables account balances into four categories representing distinct credit quality indicators based on internal risk assessments. The internal risk assessments for all finance receivables within the dealer products portfolio segment are updated on a monthly basis.

The four credit quality indicators are:

- Performing – Account not classified as either Credit Watch, At Risk or Default;
- Credit Watch – Account designated for elevated attention;
- At Risk – Account where there is an increased likelihood that default may exist based on qualitative and quantitative factors; and
- Default – Account is not currently meeting contractual obligations or we have temporarily waived certain contractual requirements

The following tables present the amortized cost basis of our dealer products portfolio by credit quality indicator based on internal risk assessments by origination fiscal year:

	Amortized Cost Basis by Origination Fiscal Year at March 31, 2022						Revolving loans	Total
	2022	2021	2020	2019	2018	2017 and Prior		
Wholesale								
Performing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,927	\$ 2,927
Credit Watch	-	-	-	-	-	-	16	16
At Risk	-	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-	-
Wholesale total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,943</u>	<u>\$ 2,943</u>
Real estate								
Performing	\$ 1,614	\$ 1,245	\$ 264	\$ 384	\$ 260	\$ 1,245	\$ -	\$ 5,012
Credit Watch	2	-	-	-	-	5	-	7
At Risk	-	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-	-
Real estate total	<u>\$ 1,616</u>	<u>\$ 1,245</u>	<u>\$ 264</u>	<u>\$ 384</u>	<u>\$ 260</u>	<u>\$ 1,250</u>	<u>\$ -</u>	<u>\$ 5,019</u>
Working Capital								
Performing	\$ 662	\$ 321	\$ 209	\$ 158	\$ 37	\$ 173	\$ 774	\$ 2,334
Credit Watch	1	1	-	-	-	-	-	2
At Risk	-	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-	-
Working capital total	<u>\$ 663</u>	<u>\$ 322</u>	<u>\$ 209</u>	<u>\$ 158</u>	<u>\$ 37</u>	<u>\$ 173</u>	<u>\$ 774</u>	<u>\$ 2,336</u>
Total	<u>\$ 2,279</u>	<u>\$ 1,567</u>	<u>\$ 473</u>	<u>\$ 542</u>	<u>\$ 297</u>	<u>\$ 1,423</u>	<u>\$ 3,717</u>	<u>\$ 10,298</u>

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 3 – Finance Receivables, Net (Continued)

	Amortized Cost Basis by Origination Fiscal Year at March 31, 2021						Revolving loans	Total
	2021	2020	2019	2018	2017	2016 and Prior		
Wholesale								
Performing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,893	\$ 5,893
Credit Watch	-	-	-	-	-	-	218	218
At Risk	-	-	-	-	-	-	35	35
Default	-	-	-	-	-	-	11	11
Wholesale total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,157</u>	<u>\$ 6,157</u>
Real estate								
Performing	\$ 1,874	\$ 320	\$ 596	\$ 356	\$ 312	\$ 1,493	\$ -	\$ 4,951
Credit Watch	8	49	3	20	9	99	-	188
At Risk	13	-	-	-	12	17	-	42
Default	-	-	-	13	9	-	-	22
Real estate total	<u>\$ 1,895</u>	<u>\$ 369</u>	<u>\$ 599</u>	<u>\$ 389</u>	<u>\$ 342</u>	<u>\$ 1,609</u>	<u>\$ -</u>	<u>\$ 5,203</u>
Working Capital								
Performing	\$ 503	\$ 334	\$ 200	\$ 41	\$ 106	\$ 176	\$ 878	\$ 2,238
Credit Watch	1	-	6	1	-	19	9	36
At Risk	1	-	-	-	7	-	-	8
Default	-	-	-	-	-	-	-	-
Working capital total	<u>\$ 505</u>	<u>\$ 334</u>	<u>\$ 206</u>	<u>\$ 42</u>	<u>\$ 113</u>	<u>\$ 195</u>	<u>\$ 887</u>	<u>\$ 2,282</u>
Total	<u>\$ 2,400</u>	<u>\$ 703</u>	<u>\$ 805</u>	<u>\$ 431</u>	<u>\$ 455</u>	<u>\$ 1,804</u>	<u>\$ 7,044</u>	<u>\$ 13,642</u>

The amortized cost of the dealer products portfolio excludes accrued interest of \$22 million and \$27 million at March 31, 2022 and 2021, respectively. As of March 31, 2022 and 2021, the amount of line-of-credit arrangements that are converted to term loans in each reporting period was insignificant, respectively.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 3 – Finance Receivables, Net (Continued)

Past Due Finance Receivables by Class

Substantially all finance receivables do not involve recourse to the dealer in the event of customer default. Finance receivables include contracts greater than 120 days past due, which are recorded at the fair value of collateral less estimated costs to sell, and contracts in bankruptcy. Contracts for which vehicles have been repossessed are excluded. For all finance receivables, we define “past due” as any payment, including principal and interest, that is at least 30 days past the contractual due date. For any customer who is granted a payment extension under an extension program, the aging of the receivable is adjusted for the number of days of the extension granted.

The following tables presents the aging of the amortized cost basis of our finance receivables by class:

	March 31, 2022						
	30 - 59 Days past due	60 - 89 Days past due	90 Days or greater past due	Total Past due	Current	Total Finance receivables	90 Days or greater past due and accruing
Retail loan	\$ 932	\$ 242	\$ 117	\$ 1,291	\$ 72,089	\$ 73,380	\$ 65
Wholesale	-	-	-	-	2,943	2,943	-
Real estate	-	-	-	-	5,019	5,019	-
Working capital	-	-	-	-	2,336	2,336	-
Total	\$ 932	\$ 242	\$ 117	\$ 1,291	\$ 82,387	\$ 83,678	\$ 65

	March 31, 2021						
	30 - 59 Days past due	60 - 89 Days past due	90 Days or greater past due	Total Past due	Current	Total Finance receivables	90 Days or greater past due and accruing
Retail loan	\$ 562	\$ 144	\$ 69	\$ 775	\$ 65,953	\$ 66,728	\$ 39
Wholesale	-	-	-	-	6,157	6,157	-
Real estate	-	-	-	-	5,203	5,203	-
Working capital	-	-	-	-	2,282	2,282	-
Total	\$ 562	\$ 144	\$ 69	\$ 775	\$ 79,595	\$ 80,370	\$ 39

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 3 – Finance Receivables, Net (Continued)

Troubled Debt Restructuring

A troubled debt restructuring occurs when a finance receivable is modified through a concession to a borrower experiencing financial difficulty. A finance receivable modified under a troubled debt restructuring is considered to be impaired. In addition, troubled debt restructurings include finance receivables for which the customer has filed for bankruptcy protection. For such finance receivables, we no longer have the ability to modify the terms of the agreement without the approval of the bankruptcy court and the court may impose term modifications that we are obligated to accept.

For accounts not under bankruptcy protection, the amount of finance receivables modified as a troubled debt restructuring during fiscal 2022 and 2021 was not significant for each class of finance receivables. Troubled debt restructurings for accounts not under bankruptcy protection within the retail loan class of finance receivables are comprised exclusively of contract term extensions that reduce the monthly payment due from the customer. For the three classes of finance receivables within the dealer products portfolio segment, troubled debt restructurings include contract term extensions, interest rate adjustments, waivers of loan covenants, or any combination of the three. Troubled debt restructurings of accounts not under bankruptcy protection did not include forgiveness of principal or interest rate adjustments during fiscal 2022 and 2021.

We consider finance receivables under bankruptcy protection within the retail loan class to be troubled debt restructurings as of the date we receive notice of a customer filing for bankruptcy protection, regardless of the ultimate outcome of the bankruptcy proceedings. The bankruptcy court may impose modifications as part of the proceedings, including interest rate adjustments and forgiveness of principal. For fiscal 2022 and 2021, the financial impact of troubled debt restructurings related to finance receivables under bankruptcy protection was not significant to our Consolidated Statements of Income and Consolidated Balance Sheets.

For a limited time during fiscal 2021, we offered several programs to provide relief to customers during the COVID-19 pandemic. These programs, which were broadly available to our customers, included retail loan payment extensions and lease payment deferrals. We concluded that these programs did not meet troubled debt restructuring criteria due to the short-term nature of the modifications with no change in the contractual interest rate. To provide relief for our dealers we offered certain temporary interest reductions, interest payment deferrals, and interest waivers on dealer floorplan financing, and principal payment deferrals on dealer floorplan financing, dealer real estate and working capital loans. We also concluded that these programs did not meet troubled debt restructuring criteria as the finance receivables from the dealers were current.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4 – Allowance for Credit Losses

Upon adoption of ASU 2016-13 in fiscal 2021, the incurred loss impairment method was replaced with a new impairment model that reflects lifetime expected losses. Management develops and documents the allowance for credit losses on finance receivables based on two portfolio segments. The determination of portfolio segments is based primarily on the qualitative consideration of the nature of our business operations and the characteristics of the underlying finance receivables, as follows:

- **Retail Loan Portfolio Segment** – The retail loan portfolio segment consists of retail contracts acquired from dealers in the U.S. and Puerto Rico. Under a retail contract, we are granted a security interest in the underlying collateral which consists primarily of Toyota, Lexus, and private label vehicles. Based on the common risk characteristics associated with the finance receivables, the retail loan portfolio segment is considered a single class of finance receivable.
- **Dealer Products Portfolio Segment** – The dealer products portfolio segment consists of wholesale financing, working capital loans, revolving lines of credit and real estate loans to dealers in the U.S. and Puerto Rico. Wholesale financing is primarily collateralized by new or used vehicle inventory with the outstanding balance fluctuating based on the level of inventory. Working capital loans and revolving lines of credit are granted for working capital purposes and are secured by dealership assets. Real estate loans are collateralized by the underlying real estate, are underwritten primarily on a loan-to-value basis and are typically for a fixed term. Based on the risk characteristics associated with the underlying finance receivables, the dealer products portfolio segment consists of three classes of finance receivables: wholesale, working capital (including revolving lines of credit), and real estate.

Management's estimate of lifetime expected credit losses is based on an evaluation of relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the future collectability of the finance receivables. Management's evaluation takes into consideration the risks in the retail loan portfolio and dealer products portfolio, past loss experience, delinquency trends, underwriting and collection practices, changes in portfolio composition, economic forecasts and other relevant factors.

Methodology Used to Develop the Allowance for Credit Losses

The allowance for credit losses is measured on a collective basis when loans have similar risk characteristics. Loans that do not share similar risk characteristics are evaluated on an individual basis. We generally use a discounted cash flow approach for determining allowance for credit losses for finance receivables modified as a troubled debt restructuring that are granted with interest rate concessions, and a non-discounted cash flow approach for other loans.

We measure expected losses of all components of finance receivables on an amortized cost basis, excluding accrued interest, and including off-balance-sheet lending commitments that are not unconditionally cancellable by TMCC. Estimated expected credit losses for off-balance-sheet lending commitments within our dealer products portfolio are included in Other liabilities on the Consolidated Balance Sheets. We have elected to exclude accrued interest from the measurement of expected credit losses as we apply policies and procedures that result in the timely write-offs of accrued interest. Accrued interest is written off within allowance for credit losses at the earlier of when an account is deemed to be uncollectible or when an account is greater than 120 days past due.

Retail Loan Portfolio Segment

The level of credit risk in our retail loan portfolio segment is influenced by various factors such as economic conditions, the used vehicle market, credit quality, contract structure, and collection strategies and practices. The allowance for credit losses is measured on a collective basis when loans have similar risk characteristics such as loan-to-value ratio, book payment-to-income ratio, FICO score at origination, collateral type, contract term, and other relevant factors. We use statistical models to estimate lifetime expected credit losses of our retail loan portfolio segment by applying probability of default and loss given default to the exposure at default on a loan level basis.

Probability of default models are developed from internal risk scoring models which consider variables such as delinquency status, historical default frequency, and other credit quality indicators such as loan-to-value ratio, book payment-to-income ratio, FICO score at origination, collateral type (new or used, Lexus, Toyota, or private label), and contract term.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 4 – Allowance for Credit Losses (Continued)

Loss given default models forecast the extent of losses given that a default has occurred and considers variables such as collateral, trends in recoveries, historical loss severity, and other contract structure variables. Exposure at default represents the expected outstanding principal balance, including the effects of expected prepayment when applicable.

The lifetime expected credit losses incorporate the probability-weighted forward-looking macroeconomic forecasts for baseline, favorable, and adverse scenarios. The loan lifetime is regarded by management as the reasonable and supportable period. We use macroeconomic forecasts from a third party and update such forecasts quarterly.

On an ongoing basis, we review our models, including macroeconomic factors, the selection of macroeconomic scenarios and their weighting to ensure they reflect the risk of the portfolio.

If management does not believe the models reflect lifetime expected credit losses, a qualitative adjustment is made to reflect management judgment regarding observable changes in recent or expected economic trends and conditions, portfolio composition, and other relevant factors. While management uses the best information available to make such evaluations, future adjustments to the allowance for credit losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations.

Dealer Products Portfolio Segment

The level of credit risk in our dealer products portfolio segment is influenced primarily by the financial strength of dealers within our portfolio, dealer concentration, collateral quality, and other economic factors. The financial strength of dealers within our portfolio is influenced by, among other factors, general economic conditions, the overall demand for new and used vehicles and the financial condition of automotive manufacturers. The allowance for credit losses is established for both outstanding dealer finance receivables and certain unfunded off-balance sheet lending commitments. The allowance for credit losses is measured on a collective basis when loans have similar risk characteristics such as dealer group internal risk rating and loan-to-value ratios. We measure lifetime expected credit losses of our dealer products portfolio segment by applying probability of default and loss given default to the exposure at default on a loan level basis. Probability of default is primarily established based on internal risk assessments. The probability of default model also considers qualitative factors related to macroeconomic outlooks. Loss given default is established based on the nature and market value of the collateral, loan-to-value ratios and other credit quality indicators. Exposure at default represents the expected outstanding principal balance. The lifetime of the loan or lending commitment is regarded by management as the reasonable and supportable period. On an ongoing basis, we review our models, including macroeconomic outlooks, to ensure they reflect the risk of the portfolio.

If management does not believe the models reflect lifetime expected credit losses, a qualitative adjustment is made to reflect management judgment regarding observable changes in recent or expected economic trends and conditions, portfolio composition, and other relevant factors. While management uses the best information available to make such evaluations, future adjustments to the allowance for credit losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations.

Accounting for the Allowance for Credit Losses

Increases to the allowance for credit losses are accompanied by corresponding charges to the Provision for credit losses in our Consolidated Statements of Income. The uncollectible portion of finance receivables is charged to the allowance for credit losses at the earlier of when an account is deemed to be uncollectible or when an account is greater than 120 days past due. In the event we repossess the collateral, the receivable is charged-off and we record the collateral at its estimated fair value less costs to sell and report it in Other assets on our Consolidated Balance Sheets. Recoveries of finance receivables previously charged off as uncollectible are credited to the allowance for credit losses.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4 – Allowance for Credit Losses (Continued)

The following tables provide information related to our allowance for credit losses for finance receivables and certain off-balance sheet lending commitments by portfolio segment:

	Year ended March 31, 2022		
	Retail loan	Dealer products	Total
Beginning balance, April 1, 2021	\$ 1,075	\$ 140	\$ 1,215
Charge-offs	(237)	-	(237)
Recoveries	58	-	58
Provision for credit losses	299	(63)	236
Ending balance, March 31, 2022 ¹	<u>\$ 1,195</u>	<u>\$ 77</u>	<u>\$ 1,272</u>

¹ Ending balance includes \$26 million of allowance for credit losses related to off-balance sheet commitments in the dealer products portfolio which is included in Other liabilities on the Consolidated Balance Sheet.

	Year ended March 31, 2021		
	Retail loan	Dealer products	Total
Beginning balance, April 1, 2020	\$ 486	\$ 241	\$ 727
Adoption of ASU 2016-13 ¹	281	11	292
Charge-offs	(287)	-	(287)
Recoveries	48	9	57
Provision for credit losses	547	(121)	426
Ending balance, March 31, 2021 ²	<u>\$ 1,075</u>	<u>\$ 140</u>	<u>\$ 1,215</u>

¹ Cumulative pre-tax adjustments recorded to retained earnings as of April 1, 2020.

² Ending balance includes \$37 million of allowance for credit losses related to off-balance sheet commitments in the dealer products portfolio which is included in Other liabilities on the Consolidated Balance Sheet.

Finance receivables for the dealer products portfolio segment as of March 31, 2022 includes \$929 million in finance receivables that are guaranteed by Toyota Motor North America, Inc. (“TMNA”), and \$187 million in finance receivables that are guaranteed by third-party private Toyota distributors. Finance receivables for the dealer products portfolio segment as of March 31, 2021 includes \$1,028 million in finance receivables that are guaranteed by TMNA, and \$162 million in finance receivables that are guaranteed by third-party private Toyota distributors. These finance receivables are related to certain Toyota and Lexus dealers and other third parties to whom we provided financing at the request of TMNA and third-party private Toyota distributors.

During fiscal 2022, the allowance for credit losses increased \$57 million primarily due to the increase in size of our retail loan portfolio and an increase in delinquencies, as well as the economic conditions caused by the conflict in Ukraine, partially offset by continued improved dealer financial performance in fiscal 2022. In contrast, in fiscal 2021, the allowance for credit losses increased \$488 million, reflecting an increase to the allowance for credit losses of \$292 million related to the adoption of ASU 2016-13 in fiscal 2021, and an increase of \$196 million primarily due to an increase in the size of the portfolio and the increase in expected credit losses for the retail loan portfolio driven by economic conditions caused by the COVID-19 pandemic and the restrictions designed to slow the spread of COVID-19, including stay-at-home orders, increased unemployment, and decreased consumer spending.

TOYOTA MOTOR CREDIT CORPORATION
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Note 5 – Investments in Operating Leases, Net

Investments in operating leases, net consists of vehicle lease contracts acquired from dealers, and includes deferred origination fees and costs, deferred income, and accumulated depreciation. Generally, lessees have the ability to extend their lease term in six month increments up to a total of 12 months from the original lease maturity date. A lease can be terminated at any time by satisfying the obligations under the lease contract. Early termination programs may be occasionally offered to eligible lessees. At the end of the lease, the customer has the option to buy the leased vehicle or return the vehicle to the dealer.

Securitized investments in operating leases represent beneficial interests in a pool of certain vehicle leases that have been sold for legal purposes to securitization trusts but continue to be included in our consolidated financial statements as discussed further in Note 8 - Variable Interest Entities. Cash flows from these securitized investments in operating leases are available only for the repayment of debt issued by these trusts and other obligations arising from the securitization transactions. They are not available for payment of our other obligations or to satisfy claims of our other creditors.

Operating lease revenues are recognized on a straight-line basis over the term of the lease. We have made an accounting policy election to exclude from the consideration in the contract, and from variable payments not included in the consideration in the contract, sales and other taxes assessed by a governmental authority that are both imposed on and concurrent with a specific lease revenue-producing transaction and collected from customers. Deferred fees and costs include incentive payments made to dealers and acquisition fees collected from customers. Deferred income includes payments received on affiliate sponsored subvention and other incentive programs. Both deferred fees and costs and deferred income are capitalized or deferred and amortized on a straight-line basis over the contract term. The accrual of revenue on investments in operating leases is discontinued at the time an account is determined to be uncollectible and subsequent revenue is recognized only to the extent a payment is received. Operating leases may be restored to accrual status when future payments are reasonably assured.

Vehicle Lease Residual Values

Contractual residual values of vehicle lease contracts are estimated at lease inception by examining external industry data, the anticipated Toyota, Lexus, and private label product pipeline and our own experience. Factors considered in this evaluation include macroeconomic forecasts, new vehicle pricing, new vehicle incentive programs, new vehicle sales, vehicle features and specifications, the mix and level of used vehicle supply, the level of current used vehicle values, and fuel prices. We are exposed to a risk of loss to the extent the customer returns the vehicle and the value of the vehicle is lower than the residual value estimated at inception of the lease or if the number of returned vehicles is higher than anticipated.

Depreciation on operating leases is recognized using the straight-line method over the lease term. The depreciable basis is the original acquisition cost of the vehicle less the estimated residual value of the vehicle at the end of the lease term. On a quarterly basis, we review the estimated end-of-term market values and return rates of leased vehicles to assess the appropriateness of the carrying values at lease-end. Factors affecting the estimated end-of-term market value are similar to those considered in the evaluation of residual values at lease inception discussed above. Adjustments to depreciation expense to reflect revised estimates of expected market values at lease termination and revised return rates are recorded prospectively on a straight-line basis over the remaining lease term.

We use various channels to sell vehicles returned at lease-end. Upon disposition, the difference between the net book value of the lease and the proceeds received from the disposition of the asset, including any insurance proceeds is recorded as an adjustment to depreciation on operating leases.

We evaluate our investment in operating leases portfolio for potential impairment when we determine a triggering event has occurred. When a triggering event has occurred, we perform a test of recoverability by comparing the expected undiscounted future cash flows (including expected residual values) over the remaining lease terms to the carrying value of the asset group. If the test of recoverability identifies a possible impairment, the asset group's fair value is measured in accordance with the fair value measurement framework. An impairment charge would be recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value and would be recorded in our Consolidated Statements of Income. As of March 31, 2022 and 2021, there was no impairment in our investment in operating leases portfolio.

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Note 5 – Investments in Operating Leases, Net (Continued)

Our depreciation policy for operating leases incorporates our historical experience on early terminations due to customer defaults into the useful life of the vehicles. We consider the effects of operating lease early terminations when determining depreciation estimates, which are included as part of accumulated depreciation within Investments in operating leases, net on the Consolidated Balance Sheets and Depreciation on operating leases in the Consolidated Statements of Income.

Investments in operating leases, net consisted of the following:

	March 31, 2022	March 31, 2021
Investments in operating leases ¹	\$ 45,728	\$ 48,337
Deferred origination (fees) and costs, net	(46)	(101)
Deferred income	(1,272)	(1,759)
Accumulated depreciation	(8,955)	(9,386)
Investments in operating leases, net	<u>\$ 35,455</u>	<u>\$ 37,091</u>

¹ Includes securitized investments in operating leases of \$16.2 billion and \$9.3 billion as of March 31, 2022 and March 31, 2021, respectively.

Future minimum rentals on investments in operating leases are as follows:

Years ending March 31,	Future minimum rentals on operating leases
2023	\$ 5,604
2024	3,620
2025	1,073
2026	83
2027	8
Thereafter	-
Total	<u>\$ 10,388</u>

A portion of our operating lease contracts has historically terminated prior to maturity. Future minimum rentals shown above should not be considered indicative of future cash collections.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 – Derivatives, Hedging Activities and Interest Expense

Derivative Instruments

Our liabilities consist mainly of fixed and variable rate debt, denominated in U.S. dollars and various other currencies, which we issue in the global capital markets, while our assets consist primarily of U.S. dollar denominated, fixed rate receivables. We enter into interest rate swaps and foreign currency swaps to economically hedge the interest rate and foreign currency risks that result from the different characteristics of our assets and liabilities. Our use of derivative transactions is intended to reduce long-term fluctuations in the fair value of assets and liabilities caused by market movements. All of our derivatives are categorized as not designated for hedge accounting, and all of our derivative activities are authorized and monitored by our management and our Asset-Liability Committee which provides a framework for financial controls and governance to manage market risk.

All derivative instruments are recorded on the balance sheet at fair value, taking into consideration the effects of legally enforceable master netting agreements that allow us to net settle asset and liability positions and offset cash collateral with the same counterparty on a net basis. Changes in the fair value of our derivative instruments are recorded in Interest expense in our Consolidated Statements of Income. The derivative instruments are included as a component of Other assets or Other liabilities on our Consolidated Balance Sheets.

Offsetting of Derivatives

Accounting guidance permits the net presentation on our Consolidated Balance Sheets of derivative receivables and derivative payables with the same counterparty and the related cash collateral when a legally enforceable master netting agreement exists, or when the derivative receivables and derivative payables meet all the conditions for the right of setoff to exist. When we meet this condition, we elect to present such balances on a net basis.

Over-the-Counter (“OTC”) Derivatives

Our International Swaps and Derivatives Association Master Agreements are our master netting agreements which permit multiple transactions to be cancelled and settled with a single net balance paid to either party for our OTC derivatives. The master netting agreements also contain reciprocal collateral agreements which require the transfer of cash collateral to the party in a net asset position across all transactions. Our collateral agreements with substantially all our counterparties include a zero threshold, full collateralization arrangement. Although we have daily valuation and collateral exchange arrangements with all of our counterparties, due to the time required to move collateral, there may be a delay of up to one day between the exchange of collateral and the valuation of our derivatives. We would not be required to post additional collateral to the counterparties with whom we were in a net liability position at March 31, 2022, if our credit ratings were to decline, since we fully collateralize without regard to credit ratings with these counterparties. In addition, as our collateral agreements include legal right of offset provisions, collateral amounts are netted against derivative assets or derivative liabilities, and the net amount is included in Other assets or Other liabilities on our Consolidated Balance Sheets.

Centrally Cleared Derivatives

For our centrally cleared derivatives, variation margin payments are legally characterized as settlement payments and accounted for with corresponding derivative positions as one unit of account as opposed to collateral. Initial margin payments are separately recorded in Other assets on our Consolidated Balance Sheets. We perform valuation and margin exchange on a daily basis. Similar to the OTC swaps, there may be a delay of up to one day between the exchange of margin payments and the valuation of our derivatives.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 – Derivatives, Hedging Activities and Interest Expense (Continued)

Derivative Activity Impact on Consolidated Financial Statements

The following tables show the financial statement line item and amount of our derivative assets and liabilities that are reported on our Consolidated Balance Sheets:

	March 31, 2022		March 31, 2021	
	Notional	Fair value	Notional	Fair value
Other assets:				
Interest rate swaps	\$ 64,327	\$ 1,425	\$ 44,125	\$ 1,026
Foreign currency swaps	<u>1,594</u>	<u>55</u>	<u>7,274</u>	<u>330</u>
Total	\$ 65,921	\$ 1,480	\$ 51,399	\$ 1,356
Counterparty netting		(761)		(840)
Collateral held		<u>(658)</u>		<u>(462)</u>
Carrying value of derivative contracts – Other assets		<u>\$ 61</u>		<u>\$ 54</u>
Other liabilities:				
Interest rate swaps	\$ 19,903	\$ 822	\$ 55,062	\$ 1,142
Foreign currency swaps	<u>8,102</u>	<u>717</u>	<u>4,321</u>	<u>243</u>
Total	\$ 28,005	\$ 1,539	\$ 59,383	\$ 1,385
Counterparty netting		(761)		(840)
Collateral posted		<u>(753)</u>		<u>(544)</u>
Carrying value of derivative contracts – Other liabilities		<u>\$ 25</u>		<u>\$ 1</u>

As of March 31, 2022 and 2021, we held excess collateral of \$2 million and \$29 million, respectively, which we did not use to offset derivative assets and was recorded in Other liabilities on our Consolidated Balance Sheets. As of March 31, 2022 and 2021, we posted initial margin and excess collateral of \$132 million and \$10 million, respectively, which we did not use to offset derivative liabilities and was recorded in Other assets on our Consolidated Balance Sheets.

TOYOTA MOTOR CREDIT CORPORATION
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Note 6 – Derivatives, Hedging Activities and Interest Expense (Continued)

The following table summarizes the components of interest expense, including the location and amount of gains and losses on derivative instruments and related hedged items, as reported in our Consolidated Statements of Income:

	Years Ended March 31,		
	2022	2021	2020
Interest expense on debt	\$ 1,498	\$ 1,954	\$ 2,488
Interest expense on derivatives	107	420	180
Interest expense on debt and derivatives	1,605	2,374	2,668
(Gains) losses on debt denominated in foreign currencies	(438)	1,402	(703)
Losses (gains) on foreign currency swaps	818	(1,351)	650
(Gains) losses on U.S. dollar interest rate swaps	(584)	(123)	219
Total interest expense	<u>\$ 1,401</u>	<u>\$ 2,302</u>	<u>\$ 2,834</u>

Interest expense on debt and derivatives represents net interest settlements and changes in accruals. Gains and losses on derivatives and debt denominated in foreign currencies exclude net interest settlements and changes in accruals. Cash flows associated with derivatives are reported in Net cash provided by operating activities in our Consolidated Statements of Cash Flows.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 7 – Debt and Credit Facilities

Debt and the related weighted average contractual interest rates are summarized as follows:

	March 31, 2022			March 31, 2021		
	Face value	Carrying value	Weighted average contractual interest rates	Face value	Carrying value	Weighted average contractual interest rates
Unsecured notes and loans payable	\$ 82,542	\$ 82,288	1.30%	\$ 85,759	\$ 85,513	1.31%
Secured notes and loans payable	26,907	26,864	1.01%	24,256	24,212	1.29%
Total debt	<u>\$ 109,449</u>	<u>\$ 109,152</u>	1.23%	<u>\$ 110,015</u>	<u>\$ 109,725</u>	1.31%

The carrying value of our debt includes unamortized premiums, discounts, debt issuance costs and the effects of foreign currency translation adjustments. Debt issuance costs are deferred and amortized to interest expense on an effective yield basis over the contractual term of the debt.

Weighted average contractual interest rates are calculated based on original notional or par value before consideration of premium or discount and approximate the effective interest rates.

Debt is callable at par value. Scheduled maturities of our debt portfolio are summarized below. Actual repayment of secured debt will vary based on the repayment activity on the related pledged assets.

Years ending March 31,	Future debt maturities
2023	\$ 51,171
2024	20,889
2025	13,466
2026	9,642
2027	7,279
Thereafter ¹	7,002
Unamortized premiums, discounts and debt issuance costs	(297)
Total debt	<u>\$ 109,152</u>

¹ Unsecured and secured notes and loans payable mature on various dates through fiscal 2049.

Unsecured Notes and Loans Payable

Our unsecured notes and loans payable consist of commercial paper and fixed and variable rate debt. Short-term funding needs are met through the issuance of commercial paper in the U.S. Amounts outstanding under our commercial paper programs were \$16.9 billion and \$17.0 billion as of March 31, 2022, and 2021, respectively.

Upon issuance of fixed rate debt, we generally elect to enter into pay-float swaps to convert fixed rate payments on debt to floating rate payments. Certain unsecured notes and loans payable are denominated in various foreign currencies. The debt is translated into U.S. dollars using the applicable exchange rate at the transaction date and retranslated at each balance sheet date using the exchange rate in effect at that date. The resulting transaction gains and losses are included in Interest expense in our Consolidated Statements of Income. Concurrent with the issuance of these foreign currency unsecured notes and loans payable, we enter into currency swaps in the same notional amount to convert non-U.S. currency payments to U.S. dollar denominated payments. Gains and losses related to foreign currency transactions are included in Interest expense in our Consolidated Statements of Income.

Certain of our unsecured notes and loans payable contain covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross-default provisions and limitations on certain consolidations, mergers and sales of assets. We are currently in compliance with these covenants and conditions.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 7 – Debt and Credit Facilities (Continued)

Secured Notes and Loans Payable

Our secured notes and loans payable are denominated in U.S. dollars and consist of both fixed and variable rate debt. Secured notes and loans payable are issued using on-balance sheet securitization trusts, as further discussed in Note 8 – Variable Interest Entities. These notes are repayable only from collections on the underlying securitized retail finance receivables and the beneficial interests in investments in operating leases and from related credit enhancements. Some of our secured notes are backed by a revolving pool of finance receivables and cash collateral, with the ability to repay the notes in full after the revolving period ends, after which an amortization period begins.

Credit Facilities and Letters of Credit

For additional liquidity purposes, we maintain credit facilities, which may be used for general corporate purposes, as described below:

364-Day Credit Agreement, Three-Year Credit Agreement and Five-Year Credit Agreement

TMCC, Toyota Credit de Puerto Rico Corp. (“TCPR”), a wholly-owned subsidiary, and other Toyota affiliates are party to a \$5.0 billion 364-day syndicated bank credit facility, \$5.0 billion three-year syndicated bank credit facility and a \$5.0 billion five-year syndicated bank credit facility, expiring in fiscal 2023, 2025, and 2027 respectively.

The ability to make draws is subject to covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross default provisions and limitations on certain consolidations, mergers and sales of assets. These agreements were not drawn upon and had no outstanding balances as March 31, 2022 and 2021. We are currently in compliance with the covenants and conditions of the credit agreements described above.

Committed Revolving Asset-backed Facility

We are party to a 364-day revolving securitization facility with certain bank-sponsored asset-backed conduits and other financial institutions expiring in fiscal 2023. Under the terms and subject to the conditions of this facility, the committed lenders under the facility have committed to make advances up to a facility limit of \$7.0 billion backed by eligible retail finance receivables transferred by us to a special-purpose entity acting as borrower. We utilized \$3.2 billion of this facility as of March 31, 2022 and 2021, respectively.

Other Unsecured Credit Agreements

TMCC is party to additional unsecured credit facilities with various banks. As of March 31, 2022, TMCC had committed bank credit facilities totaling \$4.6 billion, of which \$2.3 billion, \$300 million, and \$2.0 billion mature in fiscal 2023, 2024, and 2025 respectively.

These credit agreements contain covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross-default provisions and limitations on certain consolidations, mergers and sales of assets. These credit facilities were not drawn upon and had no outstanding balances as of March 31, 2022 and 2021. We are currently in compliance with the covenants and conditions of the credit agreements described above.

TMCC is party to a \$5.0 billion three-year revolving credit facility with Toyota Motor Sales, U.S.A., Inc. (“TMS”), expiring in fiscal 2025. This credit facility was not drawn upon and had no outstanding balance as of March 31, 2022 and 2021.

From time to time, we may borrow from affiliates based upon a number of business factors such as funds availability, cash flow timing, relative cost of funds, and market access capabilities. Amounts borrowed from affiliates are recorded in Other liabilities on our Consolidated Balance Sheets.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Variable Interest Entities

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the party with both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE.

To assess whether we have the power to direct the activities of a VIE that most significantly impact its economic performance, we consider all the facts and circumstances including our role in establishing the VIE and our ongoing rights and responsibilities. This assessment includes identifying the activities that most significantly impact the VIE’s economic performance and identifying which party, if any, has power over those activities. In general, the party that makes the most significant decisions affecting the VIE is determined to have the power to direct the activities of the VIE. To assess whether we have the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE, we consider all of our economic interests, including debt and equity interests, servicing rights and fee arrangements, and any other variable interests in the VIE. If we determine that we are the party with the power to make the most significant decisions affecting the VIE, and we have an obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE, then we consolidate the VIE.

We perform ongoing reassessments, usually quarterly, of whether we are the primary beneficiary of a VIE. The reassessment process considers whether we have acquired or divested the power to direct the most significant activities of the VIE through changes in governing documents or other circumstances. We also reconsider whether entities previously determined not to be VIEs have become VIEs, based on new events, and therefore could be subject to the VIE consolidation framework.

Consolidated Variable Interest Entities

We use one or more special purpose entities that are considered VIEs to issue asset-backed securities to third-party bank-sponsored asset-backed securitization vehicles and to investors in securitization transactions. The securities issued by these VIEs are backed by the cash flows related to retail finance receivables and beneficial interests in investments in operating leases (“Securitized Assets”). We hold variable interests in the VIEs that could potentially be significant to the VIEs. We determined that we are the primary beneficiary of the securitization trusts because (i) our servicing responsibilities for the Securitized Assets give us the power to direct the activities that most significantly impact the performance of the VIEs, and (ii) our variable interests in the VIEs give us the obligation to absorb losses and the right to receive residual returns that could potentially be significant.

The following tables show the assets and liabilities related to our VIE securitization transactions that were included on our Consolidated Balance Sheets:

	March 31, 2022				
	VIE Assets			VIE Liabilities	
	Restricted cash	Net securitized assets	Other assets	Debt	Other liabilities
Retail finance receivables	\$ 1,284	\$ 20,932	\$ 51	\$ 18,562	\$ 8
Investments in operating leases	645	11,886	15	8,302	2
Total	<u>\$ 1,929</u>	<u>\$ 32,818</u>	<u>\$ 66</u>	<u>\$ 26,864</u>	<u>\$ 10</u>
	March 31, 2021				
	VIE Assets			VIE Liabilities	
	Restricted cash	Net securitized assets	Other assets	Debt	Other liabilities
Retail finance receivables	\$ 1,521	\$ 21,745	\$ 46	\$ 19,665	\$ 13
Investments in operating leases	436	6,599	43	4,547	1
Total	<u>\$ 1,957</u>	<u>\$ 28,344</u>	<u>\$ 89</u>	<u>\$ 24,212</u>	<u>\$ 14</u>

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Variable Interest Entities (Continued)

Restricted cash, including cash equivalents, shown in the previous tables represent collections from the underlying Net securitized assets and certain reserve deposits held by TMCC for the VIEs and is included as part of Restricted cash and cash equivalents on our Consolidated Balance Sheets. Net securitized assets shown in the previous tables are presented net of deferred fees and costs, deferred income, accumulated depreciation, and allowance for credit losses. Other assets represent accrued interests related to securitized retail finance receivables and used vehicles held-for-sale that were repossessed by or returned to TMCC for the benefit of the VIEs. The related debt of these consolidated VIEs is presented net of \$1,667 million and \$1,409 million of securities retained by TMCC at March 31, 2022 and 2021, respectively. Other liabilities represent accrued interest on the debt of the consolidated VIEs.

The assets of the VIEs and the Restricted cash and cash equivalents held by TMCC serve as the sole source of repayment for the asset-backed securities issued by these entities. Investors in the notes issued by the VIEs do not have recourse to us or our other assets, with the exception of customary representation and warranty repurchase provisions and indemnities.

As the primary beneficiary of these entities, we are exposed to credit, residual value, interest rate, and prepayment risk from the Securitized Assets in the VIEs. However, our exposure to these risks did not change as a result of the transfer of the assets to the VIEs. We may also be exposed to interest rate risk arising from the secured notes issued by the VIEs.

In addition, we entered into interest rate swaps with certain special purpose entities that issue variable rate debt. Under the terms of these swaps, the special purpose entities are obligated to pay TMCC a fixed rate of interest on certain payment dates in exchange for receiving a floating rate of interest on notional amounts equal to the outstanding balance of the secured debt. This arrangement enables the special purpose entities to mitigate the interest rate risk inherent in issuing variable rate debt that is secured by fixed rate Securitized Assets.

The transfers of the Securitized Assets to the special purpose entities in our securitizations are considered to be sales for legal purposes. However, the Securitized Assets and the related debt remain on our Consolidated Balance Sheets. We recognize financing revenue on the Securitized Assets and interest expense on the secured debt issued by the special purpose entities. We also maintain an allowance for credit losses on the securitized retail finance receivables using a methodology consistent with that used for our non-securitized asset portfolio. The interest rate swaps between TMCC and the special purpose entities are considered intercompany transactions and therefore are eliminated in our consolidated financial statements.

Non-consolidated Variable Interest Entities

We provide lending to Toyota and Lexus dealers through the Toyota Dealer Investment Group's Dealer Capital Program ("TDIG Program") operated by our affiliate TMNA, which has an equity interest in these dealerships. Dealers participating in this program have been determined to be VIEs. We do not consolidate the dealerships in this program as we are not the primary beneficiary and any exposure to loss is limited to the amount of the credit facility. Amounts due from these dealers under the TDIG Program that are classified as Finance receivables, net on our Consolidated Balance Sheets at March 31, 2022 and 2021, and revenues earned from these dealers during fiscal 2022, 2021 and 2020 were not significant.

We also have other lending relationships which have been determined to be VIEs, but these relationships are not consolidated as we are not the primary beneficiary. Amounts due from these lending relationships at March 31, 2022 and 2021, and revenues earned under these relationships during fiscal 2022, 2021, 2020 were not significant.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 9 – Commitments and Contingencies

Commitments and Guarantees

We have entered into certain commitments and guarantees for which the maximum unfunded amounts are summarized in the table below:

	March 31, 2022	March 31, 2021
Commitments:		
Credit facilities commitments with dealers	\$ 3,289	\$ 2,338
Commitments under operating lease agreements	119	141
Total commitments	3,408	2,479
Guarantees of affiliate pollution control and solid waste disposal bonds	100	100
Total commitments and guarantees	<u>\$ 3,508</u>	<u>\$ 2,579</u>

Wholesale financing is not considered to be a contractual commitment as the arrangements are not binding arrangements under which TMCC is required to perform.

Commitments

We provide fixed and variable rate working capital loans, revolving lines of credit, and real estate financing to dealers and various multi-franchise organizations referred to as dealer groups for facilities construction and refurbishment, working capital requirements, real estate purchases, business acquisitions and other general business purposes. These loans are typically secured with liens on real estate, vehicle inventory, and/or other dealership assets, as appropriate, and may be guaranteed by individual or corporate guarantees of affiliated dealers, dealer groups, or dealer principals. Although the loans are typically collateralized or guaranteed, the value of the underlying collateral or guarantees may not be sufficient to cover our exposure under such agreements. Our pricing reflects market conditions, the competitive environment, the level of support dealers provide our retail, lease and voluntary protection business and the credit worthiness of each dealer. Amounts drawn under these facilities are reviewed for collectability on a quarterly basis, in conjunction with our evaluation of the allowance for credit losses. In addition to the total commitments and guarantees in the previous table, we have also extended credit facilities to affiliates as described in Note 12 – Related Party Transactions.

Lease Commitments

Our operating lease portfolio consists of real estate leases. Total operating lease expense, including payments to affiliates, was \$32 million for fiscal 2022, \$36 million for fiscal 2021, and \$36 million fiscal 2020. We have a lease agreement through August 2032 with TMNA for our headquarters facility in Plano, Texas. Commitments under operating lease agreements in the table above include \$84 million and \$93 million for facilities leases with affiliates at March 31, 2022 and 2021, respectively.

Lease terms may contain renewal and extension options or early termination features. Generally, these options do not impact the lease term because TMCC is not reasonably certain that it will exercise the options. These lease agreements do not impose restrictions on our ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements, nor do they have residual value guarantees. We exclude from our Consolidated Balance Sheets leases with a term equal to one year or less and do not separate non-lease components from our real estate leases.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 9 – Commitments and Contingencies (Continued)

Our commitments under operating lease agreements are summarized below:

Years ending March 31,	March 31, 2022
2023	\$ 19
2024	16
2025	14
2026	13
2027	12
Thereafter	45
Total	<u>\$ 119</u>
Present value discount	<u>(13)</u>
Total operating lease liability	<u>\$ 106</u>

Operating lease liabilities and right-of-use (“ROU”) assets are recognized at the lease commencement date based on the present value of the future minimum lease payments over the lease term. As the interest rate implicit in the lease contract is typically not readily determinable, we utilize our incremental borrowing rate at the lease commencement date for the duration of the lease term.

The following table provides additional information related to operating lease agreements for which we are the lessee:

	March 31, 2022
ROU assets	\$ 97
Weighted average remaining lease term (in years)	8.3
Weighted average discount rate	2.76%
Supplemental cash flow information	
Cash paid for amounts included in the measurement of lease liabilities - operating cash flows	\$ 26

Guarantees and Other Contingencies

TMCC has guaranteed bond obligations totaling \$100 million in principal that were issued by Putnam County, West Virginia and Gibson County, Indiana to finance the construction of pollution control facilities at manufacturing plants of certain TMCC affiliates. The bonds mature in the following fiscal years ending March 31: 2028 - \$20 million; 2029 - \$50 million; 2030 - \$10 million; 2031 - \$10 million; and 2032 - \$10 million. TMCC would be required to perform under the guarantees in the event of non-payment on the bonds and other related obligations. TMCC is entitled to reimbursement by the applicable affiliates for any amounts paid. TMCC receives a nominal annual fee for guaranteeing such payments. TMCC has not been required to perform under any of these affiliate bond guarantees as of March 31, 2022 and 2021.

TOYOTA MOTOR CREDIT CORPORATION
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Note 9 – Commitments and Contingencies (Continued)

Indemnification

In the ordinary course of business, we enter into agreements containing indemnification provisions standard in the industry related to several types of transactions, including, but not limited to, debt funding, derivatives, securitization transactions, and our vendor, supplier and service agreements. Performance under these indemnities would generally occur upon a breach of the representations, warranties, covenants or other commitments made or given in the agreement, or as a result of a third-party claim. In addition, we have agreed in certain debt and derivative issuances, and subject to certain exceptions, to gross-up payments due to third parties in the event that withholding tax is imposed on such payments. In addition, certain of our funding arrangements may require us to pay lenders for increased costs due to certain changes in laws or regulations. Due to the difficulty in predicting events which could cause a breach of the indemnification provisions or trigger a gross-up or other payment obligation, we are not able to estimate our maximum exposure to future payments that could result from claims made under such provisions. We have not made any material payments in the past as a result of these provisions, and as of March 31, 2022, we determined that it is not probable that we will be required to make any material payments in the future. As of March 31, 2022 and 2021, no amounts have been recorded under these indemnification provisions.

Litigation and Governmental Proceedings

Various legal actions, governmental proceedings and other claims are pending or may be instituted or asserted in the future against us with respect to matters arising in the ordinary course of business. Certain of these actions are or purport to be class action suits, seeking sizeable damages and/or changes in our business operations, policies and practices. Certain of these actions are similar to suits that have been filed against other financial institutions and captive finance companies. In addition, we are subject to governmental and regulatory examinations, information-gathering requests, and investigations from time to time at the state and federal levels. It is inherently difficult to predict the course of such legal actions and governmental inquiries.

We perform periodic reviews of pending claims and actions to determine the probability of adverse verdicts and resulting amounts of liability. We establish accruals for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. When we are able, we also determine estimates of reasonably probable loss or range of loss, whether in excess of any related accrued liability or where there is no accrued liability. Given the inherent uncertainty associated with legal matters, the actual costs of resolving legal claims and associated costs of defense may be substantially higher or lower than the amounts for which accruals have been established. Based on available information and established accruals, we do not believe it is reasonably probable that the results of these proceedings, either individually or in the aggregate, will have a material adverse effect on our consolidated financial condition or results of operations.

On November 24, 2020, the Consumer Financial Protection Bureau (“CFPB”) issued a civil investigative demand to the Company seeking, among other things, certain information relating to the Company’s vehicle and payment protection products and credit reporting policies and procedures and reporting records. We are cooperating with the inquiry and cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the amount or range of any potential loss arising from this investigation.

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Note 10 – Pension and Other Benefit Plans

We are a participating employer in certain retirement and post-retirement medical care, life insurance, and other benefits sponsored by TMNA, an affiliate. Costs of each plan are generally allocated to TMCC based on relative benefit costs associated with participating or eligible employees at TMCC as compared to the plan as a whole.

Defined Benefit Plan

Prior to January 1, 2015, our employees were generally eligible to participate in the Toyota Motor Sales, U.S.A., Inc. Pension Plan (the “Pension Plan”) commencing on the first day of the month following hire and were vested after 5 years of continuous employment. Effective January 1, 2015, the Pension Plan was closed to employees first employed or reemployed on or after such date.

Benefits payable under this non-contributory defined benefit pension plan are based, generally, upon the employees' years of credited service (up to a maximum of 25 years), the highest average annual compensation (as defined in the plan) for any 60 consecutive month period out of the last 120 months of employment (the “Applicable Years”), and one-half of eligible bonus/gift payments for the Applicable Years (recalculated to determine the annual average of such amount), reduced by a percentage of the estimated amount of social security benefits.

Costs allocated to TMCC for our employees in the Pension Plan and certain other non-qualified plans were not significant for fiscal 2022, 2021, and 2020.

Defined Contribution Plan

Employees meeting certain eligibility requirements, as defined in the plan documents, may participate in the Toyota Motor North America, Inc. Retirement Savings Plan. Under this plan, eligible employees may elect to contribute between 1 percent and 30 percent of their eligible pre-tax compensation, subject to federal tax regulation limits. We match 66.67 percent of the first 6 percent that a participant contributes, up to 4 percent of eligible compensation. Participants are always 100% vested in their contributions to the Retirement Savings Plan. Employer contributions vest on a 4-year graded schedule at 25 percent per year. Generally, contributions are funded through bi-weekly payments to the plan's administrator. Certain employees hired on or after January 1, 2015, may be eligible to receive an additional Company contribution to the plan calculated based on their age and compensation.

TMCC employer contributions to the savings plan were not significant for fiscal 2022, 2021, and 2020.

Other Post-Retirement Benefit Plans

Employees are generally eligible to participate in other post-retirement benefits sponsored by TMNA which provide certain medical care and life insurance benefits to eligible retired employees. Generally, in order to be eligible for these benefits, the employee must be age 55 or older with 10 or more years of service.

Other post-retirement benefit costs allocated to TMCC were not significant for fiscal 2022, 2021, and 2020.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 11 – Income Taxes

We use the liability method of accounting for income taxes under which deferred tax assets and liabilities are adjusted to reflect changes in tax rates and laws in the period such changes are enacted resulting in adjustments to the current fiscal year's provision for income taxes.

TMCC files a consolidated federal income tax return with TFSIC and its subsidiaries. Current and deferred federal income taxes are allocated to TMCC as if it were a separate taxpayer. TMCC's net operating losses and tax credits are utilized when those losses and credits are used by TFSIC and its subsidiaries including TMCC in the consolidated federal income tax return. TMCC files either separate or consolidated/combined state income tax returns with TMNA, TFSIC, or subsidiaries of TMCC. State income tax expense is generally recognized as if TMCC and its subsidiaries filed their tax returns on a stand-alone basis. In those states where TMCC and its subsidiaries join in the filing of consolidated or combined income tax returns, TMCC and its subsidiaries are allocated their share of the total income tax expense based on combined allocation/apportionment factors and separate company income or loss. Based on the federal and state tax sharing agreements, TFSIC and TMCC and its subsidiaries pay for their share of the income tax expense and are reimbursed for the benefit of any of their tax losses and credits utilized in the federal and state income tax returns.

The provision for income taxes consisted of the following:

	Years ended March 31,		
	2022	2021	2020
Current			
Federal	\$ 1,774	\$ 2,756	\$ (19)
State	281	386	120
Foreign	22	11	8
Total	<u>2,077</u>	<u>3,153</u>	<u>109</u>
Deferred			
Federal	(1,166)	(2,243)	145
State	(123)	(276)	(141)
Foreign	1	(2)	(2)
Total	<u>(1,288)</u>	<u>(2,521)</u>	<u>2</u>
Provision for income taxes	<u>\$ 789</u>	<u>\$ 632</u>	<u>\$ 111</u>

A reconciliation between the U.S. federal statutory tax rate and the effective tax rate is as follows:

	Years ended March 31,		
	2022	2021	2020
Provision for income taxes at U.S. federal statutory tax rate	21.0%	21.0%	21.0%
State and local taxes (net of federal tax benefit)	3.7%	3.9%	4.0%
Effect of state tax law changes	0.3%	(0.2)%	(3.9)%
Federal tax credits ¹	(1.0)%	(0.5)%	(3.7)%
Tax rate differential from tax loss carryback	-	-	(5.6)%
Adjustment for prior year provision to return differences	(0.3)%	(0.2)%	(1.0)%
Other, net	-	(0.1)%	-
Effective tax rate	<u>23.7%</u>	<u>23.9%</u>	<u>10.8%</u>

¹ The amounts in Federal tax credits include tax benefits from foreign tax credits, alternative fuel vehicle credits, plug-in vehicle credits, and research and development credits for fiscal 2022, 2021, and 2020.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 11 – Income Taxes (Continued)

Our net deferred income tax liability consisted of the following deferred tax liabilities and assets:

	March 31,	
	2022	2021
Liabilities:		
Lease transactions	\$ 1,504	\$ 2,765
Voluntary protection dealer commissions	348	290
State taxes, net of federal tax benefit	275	377
Mark-to-market of investments in marketable securities and derivatives	24	34
Other	82	82
Deferred tax liabilities	<u>\$ 2,233</u>	<u>\$ 3,548</u>
Assets:		
Provision for credit and residual value losses	394	421
Deferred costs and fees	179	187
Accrued expenses	45	21
Lease obligations	23	27
Net operating loss and tax credit carryforwards	14	29
Other	14	12
Deferred tax assets	<u>669</u>	<u>697</u>
Valuation allowance	-	(9)
Net deferred tax assets	<u>\$ 669</u>	<u>\$ 688</u>
Net deferred income tax liability ¹	<u>\$ 1,564</u>	<u>\$ 2,860</u>

¹ Balance includes deferred tax assets (liabilities) of \$6 million and \$(2) million at March 31, 2022 and 2021, respectively, attributable to unrealized gains or losses included in accumulated other comprehensive income or loss, net. The change in this balance is not included in total deferred tax expense.

We have no deferred tax assets related to cumulative federal net operating loss carry forwards at March 31, 2022 or March 31, 2021. We have deferred tax assets related to cumulative state net operating loss carry forwards of \$13 million and \$25 million at March 31, 2022 and March 31, 2021, respectively. State net operating loss carryforwards will expire beginning in fiscal 2024.

We have deferred tax assets related to federal tax credit for foreign tax of less than \$1 million and \$3 million at March 31, 2022 and March 31, 2021, respectively. The federal tax credit carryforwards will expire beginning in fiscal 2032.

The deferred tax assets related to foreign tax credit is reduced by a valuation allowance of less than \$1 million at March 31, 2022. The deferred tax assets related to foreign tax credit and state tax net operating loss carryforwards were reduced by a valuation allowance of \$9 million at March 31, 2021. The determination of the valuation allowance is based on management's estimate of future taxable income during the respective carryforward periods. Apart from the valuation allowance, we believe that the remaining deferred tax assets will be realized in full. The amount of the deferred tax assets considered realizable could be reduced if management's estimates change.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 11 – Income Taxes (Continued)

We have made an assertion of permanent reinvestment of earnings from our foreign subsidiary; as a result, other than the deemed repatriation tax that is provided pursuant to the Tax Cuts and Jobs Act of 2017, state and local taxes have not been provided for unremitted earnings of our foreign subsidiary. At March 31, 2022 and 2021, these unremitted earnings totaled \$288 million and \$251 million, respectively. Determination of the amount of the deferred state and local tax liability is not practicable, and accordingly no estimate of the unrecorded deferred state and local tax liability is provided.

Although we do not foresee any events causing repatriation of earnings, possible examples may include but are not limited to parent company capital needs or exiting the business in the foreign country.

We had an income tax payable of \$52 million and \$35 million for our share of the income tax in those states where we filed consolidated or combined returns with TMNA and its subsidiaries at March 31, 2022 and March 31, 2021, respectively. Additionally, our federal and state income tax payable or receivable from TMCC affiliated companies, including TFSIC, TFSB, and Toyota Financial Services Securities USA Corporation, was not significant for both March 31, 2022 and 2021.

The guidance for the accounting and reporting for income taxes requires us to assess tax positions in cases where the interpretation of the tax law may be uncertain. The change in unrecognized tax benefits are as follows:

	March 31,		
	2022	2021	2020
Balance at beginning of the year	\$ 15	\$ 19	\$ 7
Increases related to positions taken during the current year	1	1	12
Increases recorded in current year related to positions taken during prior years	6	2	-
Expirations due to lapse of statute	-	(7)	-
Balance at end of year	<u>\$ 22</u>	<u>\$ 15</u>	<u>\$ 19</u>

At March 31, 2022, 2021 and 2020 approximately \$22 million, \$14 million and \$17 million of the respective unrecognized tax benefits would, if recognized, have an effect on the effective tax rate. The remaining amounts in the respective unrecognized tax benefits at March 31, 2022, 2021 and 2020 are related to timing matters. During fiscal 2022, \$7 million of the net increase in unrecognized tax benefits had an effect on the effective tax rate. We do not have any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months.

We accrue interest, if applicable, related to uncertain income tax positions in interest expense. Statutory penalties, if applicable, accrued with respect to uncertain income tax positions are recognized as an addition to the income tax liability. For each of fiscal 2022, 2021, and 2020, accrued interest was not significant and no penalties were accrued.

Tax-related Contingencies

As of March 31, 2022, we remained under IRS examination for fiscal 2018 through fiscal 2022.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 12 – Related Party Transactions

The tables below show the financial statement line items and amounts included in our Consolidated Statements of Income and on our Consolidated Balance Sheets under various related party agreements or relationships:

	Years ended March 31,		
	2022	2021	2020
Net financing revenues:			
Manufacturer's subvention and other revenues	\$ 1,746	\$ 1,997	\$ 2,065
Depreciation on operating leases	\$ (75)	\$ (113)	\$ (59)
Interest expense:			
Credit support fees, interest and other expenses	\$ 99	\$ 117	\$ 96
Voluntary protection contract revenues and insurance earned premiums:			
Voluntary protection contract revenues and insurance earned premiums	\$ 168	\$ 173	\$ 181
Investment and other income, net:			
Interest and other income	\$ 3	\$ 18	\$ 26
Expenses:			
Operating and administrative	\$ 82	\$ 91	\$ 102

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 12 – Related Party Transactions (Continued)

	March 31, 2022	March 31, 2021
Assets:		
Cash and cash equivalents		
Commercial paper	\$ 100	\$ 6
Investments in marketable securities		
Commercial paper	\$ -	\$ 196
Finance receivables, net		
Accounts receivable	\$ 90	\$ 140
Deferred retail subvention income	\$ (875)	\$ (1,156)
Investments in operating leases, net		
Investments in operating leases, net	\$ (212)	\$ (236)
Deferred lease subvention income	\$ (923)	\$ (1,528)
Other assets		
Notes receivable	\$ 789	\$ 869
Other receivables, net	\$ 80	\$ 83
Liabilities:		
Other liabilities		
Unearned voluntary protection contract revenues and insurance earned premiums	\$ 374	\$ 352
Other payables, net	\$ 394	\$ 306
Notes payable	\$ 8	\$ 19

TMCC receives subvention payments from TMNA which result in a gross monthly subvention receivable. As of March 31, 2022 and 2021, the subvention receivable from TMNA was \$66 million and \$184 million, respectively. We have a master netting agreement with TMNA which allows us to net settle payments for shared services and subvention transactions. Under this agreement, as of March 31, 2022 and March 31, 2021, respectively, we had a net amount payable to TMNA which is recorded in Other payables, net in Other liabilities.

Our Board of Directors declared and paid cash dividends of \$700 million to TFSIC during fiscal 2021.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 12 – Related Party Transactions (Continued)

Financing Support Arrangements with Affiliates

TMCC is party to a credit support agreement with TFSC (the “TMCC Credit Support Agreement”). The TMCC Credit Support Agreement requires TFSC to maintain certain ownership, net worth maintenance, and debt service provisions with respect to TMCC, but is not a guarantee by TFSC of any securities or obligations of TMCC. In conjunction with this credit support agreement, TMCC has agreed to pay TFSC a semi-annual fee based on a fixed rate applied to the weighted average outstanding amount of securities entitled to credit support.

TCPR is the beneficiary of a credit support agreement with TFSC containing provisions similar to the TMCC Credit Support Agreement described above.

In addition, TMCC receives support from and provides financing support to TFSC and other affiliates in the form of promissory notes and various loan and credit facility agreements. As of March 31, 2022 and 2021, total financing support available from affiliates totaled approximately \$8.5 billion and \$8.6 billion, respectively. These amounts include a \$5.0 billion three-year revolving credit facility with TMS which currently expires in fiscal 2025. As of March 31, 2022 and 2021, total financing support available to affiliates totaled approximately \$8.0 billion and \$7.1 billion, respectively. TMCC’s increased financing support provided to Toyota Finance New Zealand Limited to \$250 million in April 2021 and to TFSB to \$1.0 billion in August 2021. Additionally, TMCC entered into a financing support agreement with Toyota Finance Corporation (“TFC”) for \$100 million in August 2021. The amounts outstanding under these agreements are recorded in Other assets and Other liabilities on our Consolidated Balance Sheets at March 31, 2022 and 2021.

In November 2021, in accordance with the financing support agreement, TFC borrowed from TMCC in Japanese Yen a principal amount equivalent to \$100 million, to be used for general corporate purposes, with an interest rate of 0.0175% and repayment date of November 2023. The note receivable is translated into U.S. dollars using the applicable exchange rate at the transaction date and retranslated at each balance sheet date using the exchange rate in effect at that date. The resulting transaction gains and losses are included in Investment and Other Income in our Consolidated Statements of Income.

In April 2022, TMCC entered into a revolving credit facility with Toyota Financial Services Colombia (“TFSCO”), pursuant to which TFSCO is entitled to borrow a maximum principal amount equivalent to \$49 million.

Other Financing Support Provided to Affiliates

TMCC provides wholesale financing, real estate and working capital loans to certain dealerships that were consolidated with another affiliate under the accounting guidance for variable interest entities. TMCC also pays these dealers origination fees. These costs represent direct costs incurred in connection with the acquisition of retail and lease contracts, including subvention and other cash incentive programs.

TMCC has guaranteed the payments of principal and interest with respect to the bonds of manufacturing facilities of certain affiliates. The nature, business purpose, and amounts of these guarantees are described in Note 9 – Commitments and Contingencies.

TMCC and TFSB are parties to a master participation agreement pursuant to which TMCC agreed to purchase no more than \$60 million per year of residential mortgage loans originated by TFSB that meet specified credit underwriting guidelines. At March 31, 2022 and 2021, we had \$8 million and \$15 million, respectively, in loan participations outstanding that had been purchased by TMCC under this agreement.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 12 – Related Party Transactions (Continued)

Shared Service Arrangements with Affiliates

TMCC is subject to the following shared service agreements:

- TMCC incurs costs under various shared service agreements with TMNA and other affiliates. Services provided by affiliates under the shared service agreements include certain technological and administrative services, such as information systems support, facilities, insurance coverage, human resources and other corporate services. TMCC may also participate and incur costs in shared marketing efforts with TMNA.
- TMCC provides various services to its subsidiaries and affiliates, including certain administrative and corporate services, operational support, information systems support, facilities, treasury, and vendor management services.
- TMCC provides various services to TFSB, including marketing, administrative, systems, and operational support in exchange for TFSB making available certain financial products and services to TMCC's customers and dealers meeting TFSB's credit standards. TMCC is party to a master netting agreement with TFSB, which allows TMCC to net settle payments for shared services between TMCC and TFSB.
- TMCC is a party to expense reimbursement agreements with TFSB and TFSC related to costs incurred by TMCC or these affiliates on behalf of the other party in connection with TMCC's provision of services to these affiliates or the provision by these affiliates of certain financial products and services to our customers and dealers in support of TMCC's customer loyalty strategy and programs, and other brand and sales support.
- TMCC receives support from and provides support to TFSC and other affiliates in the form of promissory notes and various loan and credit facility agreements, including a revolving credit facility with TMS, which may be used for general corporate purposes.
- TMCC and TFSB are parties to a services agreement, entered into July 2021, wherein TMCC will subservice loans on behalf of TFSB.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 12 – Related Party Transactions (Continued)

Operational Support Arrangements with Affiliates

- TMCC and TCPR provide various wholesale financing to dealers, which result in us having payables to TMNA and Toyota de Puerto Rico Corp.
- TMCC is party to a lease agreement with TMNA for our headquarters facility in Plano, Texas, expiring in 2032, our CSC located in Cedar Rapids, Iowa, expiring in 2029, and our Dallas Data Center expiring in 2026. The lease commitments are described in Note 9 – Commitments and Contingencies.
- Subvention receivable represents amounts due from TMNA and other affiliates in support of retail and lease subvention and other cash incentive programs offered by TMCC. Deferred subvention income represents the unearned portion of amounts received from these transactions, and manufacturers' subvention and other revenues primarily represent the earned portion of such amounts.
- Investment in operating leases includes contractual residual value support received from affiliates which are recognized as an offset to depreciation expense over the life of the contract.
- TMCC is a participating employer in certain retirement, post-retirement medical care and life insurance benefits sponsored by TMNA. Refer to Note 10 – Pension and Other Benefit Plans for additional information.
- TMCC is party to agreements with TMNA and other affiliates relating to the team member vehicle benefit program, which allows team members to lease Toyota and Lexus vehicles on terms exclusive to the benefit program. TMNA serves as the chief administrator of the program. TMCC acquires and services team member leases after origination. A portion of the vehicles used for the team member vehicle benefit program are acquired from TMNA. TMCC receives a per vehicle contribution from participating affiliates to assist with the costs of its contribution to the benefit program, and TMCC pays a per vehicle participation fee to TMNA to participate in the benefit program.
- Affiliate voluntary protection contract revenues and insurance earned premiums primarily represent revenues from TMIS for coverage and related administrative services provided to TMNA and other affiliates. This includes contractual indemnity coverage for limited warranties on certified Toyota and Lexus pre-owned vehicles and related administrative services for TMNA's certified pre-owned vehicle program and umbrella liability policy. TMIS also provides umbrella liability insurance to TMNA and other affiliates covering certain dollar value layers of risk above various primary or self-insured retentions. On all layers in which TMIS has provided coverage, 99 percent of the risk has been ceded to a reinsurer.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 13 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to determine fair value of our assets and liabilities, we use quoted prices for identical or similar instruments, otherwise we utilize valuation models with observable or calculated inputs. The use of observable quotes for identical or similar instruments and the use of unobservable inputs is reflected in the fair value hierarchy assessment disclosed in the tables within this Note as Level 1, 2 and 3 defined below. The availability of observable inputs can vary based upon the financial instrument and other factors, such as instrument type, market liquidity and other specific characteristics particular to the financial instrument. To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires additional judgment by management. We use prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the availability of prices and inputs may be reduced for certain financial instruments. This condition could result in a financial instrument being reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

Level 1: Quoted (unadjusted) prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in active markets for similar assets and liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Unobservable inputs that are supported by little or no market activity and may require significant judgment in order to determine the fair value of the assets and liabilities.

Valuation Adjustments

We may make valuation adjustments to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, our own creditworthiness, as well as constraints due to market illiquidity or unobservable parameters.

Recurring Fair Value Measurements

Cash and cash equivalents and Restricted cash and cash equivalents

The fair value of cash equivalents and restricted cash equivalents approximates the carrying value and these instruments are classified as Level 1 within the fair value hierarchy.

Investments in marketable securities

We estimate the value of our AFS debt securities, including those for which the fair value option was elected, using observed transaction prices, independent third-party pricing valuation vendors, and internal valuation models.

We may hold investments in actively traded open-end and private placement equity investments. Where the equity investments produce a daily net asset value that is quoted in an active market, we use this value to determine the fair value of the equity investment and classify the investment as Level 1 within the fair value hierarchy. The fair value of equity investments that produce a daily net asset value that is not quoted in an active market is estimated using the net asset value per share (or its equivalent) as a practical expedient and are excluded from leveling within the fair value hierarchy.

In addition, we may hold individual securities where valuation methodologies and inputs to valuation models depend on the security type, thus they may be classified differently within the leveling hierarchy. Where possible, quoted prices in active markets for identical or similar securities are used to determine the fair value of the investment securities; those securities are classified as Level 1 or 2, respectively. Where quoted prices in active markets are not available, we use various valuation models for each asset class that are consistent with what market participants use. The inputs and assumptions to the models are derived from market observable sources including: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market-related data. These investments are generally classified as Level 2 within the fair value hierarchy, however, depending on the significance of the unobservable inputs they may also be classified as Level 3.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 13 – Fair Value Measurements (Continued)

Derivatives

We estimate the fair value of our derivatives using industry standard valuation models that require observable market inputs, including market prices, interest rates, foreign exchange rates, volatilities, counterparty credit risk, our own non-performance risk and the contractual terms of the derivative instruments. We consider counterparty credit risk and our own non-performance risk through credit valuation adjustments.

For derivatives that trade in liquid markets, model inputs can generally be verified and do not require significant management judgment. These derivative instruments are classified as Level 2 within the fair value hierarchy.

Certain other derivative transactions trade in less liquid markets with limited pricing information. For such derivatives, key inputs to the valuation process include quotes from counterparties and other market data used to corroborate and adjust values where appropriate. Other market data includes values obtained from a market participant that serves as a third-party valuation vendor. These derivative instruments are classified as Level 3 within the fair value hierarchy.

Nonrecurring Fair Value Measurements

Nonrecurring fair value measurements include Level 3 net finance receivables that are not measured at fair value on a recurring basis but are subject to fair value adjustments utilizing the fair value of the underlying collateral when there is evidence of impairment. Nonrecurring fair value items as of March 31, 2022 and 2021 were not significant. Retail finance receivables greater than 120 days past due are measured at fair value based on the fair value of the underlying collateral less costs to sell. The fair value of collateral is based on the current average selling prices for like vehicles at wholesale used vehicle auctions.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 13 – Fair Value Measurements (Continued)

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables summarize our financial assets and financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy except for certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient and are excluded from the leveling information provided in the tables below. Fair value amounts presented below are intended to permit reconciliation of the fair value hierarchy to the amounts presented on our Consolidated Balance Sheets.

	March 31, 2022				
	Level 1	Level 2	Level 3	Counterparty netting & collateral	Fair value
Investments in marketable securities:					
Available-for-sale debt securities:					
U.S. government and agency obligations	\$ 504	\$ 5	\$ -	\$ -	\$ 509
Foreign government and agency obligations	-	23	-	-	23
Municipal debt securities	-	10	-	-	10
Corporate debt securities	-	568	-	-	568
Mortgage-backed securities:					
U.S. government agency	-	20	-	-	20
Non-agency residential	-	7	3	-	10
Non-agency commercial	-	78	8	-	86
Asset-backed securities	-	75	3	-	78
Available-for-sale debt securities total	<u>504</u>	<u>786</u>	<u>14</u>	<u>-</u>	<u>1,304</u>
Equity investments:					
Fixed income mutual funds:					
Fixed income mutual funds measured at net asset value					1,137
Total return bond funds	1,576	-	-	-	1,576
Equity mutual funds	936	-	-	-	936
Equity investments total	<u>2,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,649</u>
Investments in marketable securities total	<u>3,016</u>	<u>786</u>	<u>14</u>	<u>-</u>	<u>4,953</u>
Derivative assets:					
Interest rate swaps	-	1,425	-	-	1,425
Foreign currency swaps	-	55	-	-	55
Counterparty netting and collateral	-	-	-	(1,419)	(1,419)
Derivative assets total	<u>-</u>	<u>1,480</u>	<u>-</u>	<u>(1,419)</u>	<u>61</u>
Assets at fair value	<u>3,016</u>	<u>2,266</u>	<u>14</u>	<u>(1,419)</u>	<u>5,014</u>
Derivative liabilities:					
Interest rate swaps	-	(822)	-	-	(822)
Foreign currency swaps	-	(717)	-	-	(717)
Counterparty netting and collateral	-	-	-	1,514	1,514
Liabilities at fair value	<u>-</u>	<u>(1,539)</u>	<u>-</u>	<u>1,514</u>	<u>(25)</u>
Net assets at fair value	<u>\$ 3,016</u>	<u>\$ 727</u>	<u>\$ 14</u>	<u>\$ 95</u>	<u>\$ 4,989</u>

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 13 – Fair Value Measurements (Continued)

	March 31, 2021				
	Level 1	Level 2	Level 3	Counterparty netting & collateral	Fair value
Investments in marketable securities:					
Available-for-sale debt securities:					
U.S. government and agency obligations	\$ 209	\$ 2	\$ -	\$ -	\$ 211
Municipal debt securities	-	10	-	-	10
Commercial paper	20	176	-	-	196
Corporate debt securities	-	187	-	-	187
Mortgage-backed securities:					
U.S. government agency	-	32	-	-	32
Non-agency residential	-	-	1	-	1
Non-agency commercial	-	5	42	-	47
Asset-backed securities	-	19	33	-	52
Available-for-sale debt securities total	<u>229</u>	<u>431</u>	<u>76</u>	<u>-</u>	<u>736</u>
Equity investments:					
Fixed income mutual funds:					
Fixed income mutual funds measured at net asset value					772
Total return bond funds	2,429	-	-	-	2,429
Equity mutual funds	883	-	-	-	883
Equity investments total	<u>3,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,084</u>
Investments in marketable securities total	<u>3,541</u>	<u>431</u>	<u>76</u>	<u>-</u>	<u>4,820</u>
Derivative assets:					
Interest rate swaps	-	1,026	-	-	1,026
Foreign currency swaps	-	330	-	-	330
Counterparty netting and collateral	-	-	-	(1,302)	(1,302)
Derivative assets total	<u>-</u>	<u>1,356</u>	<u>-</u>	<u>(1,302)</u>	<u>54</u>
Assets at fair value	<u>3,541</u>	<u>1,787</u>	<u>76</u>	<u>(1,302)</u>	<u>4,874</u>
Derivative liabilities:					
Interest rate swaps	-	(1,142)	-	-	(1,142)
Foreign currency swaps	-	(243)	-	-	(243)
Counterparty netting and collateral	-	-	-	1,384	1,384
Liabilities at fair value	<u>-</u>	<u>(1,385)</u>	<u>-</u>	<u>1,384</u>	<u>(1)</u>
Net assets at fair value	<u>\$ 3,541</u>	<u>\$ 402</u>	<u>\$ 76</u>	<u>\$ 82</u>	<u>\$ 4,873</u>

Level 3 Fair Value Measurements

The Level 3 financial assets and liabilities recorded at fair value which are subject to recurring and nonrecurring fair value measurement, and the corresponding activity and change in the fair value measurements of these assets and liabilities, were not significant to our Consolidated Balance Sheets as of March 31, 2022 and 2021, or Consolidated Statements of Income for the years ended March 31, 2022 and 2021.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 13 – Fair Value Measurements (Continued)

Financial Instruments Not Carried at Fair Value

Finance receivables

Our finance receivables consist of retail loans and dealer financing loans, which are comprised of wholesale, real estate and working capital financing. Retail finance receivables are primarily valued using a securitization model that incorporates expected cash flows. Cash flows expected to be collected are estimated using contractual principal and interest payments adjusted for specific factors, such as prepayments, extensions, default rates, loss severity, credit scores, and collateral type. The securitization model utilizes quoted secondary market rates if available, or estimated market rates that incorporate management's best estimate of investor assumptions about the portfolio. The dealer financing portfolio is valued using a discounted cash flow model. Discount rates are derived based on market rates for equivalent portfolio bond ratings. As these valuations utilize unobservable inputs, our finance receivables are classified as Level 3 within the fair value hierarchy.

Unsecured notes and loans payable

The fair value of commercial paper is assumed to approximate the carrying value due to its short duration and generally negligible credit risk. We validate this assumption by recalculating the fair value of our commercial paper using quoted market rates. Commercial paper is classified as Level 2 within the fair value hierarchy.

Other unsecured notes and loans payable are primarily valued using current market rates and credit spreads for debt with similar maturities. Our valuation models utilize observable inputs such as standard industry curves; therefore, we classify these unsecured notes and loans payables as Level 2 within the fair value hierarchy. When observable inputs are not available for all assumptions, we estimate the fair value using internal assumptions such as volatility and expected credit losses. As these valuations utilize unobservable inputs, we classify these unsecured notes and loans payable as Level 3 within the fair value hierarchy.

Secured notes and loans payable

Fair value is estimated based on current market rates and credit spreads for debt with similar maturities. We also use internal assumptions, including prepayment speeds and expected credit losses on the underlying securitized assets, to estimate the timing of cash flows to be paid on these instruments. As these valuations utilize unobservable inputs, our secured notes and loans payables are classified as Level 3 within the fair value hierarchy.

Other liabilities

Our Other liabilities include notes payable to related parties. As these notes are short term in nature, the carrying value is deemed to approximate fair value and they are classified as Level 3 within the fair value hierarchy.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 13 – Fair Value Measurements (Continued)

Financial Instruments

The following tables provide information about assets and liabilities not carried at fair value on a recurring basis on our Consolidated Balance Sheets:

	March 31, 2022				Total Fair value
	Carrying value	Level 1	Level 2	Level 3	
Financial assets					
Finance receivables					
Retail loan	\$ 72,369	\$ -	\$ -	\$ 73,385	\$ 73,385
Wholesale	2,940	-	-	2,931	2,931
Real estate	4,985	-	-	4,961	4,961
Working capital	2,256	-	-	2,171	2,171
Financial liabilities					
Unsecured notes and loans payable	\$ 82,288	\$ -	\$ 80,980	\$ -	\$ 80,980
Secured notes and loans payable	26,864	-	-	26,500	26,500
	March 31, 2021				Total Fair value
	Carrying value	Level 1	Level 2	Level 3	
Financial assets					
Finance receivables					
Retail loan	\$ 65,808	\$ -	\$ -	\$ 69,007	\$ 69,007
Wholesale	6,132	-	-	6,158	6,158
Real estate	5,142	-	-	5,224	5,224
Working capital	2,154	-	-	2,171	2,171
Financial liabilities					
Unsecured notes and loans payable	\$ 85,513	\$ -	\$ 86,205	\$ 555	\$ 86,760
Secured notes and loans payable	24,212	-	-	24,478	24,478

Accrued interest related to finance receivables is in Other assets on the Consolidated Balance Sheets; however, TMCC measures the fair value of each class of finance receivables using scheduled principal and interest payments. Therefore, accrued interest has been included in the carrying value of each class of finance receivables in the previous tables, along with finance receivables, deferred origination costs, deferred income, and allowance for credit losses. Finance receivables in the previous tables exclude related party transactions, for which the fair value approximates the carrying value, of \$90 million and \$140 million at March 31, 2022 and 2021, respectively. Fair values of related party finance receivables, net are classified as Level 3 within the fair value hierarchy.

For Cash and cash equivalents and Restricted cash and cash equivalents on our Consolidated Balance Sheets, the fair value approximates the carrying value and these instruments are classified as Level 1 within the fair value hierarchy.

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 14 – Segment Information

Our reportable segments are Finance operations and Voluntary protection operations. Finance operations include retail, leasing, and dealer financing provided to authorized dealers and their customers in the U.S. and Puerto Rico. Voluntary protection operations are performed by TMIS and its subsidiaries.

Financial information for our reportable operating segments, which includes allocated corporate expenses, is summarized as follows:

	Year ended March 31, 2022			
	Finance operations	Voluntary protection operations	Intercompany eliminations	Total
Total financing revenues	\$ 11,920	\$ -	\$ -	\$ 11,920
Depreciation on operating leases	5,846	-	-	5,846
Interest expense	1,401	-	-	1,401
Net financing revenues	4,673	-	-	4,673
Voluntary protection contract revenues and insurance earned premiums	-	1,015	-	1,015
Investment and other income (loss), net	45	(71)	-	(26)
Net financing and other revenues	4,718	944	-	5,662
Expenses:				
Provision for credit losses	236	-	-	236
Operating and administrative	1,311	386	-	1,697
Voluntary protection contract expenses and insurance losses	-	405	-	405
Total expenses	1,547	791	-	2,338
Income before income taxes	3,171	153	-	3,324
Provision for income taxes	755	34	-	789
Net income	<u>\$ 2,416</u>	<u>\$ 119</u>	<u>\$ -</u>	<u>\$ 2,535</u>
Total assets	<u>\$ 128,684</u>	<u>\$ 6,510</u>	<u>\$ (153)</u>	<u>\$ 135,041</u>

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 14 – Segment Information (Continued)

	Year ended March 31, 2021			
	Finance operations	Voluntary protection operations	Intercompany eliminations	Total
Total financing revenues	\$ 11,799	\$ -	\$ -	\$ 11,799
Depreciation on operating leases	5,932	-	-	5,932
Interest expense	2,302	-	-	2,302
Net financing revenues	3,565	-	-	3,565
Voluntary protection contract revenues and insurance earned premiums	-	956	-	956
Investment and other income, net	93	317	-	410
Net financing and other revenues	3,658	1,273	-	4,931
Expenses:				
Provision for credit losses	426	-	-	426
Operating and administrative	1,124	363	-	1,487
Voluntary protection contract expenses and insurance losses	-	369	-	369
Total expenses	1,550	732	-	2,282
Income before income taxes	2,108	541	-	2,649
Provision for income taxes	502	130	-	632
Net income	<u>\$ 1,606</u>	<u>\$ 411</u>	<u>\$ -</u>	<u>\$ 2,017</u>
Total assets	<u>\$ 127,726</u>	<u>\$ 6,149</u>	<u>\$ (147)</u>	<u>\$ 133,728</u>
	Year ended March 31, 2020			
	Finance operations	Voluntary protection operations	Intercompany eliminations	Total
Total financing revenues	\$ 12,029	\$ -	\$ -	\$ 12,029
Depreciation on operating leases	6,820	-	-	6,820
Interest expense	2,854	-	(20)	2,834
Net financing revenues	2,355	-	20	2,375
Voluntary protection contract revenues and insurance earned premiums	-	933	-	933
Investment and other income, net	155	187	(20)	322
Net financing and other revenues	2,510	1,120	-	3,630
Expenses:				
Provision for credit losses	590	-	-	590
Operating and administrative	1,197	364	-	1,561
Voluntary protection contract expenses and insurance losses	-	455	-	455
Total expenses	1,787	819	-	2,606
Income before income taxes	723	301	-	1,024
Provision for income taxes	39	72	-	111
Net income	<u>\$ 684</u>	<u>\$ 229</u>	<u>\$ -</u>	<u>\$ 913</u>
Total assets	<u>\$ 121,180</u>	<u>\$ 5,520</u>	<u>\$ (1,145)</u>	<u>\$ 125,555</u>

TOYOTA MOTOR CREDIT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

Note 14 – Segment Information (Continued)

Voluntary protection operations

The voluntary protection operations segment offers vehicle and payment protection products on Toyota, Lexus and other domestic and import vehicles that are primarily sold by dealers along with the sale of a vehicle.

Voluntary protection contract revenues

We receive the contractually determined dealer cost at the inception of the contract. Revenue is then deferred and recognized over the term of the contract according to earnings factors established by management that are based upon historical loss experience. Contracts sold range in term from 3 to 120 months and are typically cancellable at any time. The effect of subsequent cancellations is recorded as an offset to unearned voluntary protection contract revenues in Other liabilities on our Consolidated Balance Sheets.

For the years ended March 31, 2022 and 2021, respectively, approximately 82 percent and 83 percent of voluntary protection contract revenues in the Voluntary protection operations segment were accounted for under the guidance for revenue from contracts with customers.

The Voluntary protection operations segment defers contractually determined incentives paid to dealers as contract costs for selling voluntary protection products. These costs are recorded in Other assets on our Consolidated Balance Sheets and are amortized to Operating and administrative expenses in the Consolidated Statements of Income using a methodology consistent with the recognition of revenue. The amount of capitalized dealer incentives and the related amortization was not significant to our consolidated financial statements as of and for the years ended March 31, 2022 and 2021.

We had \$2.4 billion and \$2.5 billion of unearned voluntary protection contract revenues from contracts with customers included in Other liabilities on our Consolidated Balance Sheets as of March 31, 2020 and March 31, 2021, respectively. We recognized \$704 million of the unearned amounts in voluntary protection contract revenues in our Consolidated Statements of Income during fiscal 2022, compared to \$696 million during fiscal 2021. As of March 31, 2022, we had unearned voluntary protection contract revenues of \$2.7 billion included in Other liabilities on our Consolidated Balance Sheet, and with respect to this balance, we expect to recognize revenue of approximately \$753 million in fiscal 2023 and \$1.9 billion thereafter.

Insurance earned premiums

Revenues from providing coverage under various insurance contracts are recognized over the term of the coverage in relation to the timing and level of anticipated claims. Revenues from insurance policies, net of premiums ceded to reinsurers, are earned over the terms of the respective policies in proportion to the estimated loss development. Management relies on historical loss experience as a basis for establishing earnings factors used to recognize revenue over the term of the contract or policy.

Voluntary protection contract expenses and insurance losses

Voluntary protection contract expenses and insurance losses include amounts paid and accrued for loss events that are known and have been recorded as claims, estimates of losses incurred but not reported based on actuarial estimates and historical loss development patterns, and loss adjustment expenses that are expected to be incurred in connection with settling and paying these claims.

Accruals for unpaid losses, losses incurred but not reported, and loss adjustment expenses are included in Other liabilities on our Consolidated Balance Sheets. These accruals arising from contracts entered into by TMIS are not significant as of March 31, 2022 and 2021. Estimated liabilities are reviewed regularly, and we recognize any adjustments in the periods in which they are determined. If anticipated losses, loss adjustment expenses, and unamortized acquisition and maintenance costs exceed the recorded unearned premium, a premium deficiency is recognized by first charging any unamortized acquisition costs to expense and then by recording a liability for any excess deficiency.

Risk Transfer

Our voluntary protection operations transfer certain risks to protect us against the impact of unpredictable high severity losses. The amounts recoverable from reinsurers and other companies that assume liabilities relating to our Voluntary protection operations are determined in a manner consistent with the related reinsurance or risk transfer contract. Amounts recoverable from reinsurers and other companies on unpaid losses are recorded as a receivable but are not collectible until the losses are paid. Revenues related to risks transferred are recognized on the same basis as the related revenues from the underlying contracts. Covered losses are recorded as a reduction to Voluntary protection contract expenses and insurance losses.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There is nothing to report with regard to this item.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain “disclosure controls and procedures” as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the rules and regulations of the SEC. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our Exchange Act reports is accumulated and communicated to management, including our Chief Executive Officer (the principal executive officer) and Chief Financial Officer (the principal financial officer), as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our “disclosure controls and procedures” as defined in Rule 13a-15(e) under the Exchange Act. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2022.

Internal Control over Financial Reporting

Management’s annual report on internal control over financial reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Management conducted, under the supervision of our CEO and CFO, an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria. Based on the assessment performed, management concluded that our internal control over financial reporting was effective as of March 31, 2022.

Attestation report of the registered public accounting firm. This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report is not subject to attestation by our independent registered public accounting firm.

Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

TMCC has omitted certain information in this section pursuant to General Instruction I(2) of Form 10-K.

The following table sets forth certain information regarding the directors and executive officers of TMCC as of June 3, 2022.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mark S. Templin	61	Director, President and Chief Executive Officer, TMCC; Director, President and Chief Operating Officer, TFSIC; Director and Group Chief Operating Officer, TFSC Director, TMNA Director and Chairman, TFSB
Scott Cooke	51	Director, Senior Vice President and Chief Financial Officer, TMCC Chief Financial Officer, TFSIC
Alec Hagey	56	Senior Vice President and Chief Operations Officer, TMCC
Mao Saka	51	Director and Treasurer, TMCC Director, TFSIC
Ellen L. Farrell	57	Group Vice President, General Counsel, Chief Legal and Compliance Officer and Secretary, TMCC; Secretary, TFSIC Director, TFSB
Vipin Gupta	53	Group Vice President and Chief Innovation and Digital Officer
Grace A. Mullings	61	Principal Accounting Officer, Vice President of Accounting and Corporate Controller, TMCC
Mike Owens	60	Group Vice President and Chief Risk Officer, TMCC
Anna Sampang	52	Group Vice President – Service Operations, TMCC
Hiroyoshi Korosue	60	Director, TMCC; Director, Chairman and Chief Executive Officer, TFSIC; Director, President and Chief Executive Officer, TFSC; Chief Officer, Sales Finance Business Group, TMC
Tetsuo Ogawa	62	Director, TMCC; Director, President and Chief Operating Officer, TMNA; Chief Executive Officer, North America Region, TMC
Robert Carter	62	Director, TMCC; Director and President, TMS; Executive Vice President, TMNA;

All directors of TMCC are elected annually and hold office until their successors are elected and qualified. Officers are elected annually and serve at the discretion of the Board of Directors.

Mr. Templin was named President and Chief Executive Officer of TMCC in September 2018. He was named Director of TMCC in May 2016 and served as Chairman of the TMCC Board of Directors from May 2016 to August 2018. He was also named Director, President and Chief Operating Officer of TFSIC in April 2016, Director of TMNA in June 2020, and Director and Chairman of TFSB in October 2021. Mr. Templin has also served as a Director of TFSC since April 2016 and was named Group Chief Operating Officer of TFSC in September 2017. From April 2016 to September 2017, he served as Chief Marketing Officer of TFSC. From April 2013 to December 2017, Mr. Templin also served as Managing Officer of TMC, and from April 2016 to December 2017 he served as Deputy Chief Officer of TMC's Sales Financial Business Group. From April 2013 to April 2016, Mr. Templin served as Executive Vice President of TMC's Lexus International Company, and from April 2012 to March 2013, Mr. Templin also served as General Manager of TMC's Lexus Planning Division. From October 2007 to March 2013, he served as Group Vice President and General Manager of TMS's Lexus Division. Mr. Templin first joined TMS in January 1990.

Mr. Cooke was named Senior Vice President of TMCC in January 2022 and has served as Director of TMCC and Chief Financial Officer of TFSIC since June 2019. He was named as Chief Financial Officer of TMCC in April 2019 and served as a Group Vice President from December 2017 to January 2022. Prior to his appointment to Chief Financial Officer, Mr. Cooke served as Group Vice President of Treasury, Business Intelligence, Analytics and Finance of TMCC from February 2019 to April 2019. From December 2017 to January 2019, he held the position of Group Vice President, Chief Risk Officer. Mr. Cooke served as Vice President, Chief Risk Officer from July 2015 to December 2017. Prior to that, he served as Corporate Manager, Product Planning for North American Products at TMS from July 2014 to July 2015. From August 2012 to July 2014, Mr. Cooke held the position of Corporate Manager, Dealer Credit. Mr. Cooke first joined TMCC in June 2003.

Mr. Hagey was named Senior Vice President and Chief Operating Office of TMCC in January 2022. He previously served as Group Vice President – Sales, Product and Marketing of TMCC from December 2018 to January 2022. Mr. Hagey served as Vice President and General Manager of the Los Angeles region at TMS from January 2015 to December 2018. Prior to this, he served as Vice President of Marketing of TMS from December 2013 to January 2015. Mr. Hagey first joined TMS in 1990.

Mr. Saka was named Director and Treasurer of TMCC in June 2019 and Director of TFSIC in January 2022. He previously served as Group Vice President of the Corporate Planning Group of TFSC from January 2016 to April 2019. From January 2013 to December 2015, Mr. Saka served as the Chief Financial Officer of Toyota Kirloskar Motor Pvt Ltd., a TMC affiliate in India. Prior to this, from January 2007 to December 2012, he served in the Accounting Division of TMC. Mr. Saka first joined the Finance Division of TMC in 1993.

Ms. Farrell was named Group Vice President, General Counsel, Chief Legal and Compliance Officer and Secretary of TMCC in January 2022. She was named Director of TFSB in October 2021. She previously served as Vice President, General Counsel and Secretary of TMCC from May 2020 to January 2022 and has served as Secretary of TFSIC since May 2020. Ms. Farrell also served as Vice President – Social Innovation and Executive Advisor – Legal of TMNA from November 2019 to May 2020. Prior to this, Ms. Farrell served as Vice President and Interim General Counsel of TMCC from May 2019 to November 2019, Secretary of TMCC from May 2019 to February 2020 and Secretary of TFSIC from June 2019 to February 2020. Ms. Farrell served as Vice President, Deputy General Counsel of TMNA from May 2017 to November 2019, as Assistant General Counsel of TMS from May 2015 to May 2017 and as Senior Managing Counsel of TMS from August 2011 to May 2015. Ms. Farrell first joined TMS in 1999.

Mr. Gupta was named as Group Vice President and Chief Innovation and Digital Officer of TMCC in January 2022. He previously served as Group Vice President and Chief Information Officer of TMCC from July 2018 to January 2022. Prior to joining TMCC, Mr. Gupta served as Executive Vice President and Chief Information Officer of KeyBank's Retail and Private Banking business from November 2010 to June 2018.

Ms. Mullings was named Principal Accounting Officer of TMCC in August 2021 and has served as Vice President of Accounting and Corporate Controller of TMCC since March 2020. Prior to her current position, Ms. Mullings served as Senior Director of financial and regulatory reporting policies and governance at TPG Global LLC from July 2015 to March 2020. Ms. Mullings served as Director of Accounting Policy and Governance at TMCC from April 2005 to June 2015. From September 1999 to March 2005, Ms. Mullings served in various accounting and finance roles at Bank of America Corporation.

Mr. Owens was named Group Vice President and Chief Risk Officer of TMCC in May 2020. He previously served as Vice President and Chief Risk Officer of TMCC from January 2019 to May 2020, Vice President – Risk and Dealer Credit of TMCC from April 2018 to January 2019, Director and Chairman of TFSB from September 2019 to October 2021, and Interim Chief Risk Officer of TFSB from October 2021 to February 2022. From January 2012 to April 2018, he served as President and Chief Executive Officer of TFSB and, from August 2016 to April 2018, Mr. Owens also served as Director of TFSB. Prior to this, he served as Corporate Manager – Banking Products and Chief Risk Officer of TFSB from December 2008 to January 2012. Mr. Owens first joined TFSB in September 2002.

Ms. Sampang was named Group Vice President – Service Operations in September 2019. She previously served as Vice President, Service Operations Strategy, Planning and Support of TMCC from April 2017 to September 2019. Ms. Sampang also served as Corporate Manager, Service Operations Strategy, Planning and Support for TMCC from September 2013 to March 2017. Prior to this, she served as Chief Operations Officer for TFSB from January 2012 to September 2013. Ms. Sampang first joined TMS in 1993.

Mr. Korosue was named Director of TMCC in April 2021. He was also named Chief Officer, Sales Finance Business Group of TMC, Director, President and Chief Executive Officer of TFSC, and Director, Chairman and Chief Executive Officer of TFSIC in April 2021. Prior to joining TMC, Mr. Korosue held the position of Managing Executive Director of Sumitomo Mitsui Banking Corporation (“SMBC”) from April 2018 to April 2021. Prior to this, he held the following positions at SMBC: Executive Officer, Regional Head of Greater Mekong Sub-Region Country Head of Thailand, General Manager of Bangkok Branch from April 2017 to April 2018, Director, Regional Head of Greater Mekong Sub-Region, Country Head of Thailand, General Manager of Bangkok Branch from April 2015 to April 2017, General Manager, Nihonbashi-Higashi Corporate Business Office, Tokyo from April 2014 to April 2015, and General Manager, Osaka Chuo Corporate Business Office, Osaka from July 2012 to April 2014. Mr. Korosue first joined SMBC in 1986.

Mr. Ogawa was named Director of TMCC, Director, President and Chief Operating Officer of TMNA and Chief Executive Officer, North America Region of TMC in April 2020. Previously, he served as Operating Officer of TMC from January 2019 to December 2020, Chief Operating Officer, North America Region of TMC from January 2019 to April 2020 and Deputy Chief Officer - External and Public Affairs Group of TMC from January 2019 to July 2019. Mr. Ogawa served as Executive Vice President of TMNA from April 2017 to March 2020 and Senior Managing Officer of TMC from January 2018 to January 2019. He also served as Chief Administrative Officer – North America Region of TMC from April 2017 to January 2019. Prior to this, Mr. Ogawa served as Managing Officer of TMC from April 2015 to January 2018 and Deputy Chief Executive Officer – China Region of TMC and President, Toyota Motor (China) Investment Co., Ltd. from April 2015 to April 2017. From January 2012 to April 2015, he served as General Manager - China Division of TMC. Mr. Ogawa first joined TMC in 1984.

Mr. Carter was named Director of TMCC in June 2017 and Executive Vice President of TMNA and President and Director of TMS in April 2017. Prior to this, Mr. Carter held the following positions at TMS: Senior Vice President from September 2012 to March 2017, Group Vice President and General Manager of Toyota Division from April 2007 to September 2012 and Group Vice President and General Manager of Lexus Division from April 2005 to April 2007. Mr. Carter first joined TMS in 1981.

ITEM 11. EXECUTIVE COMPENSATION

TMCC has omitted this section pursuant to General Instruction I(2) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

TMCC has omitted this section pursuant to General Instruction I(2) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

TMCC has omitted this section pursuant to General Instruction I(2) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table represents aggregate fees billed to us by PricewaterhouseCoopers LLP, an independent registered public accounting firm.

(Dollars in thousands)	Years ended March 31,	
	2022	2021
Audit fees	\$ 11,783	\$ 11,254
Audit related fees	-	-
Tax fees	403	397
All other fees	395	225
Total fees	<u>\$ 12,581</u>	<u>\$ 11,876</u>

Audit fees include the audits of our consolidated financial statements included in our Annual Reports on Form 10-K, reviews of our consolidated financial statements included in our Quarterly Reports on Form 10-Q, and providing comfort letters, consents and other attestation reports in connection with our funding transactions.

Audit related fees primarily include procedures related to funding programs and consultation on the interpretation of accounting standards.

Tax fees primarily include tax reporting software license fees, tax planning services, assistance in connection with tax audits, and tax compliance system license fees.

Other fees include industry research, information technology risk and process assessment review, and translation services performed in connection with our funding transactions.

Auditor Fees Pre-approval Policy

The TMCC Audit and Non-Audit Services Pre-Approval Policy requires that all services provided to us by PricewaterhouseCoopers LLP, our independent registered public accounting firm, including audit services and permitted audit-related and non-audit services, be reviewed and pre-approved by the TMCC Audit Committee and TMCC Board of Directors. All the services provided in fiscal 2022 and 2021 were pre-approved in accordance with the policy's pre-approval requirements.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

Included in Part II, “Item 8. Financial Statements and Supplementary Data” of this Form 10-K on pages 67 through 116.

(a)(2) Financial Statement Schedules

Schedules have been omitted because they are not applicable, the information required to be contained in them is disclosed in Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Credit Risk” and “Item 8. Financial Statements and Supplementary Data” of this Form 10-K or the amounts involved are not sufficient to require submission.

(a)(3) Exhibits

See Exhibit Index on page 123.

Exhibit Number	Description	Method of Filing
3.1	Restated Articles of Incorporation of Toyota Motor Credit Corporation filed with the California Secretary of State on April 1, 2010.	(1)
3.2	Bylaws of Toyota Motor Credit Corporation as amended through December 8, 2000.	(2)
4.1(a)	Indenture, dated as of August 1, 1991, between Toyota Motor Credit Corporation and The Chase Manhattan Bank, N.A.	(3)
4.1(b)	First Supplemental Indenture, dated as of October 1, 1991, among Toyota Motor Credit Corporation, Bankers Trust Company and The Chase Manhattan Bank, N.A.	(4)
4.1(c)	Second Supplemental Indenture, dated as of March 31, 2004, among Toyota Motor Credit Corporation, JPMorgan Chase Bank (as successor to The Chase Manhattan Bank, N.A.) and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company).	(5)
4.1(d)	Third Supplemental Indenture, dated as of March 8, 2011, among Toyota Motor Credit Corporation, The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.) as successor to The Bank of New York Mellon, as trustee, and Deutsche Bank Trust Company Americas, as trustee.	(6)
4.1(e)	Agreement of Resignation, Appointment and Acceptance, dated as of April 26, 2010, among Toyota Motor Credit Corporation, The Bank of New York Mellon and The Bank of New York Mellon Trust Company, N.A.	(7)
4.2(a)	Amended and Restated Agency Agreement, dated as of September 17, 2021, among Toyota Motor Credit Corporation, Toyota Motor Finance (Netherlands) B.V., Toyota Credit Canada Inc., Toyota Finance Australia Limited and The Bank of New York Mellon, acting through its London branch.	(8)
4.2(b)	Amended and Restated Note Agency Agreement, dated as of September 17, 2021, among Toyota Motor Credit Corporation, The Bank of New York Mellon S.A. /NV, Luxembourg branch, and The Bank of New York Mellon, acting through its London branch.	(9)
4.3	Toyota Motor Credit Corporation has outstanding certain long-term debt as set forth in Note 7 - Debt and Credit Facilities of the Notes to Consolidated Financial Statements. Not filed herein as an exhibit, pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, is any instrument which defines the rights of holders of such long-term debt, where the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Toyota Motor Credit Corporation and its subsidiaries on a consolidated basis. Toyota Motor Credit Corporation agrees to furnish copies of all such instruments to the Securities and Exchange Commission upon request.	

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- (1) Incorporated herein by reference to Exhibit 3.1, filed with our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, Commission File Number 1-9961.
- (2) Incorporated herein by reference to Exhibit 3.2, filed with our Quarterly Report on Form 10-Q for the three months ended December 31, 2000, Commission File Number 1-9961.
- (3) Incorporated herein by reference to Exhibit 4.1(a), filed with our Registration Statement on Form S-3 filed January 24, 2018, Commission File Number 333-222676.
- (4) Incorporated herein by reference to Exhibit 4.1(b), filed with our Registration Statement on Form S-3 filed January 24, 2018, Commission File Number 333-222676.
- (5) Incorporated herein by reference to Exhibit 4.1(c), filed with our Registration Statement on Form S-3/A filed March 31, 2004, Commission File Number 333-113680.
- (6) Incorporated herein by reference to Exhibit 4.2, filed with our Current Report on Form 8-K filed March 9, 2011, Commission File Number 1-9961.
- (7) Incorporated herein by reference to Exhibit 4.1(d), filed with our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, Commission File Number 1-9961.
- (8) Incorporated herein by reference to Exhibit 4.1, filed with our Current Report on Form 8-K filed September 20, 2021, Commission File Number 1-9961.
- (9) Incorporated herein by reference to Exhibit 4.2, filed with our Current Report on Form 8-K filed September 20, 2021, Commission File Number 1-9961.

Exhibit Number	Description	Method of Filing
4.4	Description of Medium-Term Notes, Series B due January 11, 2028 of Toyota Motor Credit Corporation.	(10)
10.1	364 Day Credit Agreement, dated as of November 5, 2021, among Toyota Motor Credit Corporation, Toyota Motor Finance (NETHERLANDS) B.V., Toyota Financial Services (UK) PLC, Toyota Credit De Puerto Rico Corp., Toyota Credit Canada Inc., Toyota Kreditbank GMBH, and Toyota Finance Australia Limited, as Borrowers, the lenders party thereto, and BNP Paribas, as Administrative Agent, Swing Line Agent and Swing Line Lender, BNP Paribas Securities Corp., BofA Securities, Inc., Citibank, N.A., JPMorgan Chase Bank, N.A., and MUFG Bank, LTD., as Joint Lead Arrangers and Joint Book Managers, Citibank, N.A., Bank of America, N.A. and JPMorgan Chase Bank, N.A., as Syndication Agents and Swing Line Lenders, and MUFG Bank, LTD., as a Syndication Agent.	(11)
10.2	Three Year Credit Agreement, dated as of November 5, 2021, among Toyota Motor Credit Corporation, Toyota Motor Finance (NETHERLANDS) B.V., Toyota Financial Services (UK) PLC, Toyota Credit De Puerto Rico Corp., Toyota Credit Canada Inc., Toyota Kreditbank GMBH, and Toyota Finance Australia Limited, as Borrowers, the lenders party thereto, and BNP Paribas, as Administrative Agent, Swing Line Agent and Swing Line Lender, BNP Paribas Securities Corp., BofA Securities, Inc., Citibank, N.A., JPMorgan Chase Bank, N.A., and MUFG Bank, LTD., as Joint Lead Arrangers and Joint Book Managers, Citibank, N.A., Bank of America, N.A. and JPMorgan Chase Bank, N.A., as Syndication Agents and Swing Line Lenders, and MUFG Bank, LTD., as a Syndication Agent.	(12)
10.3	Five Year Credit Agreement, dated as of November 5, 2021, among Toyota Motor Credit Corporation, Toyota Motor Finance (NETHERLANDS) B.V., Toyota Financial Services (UK) PLC, Toyota Credit De Puerto Rico Corp., Toyota Credit Canada Inc., Toyota Kreditbank GMBH, and Toyota Finance Australia Limited, as Borrowers, the lenders party thereto, and BNP Paribas, as Administrative Agent, Swing Line Agent and Swing Line Lender, BNP Paribas Securities Corp., BofA Securities, Inc., Citibank, N.A., JPMorgan Chase Bank, N.A., and MUFG Bank, LTD., as Joint Lead Arrangers and Joint Book Managers, Citibank, N.A., Bank of America, N.A. and JPMorgan Chase Bank, N.A., as Syndication Agents and Swing Line Lenders, and MUFG Bank, LTD., as a Syndication Agent.	(13)
10.4	Credit Support Agreement, dated as of July 14, 2000, between Toyota Financial Services Corporation and Toyota Motor Corporation.	(14)

(10) Incorporated herein by reference to Exhibit 4.5, filed with our Annual Report on Form 10-K for the fiscal year ended March 31, 2019, Commission File Number 1-9961.

(11) Incorporated herein by reference to Exhibit 10.1, filed with our Current Report on Form 8-K filed November 8, 2021, Commission File Number 1-9961.

(12) Incorporated herein by reference to Exhibit 10.2, filed with our Current Report on Form 8-K filed November 8, 2021, Commission File Number 1-9961.

(13) Incorporated herein by reference to Exhibit 10.3, filed with our Current Report on Form 8-K filed November 8, 2021, Commission File Number 1-9961.

(14) Incorporated herein by reference to Exhibit 10.9, filed with our Annual Report on Form 10-K for the fiscal year ended September 30, 2000, Commission File Number 1-9961.

Exhibit Number	Description	Method of Filing
10.5	Credit Support Agreement, dated as of October 1, 2000, between Toyota Motor Credit Corporation and Toyota Financial Services Corporation.	(15)
10.6	Amended and Restated Repurchase Agreement, dated as of October 1, 2000, between Toyota Motor Credit Corporation and Toyota Motor Sales, U.S.A., Inc.	(16)
10.7(a)	Credit Support Fee Agreement, dated as of March 30, 2001, between Toyota Motor Credit Corporation and Toyota Financial Services Corporation.	(17)
10.7(b)	Amendment Number 1 to Credit Support Fee Agreement, dated as of June 17, 2005, between Toyota Motor Credit Corporation and Toyota Financial Services Corporation.	(18)
10.7(c)	Amendment Number 2 to the Credit Support Fee Agreement, dated as of September 7, 2012, between Toyota Motor Credit Corporation and Toyota Financial Services Corporation.	(19)
10.8	Revolving Credit Agreement, dated as of April 1, 2022, between Toyota Motor Credit Corporation and Toyota Motor Sales, U.S.A., Inc.	(20)
10.9	Form of Indemnification Agreement between Toyota Motor Credit Corporation and its directors and officers.	(21)
23.1	Consent of Independent Registered Public Accounting Firm	Filed Herewith
31.1	Certification of Chief Executive Officer	Filed Herewith
31.2	Certification of Chief Financial Officer	Filed Herewith
32.1	Certification pursuant to 18 U.S.C. Section 1350	Furnished Herewith
32.2	Certification pursuant to 18 U.S.C. Section 1350	Furnished Herewith
101.INS	Inline XBRL instance document	Filed Herewith
101.CAL	Inline XBRL taxonomy extension calculation linkbase document	Filed Herewith
101.DEF	Inline XBRL taxonomy extension definition linkbase document	Filed Herewith
101.LAB	Inline XBRL taxonomy extension labels linkbase document	Filed Herewith
101.PRE	Inline XBRL taxonomy extension presentation linkbase document	Filed Herewith
101.SCH	Inline XBRL taxonomy extension schema linkbase document	Filed Herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Filed Herewith

(15) Incorporated herein by reference to Exhibit 10.10, filed with our Annual Report on Form 10-K for the fiscal year ended September 30, 2000, Commission File Number 1-9961.

(16) Incorporated herein by reference to Exhibit 10.11, filed with our Annual Report on Form 10-K for the fiscal year ended March 31, 2001, Commission File Number 1-9961.

(17) Incorporated herein by reference to Exhibit 10.13, filed with our Annual Report on Form 10-K for the fiscal year ended March 31, 2001, Commission File Number 1-9961.

(18) Incorporated herein by reference to Exhibit 10.13(b), filed with our Annual Report on Form 10-K for the fiscal year ended March 31, 2005, Commission File Number 1-9961.

(19) Incorporated herein by reference to Exhibit 10.1, filed with our Current Report on Form 8-K filed September 7, 2012, Commission File Number 1-9961.

(20) Incorporated herein by reference to Exhibit 10.1, filed with our Current Report on Form 8-K filed April 1, 2022, Commission File Number 1-9961.

(21) Incorporated herein by reference to Exhibit 10.1, filed with our Quarterly Report on Form 10-Q for the three months ended September 30, 2021, Commission File Number 1-9961.

ITEM 16. FORM 10-K SUMMARY

None.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-252342) of Toyota Motor Credit Corporation of our report dated June 3, 2022 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas

June 3, 2022

EXHIBIT 31.1

CERTIFICATIONS

I, Mark S. Templin, certify that:

1. I have reviewed this annual report on Form 10-K of Toyota Motor Credit Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 3, 2022

By /s/ Mark S. Templin
Mark S. Templin
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, Scott Cooke, certify that:

1. I have reviewed this annual report on Form 10-K of Toyota Motor Credit Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 3, 2022

By /s/ Scott Cooke

Scott Cooke
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Toyota Motor Credit Corporation (the "Company") on Form 10-K for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark S. Templin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /s/ Mark S. Templin
Mark S. Templin
President and Chief Executive Officer
(Principal Executive Officer)
June 3, 2022

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Toyota Motor Credit Corporation (the "Company") on Form 10-K for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Cooke, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /s/ Scott Cooke

Scott Cooke
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)
June 3, 2022