

**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, 2020**

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 **001-36111**

AMERICAN HONDA FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation or organization)

20800 Madrona Avenue, Torrance, California

(Address of principal executive offices)

95-3472715

(IRS Employer Identification No.)

90503

(Zip Code)

(310) 972-2555

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
1.300% Medium-Term Notes, Series A Due March 21, 2022	N/A	New York Stock Exchange
2.625% Medium-Term Notes, Series A Due October 14, 2022	N/A	New York Stock Exchange
1.375% Medium-Term Notes, Series A Due November 10, 2022	N/A	New York Stock Exchange
0.550% Medium-Term Notes, Series A Due March 17, 2023	N/A	New York Stock Exchange
0.750% Medium-Term Notes, Series A Due January 17, 2024	N/A	New York Stock Exchange
0.350% Medium-Term Notes, Series A Due August 26, 2022	N/A	New York Stock Exchange
1.600% Medium-Term Notes, Series A Due April 20, 2022	N/A	New York Stock Exchange
1.950% Medium-Term Notes, Series A Due October 18, 2024	N/A	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 May 31, 2020, the number of outstanding shares of common stock of the registrant was 13,660,000 all of which shares were held by American Honda Motor Co., Inc. None of the shares are publicly traded.

Documents incorporated by reference: None

REDUCED DISCLOSURE FORMAT

American Honda Finance Corporation, a wholly-owned subsidiary of American Honda Motor Co., Inc., which in turn is a wholly-owned subsidiary of Honda Motor Co., Ltd., meets the requirements set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format.

AMERICAN HONDA FINANCE CORPORATION
ANNUAL REPORT ON FORM 10-K
For the fiscal year ended March 31, 2020

Table of Contents

	<u>Page</u>
<u>PART I</u>	<u>1</u>
Item 1. Business	<u>1</u>
Item 1A. Risk Factors	<u>11</u>
Item 1B. Unresolved Staff Comments	<u>19</u>
Item 2. Properties	<u>19</u>
Item 3. Legal Proceedings	<u>19</u>
Item 4. Mine Safety Disclosures	<u>19</u>
<u>PART II</u>	<u>20</u>
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>20</u>
Item 6. Selected Financial Data	<u>20</u>
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>22</u>
Overview	<u>22</u>
Results of Operations	<u>23</u>
Financial Condition	<u>27</u>
Liquidity and Capital Resources	<u>35</u>
Derivatives	<u>40</u>
Off-Balance Sheet Arrangements	<u>40</u>
Contractual Obligations	<u>40</u>
New Accounting Standards	<u>40</u>
Critical Accounting Policies	<u>41</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>42</u>
Item 8. Financial Statements and Supplementary Data	<u>43</u>
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>43</u>
Item 9A. Controls and Procedures	<u>43</u>
Item 9B. Other Information	<u>44</u>
<u>PART III</u>	<u>45</u>
Item 10. Directors, Executive Officers and Corporate Governance	<u>45</u>
Item 11. Executive Compensation	<u>45</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>45</u>
Item 13. Certain Relationships and Related Transactions, and Director Independence	<u>45</u>
Item 14. Principal Accounting Fees and Services	<u>45</u>
<u>PART IV</u>	<u>46</u>
Item 15. Exhibits, Financial Statement Schedules	<u>46</u>
Exhibit Index	<u>46</u>
Item 16. Form 10-K Summary	<u>48</u>
Signatures	<u>49</u>
Index to Financial Statements	<u>F-1</u>

Cautionary Statement Regarding Forward-Looking Statements

Certain statements included herein constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “scheduled,” or “anticipates” or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans, or intentions. In addition, all information included herein with respect to projected or future results of operations, cash flows, financial condition, financial performance, or other financial or statistical matters constitute forward-looking statements. Such forward-looking statements are necessarily dependent on assumptions, data, or methods that may be incorrect or imprecise and that may be incapable of being realized. The following factors, among others, could cause actual results and other matters to differ materially from those in such forward-looking statements:

- uncertainties regarding the duration and severity of the COVID-19 pandemic and the measures intended to reduce its spread and their related impact on our operations, liquidity and financial condition;
- declines in the financial condition or performance of Honda Motor Co., Ltd. or the sales of Honda or Acura products;
- changes in economic and general business conditions, both domestically and internationally, including changes in international trade policy;
- fluctuations in interest rates and currency exchange rates;
- the failure of our customers, dealers, or counterparties to meet the terms of any contracts with us, or otherwise fail to perform as agreed;
- our inability to recover the estimated residual value of leased vehicles at the end of their lease terms;
- changes or disruption in our funding sources or access to the capital markets;
- changes in our, or Honda Motor Co., Ltd.’s, credit ratings;
- increases in competition from other financial institutions seeking to increase their share of financing of Honda and Acura products;
- changes in laws and regulations, including the result of financial services legislation, and related costs;
- changes in accounting standards;
- a failure or interruption in our operations; and
- a security breach or cyber attack.

Additional information regarding these and other risks and uncertainties to which our business is subject is contained in “*Part I, Item 1A. Risk Factors*” in this Annual Report on Form 10-K, as such risks and uncertainties may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. We do not intend, and undertake no obligation to, update any forward-looking information to reflect actual results or future events or circumstances, except as required by applicable law.

PART I

Item 1. Business

Overview

American Honda Finance Corporation (AHFC) is a California corporation that was incorporated on February 6, 1980. Unless otherwise indicated by the context, all references to the “Company”, “we”, “us”, and “our” in this report include AHFC and its consolidated subsidiaries, and references to “AHFC” refer solely to American Honda Finance Corporation (excluding its subsidiaries). AHFC is a wholly-owned subsidiary of American Honda Motor Co., Inc. (AHM). Honda Canada Finance Inc. (HCFI) is a majority-owned subsidiary of AHFC. Noncontrolling interest in HCFI is held by Honda Canada Inc. (HCI), an affiliate of AHFC. AHM is a wholly-owned subsidiary and HCI is an indirect wholly-owned subsidiary of Honda Motor Co., Ltd. (HMC). AHM and HCI are the sole authorized distributors of Honda and Acura products, including motor vehicles, parts, and accessories in the United States and Canada. AHFC’s principal executive offices are located at 20800 Madrona Avenue, Torrance, California 90503.

We provide various forms of financing in the United States and Canada to purchasers and lessees of Honda and Acura products and authorized independent dealers of Honda and Acura products. Our primary focus, in collaboration with AHM and HCI, is to provide support for the sale of Honda and Acura products and maintain customer and dealer satisfaction and loyalty. Our business is substantially dependent upon the sale of those Honda and Acura products in the United States and Canada and the percentage of those sales financed by us.

We acquire retail loans, primarily installment sale contracts, and leases made to retail customers of Honda and Acura products and we offer wholesale financing and commercial loans to dealers of Honda and Acura products.

AHM and HCI sponsor incentive financing programs in the United States and Canada, respectively. These programs offer promotional rates on loans and leases to purchasers, lessees, and dealers of Honda and Acura products. AHM or HCI, as applicable, pays a subsidy that enables us to realize a market yield on any financing contract we indirectly or directly finance under these programs.

We acquire and offer, as applicable, substantially similar products and services throughout many different regions, provinces, and territories, subject to local legal restrictions and market conditions. We divide our business segments between our business in the United States and in Canada. For additional financial information regarding our operations by business segment, see Note 15—Segment Information of *Notes to Consolidated Financial Statements* and “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview.” In the United States and Canada, we provide our financing products under the brand names Honda Financial Services and Acura Financial Services.

Public Filings

Our filings with the Securities and Exchange Commission (SEC) may be found by accessing the SEC website at www.sec.gov. The SEC website contains reports, registration statements, and other information regarding issuers that file with the SEC, including us. A direct link to the SEC website and certain of our filings are contained on our website located at www.hondafinancialservices.com under “Investor Relations, SEC Filings”. Additionally, we have made available on our website, without charge, electronic copies of our periodic and current reports that have been filed with the SEC.

Investors and others should note that we announce material financial information using the Investor Relations, SEC Filings section of our corporate website (<http://www.hondafinancialservices.com>). We use our website and press releases to communicate with our investors, customers and the general public about our company, our services and other matters. While not all of the information that we post on our website 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, SEC Filings section of our website. Currently, we do not use any social media channels for purposes of communicating such information to the public. Any changes to our communication channels will be posted on the Investor Relations, SEC Filings section of our website. We are not incorporating any of the information set forth on our website into this filing on Form 10-K.

Consumer Financing

Retail Loans

We provide indirect financing to retail customers of Honda and Acura products by acquiring retail loans originated by Honda and Acura dealers. Retail loans are acquired in accordance with our underwriting standards. See “—*Underwriting and Pricing of Consumer Financing*” below for a description of our underwriting process. The products that we finance consist primarily of new and used Honda and Acura automobiles and Honda motorcycles, power equipment, and marine engines. Retail loans may also include the financing of insurance products or vehicle service contracts. See “—*Vehicle Service Contract Administration*” below for more information. The terms of retail loans originated in the United States generally range from 24 to 72 months while the terms of retail loans originated in Canada generally range from 24 to 84 months.

We service all of the retail loans we acquire. We generally hold a security interest in the products purchased through our retail loans. As a result, if our collection efforts fail to bring a delinquent customer’s payments current, we generally can repossess the customer’s vehicle, after satisfying local legal requirements, and sell it at auction. We may waive late payment fees and other fees assessed in the ordinary course of servicing the retail loans and allow payment deferrals by extending the loan’s term. See “—*Servicing of Consumer Financing*” below for more information.

We require customers that purchase Honda and Acura products through retail loans acquired by us to obtain adequate physical damage, comprehensive and collision insurance.

Retail Leases

We acquire closed-end vehicle lease contracts between Honda and Acura dealers and their customers primarily for leases of new Honda and Acura automobiles. In the case of leases originating in the United States, upon our acquisition of such leases, the dealer assigns all of its rights, title, and interest in the lease and the automobile to either our wholly-owned subsidiary, Honda Lease Trust (HLT) or its trustee, HVT, Inc., depending on the applicable state. HLT is a trust established to take assignments of and serve as holder of legal title to leased automobiles. In the case of leases originating in Canada, upon our acquisition of such leases, the dealer assigns all of its rights, title, and interest in the lease and the vehicle to our majority owned subsidiary HCFI.

Leases are acquired in accordance with our underwriting standards. See “—*Underwriting and Pricing of Consumer Financing*” below for a description of our underwriting process. Terms of the leases generally range from 24 to 60 months. We service the leases we acquire. We may waive late payment fees and other fees assessed in the ordinary course of servicing the leases, extend the lease term, or offer end-of-lease incentives. See “—*Servicing of Consumer Financing*” below for more information.

Contractual residual values of lease vehicles are determined at lease inception based on expectations of future used vehicle values, taking into consideration external industry data and our own historical experience. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market based price. Returned lease vehicles that are not purchased by the grounding dealer are sold through online and at physical auctions. See “—*Servicing of Consumer Financing—Remarketing Center*” below.

We require the lessee to obtain insurance with adequate public liability and physical damage coverage for the entire lease term.

Underwriting and Pricing of Consumer Financing

Dealers submit customer credit applications electronically through our online system. In addition, AHFC customers are able to submit their own credit applications for pre-approval directly through our website. If our requirements are met, an application received from a dealer is approved automatically. Our system is programmed to review application information for purchase policy and legal compliance. Applications that are not automatically approved are routed to credit buyers located in our regional offices, who will evaluate and make purchase decisions within the framework of our purchase policy and legal requirements.

We utilize our proprietary credit scoring system to evaluate the credit risk of applicants. Factors used by our credit scoring system to develop a customer's credit grade include the term of the contract, the loan or lease-to-value ratio, the customer's debt ratios, and credit bureau attributes, number of trade lines, utilization ratio, and number of credit inquiries. We utilize different scorecards depending on the type of product we finance and we regularly review and analyze our consumer-financing portfolio to ensure the effectiveness of our underwriting guidelines, purchasing criteria and scorecard predictability of our customers.

In the United States, AHFC utilizes a tiered pricing structure based on customer Fair Isaac Corporation/FICO scores. In Canada, HCFI has a single tiered pricing structure.

Servicing of Consumer Financing

We have eight regional offices in the United States that are responsible for the acquisition, servicing, collection, and customer service activities related to our automobile retail loans and leases. These offices are located in California, Texas, Massachusetts, Illinois, North Carolina, Delaware, and Georgia. We also have one office in Georgia that is responsible for the underwriting of motorcycle, power equipment, and marine engine loans, customer service related to those contracts and collection efforts for past due accounts on a national basis.

In addition to our servicing regions, we have centralized certain operational functions in the United States relating to our automobile retail loans and leases at the National Service Center located in Texas, which contains our National Processing Center, Lease Maturity Center, Remarketing Center, and Recovery and Bankruptcy Center, which are described below:

- *National Processing Center.* The National Processing Center is responsible for processing customer payments that cannot be processed through our automated servicing system, providing service to our Regional Offices and other services.
- *Lease Maturity Center.* Lease accounts are transferred from our regional offices to the Lease Maturity Center six months prior to the end of the lease term. The Lease Maturity Center assumes responsibility for servicing the lease from this time, including providing the leaseholder with end of term options, responding to customer service issues and coordinating end of term vehicle inspections. Once a vehicle is returned to us, the Lease Maturity Center transfers the account to the Remarketing Center to arrange for the disposition of the vehicle.
- *Remarketing Center.* The Remarketing Center oversees the disposition of vehicles returned at the end of leases and after repossession. In order to minimize losses at lease maturity, we have developed remarketing strategies to maximize proceeds and minimize disposition costs on vehicles sold at lease termination. We use various channels to sell vehicles returned at lease end, including a dealer direct, on-line program referred to as the Vehicle Inter-Dealer Purchase System (VIPS) and physical auctions. The goal of our VIPS program is to increase dealer purchases of off-lease vehicles thereby reducing our disposition costs of such vehicles. Through VIPS, the dealer accepting return of the leased vehicle (also referred to as the grounding dealer) initially has the exclusive right to purchase the vehicle at the contractual residual value or a market-based price. If the vehicle is not purchased by the grounding dealer, it then becomes available to Honda and Acura vehicle dealers through the VIPS online auction. If the vehicle is not sold to a Honda or Acura dealer, the auction is opened to any dealer. Off-lease vehicles that are not purchased through a VIPS auction and all repossessed vehicles are sold at physical auction sites throughout the United States. When deemed necessary, we recondition used vehicles prior to sale in order to enhance the vehicle values at auction. Additionally, vehicles to be sold at public auctions may be relocated in accordance with our goal to minimize oversupply at any given location and maximize sales proceeds.
- *Recovery and Bankruptcy Center.* The Recovery and Bankruptcy Center is responsible for collecting the deficiency balances of charged-off accounts using outside collection agencies, locating and securing the collateral of charged-off accounts, and collecting lease end of term fees. Consumer financing contracts are transferred from our regional offices to the Recovery and Bankruptcy Center after charge-off, which occurs when they become 120 days contractually past due, payments due are no longer expected to be received, or the underlying product is sold or has been held in unsold repossessed inventory for 90 days, whichever occurs first. In addition, accounts subject to bankruptcy proceedings are assigned to the Recovery and Bankruptcy Center for tracking, monitoring and handling through the life of the loan or until the related customer is discharged from bankruptcy. If the customer is discharged or dismissed from bankruptcy, the account will return to the original regional office for servicing.

In Canada, we have two regional offices that are responsible for acquisition, servicing, collection, and customer service activities related to our retail loans and leases. These offices are located in Quebec and Ontario. Similar to our United States operations, in addition to our servicing regions, we have centralized certain operational functions for our Canadian retail loans and leases. These centralized functions are located in Ontario and include our Customer Retention Center, Recovery Center, Collections Center, Customer Service Center, and Auctions/Remarketing Center. The services provided by these centralized functions are comparable to the services provided by our National Service Center in the United States.

Recovery Policies and Procedures

We use an account servicing system and an automated dialer system that prioritize collection efforts, generate past due notices, and signal our collections personnel to make telephone contact with delinquent customers. For the purpose of determining whether a retail loan or lease is delinquent, payment is generally considered to have been made upon receipt of 90% of the sum of the current monthly payment due plus any overdue monthly payments.

If necessary, repossession action is taken using bonded and licensed repossession agencies. Subject to state or provincial laws and recording, filing, and notice requirements, we are generally permitted by applicable state or provincial laws to repossess automobiles or motorcycles upon default by the related customer. We typically decide whether or not to repossess a vehicle when the account is 45 to 60 or more days past due, subject to the laws and regulations governing repossession in the state or province where the automobile or motorcycle is located.

Incentive Financing Programs for Retail Loans and Leases

A substantial portion of our consumer financing business is acquired through incentive financing programs sponsored by AHM and HCI in the United States and Canada, respectively. These programs offer promotional rates on retail loans and leases to purchasers and lessees of Honda and Acura products. AHM or HCI, as applicable, pay us subsidies that enable us to realize a market yield on any financing contract we indirectly finance under these programs. Market yield is based on, among other things, the credit quality of the customer and the length of the contract. The amount of subsidy payments we receive from AHM and HCI is dependent on the terms of the incentive financing programs and the interest rate environment. Subsidy payments received on retail loans and leases are deferred and recognized as revenue over the term of the related contracts. The volume of incentive financing programs sponsored by AHM and HCI and the allocation of those programs between retail loans and leases may vary from fiscal period to fiscal period depending upon the respective marketing strategies of AHM and HCI. AHM and HCI's marketing strategies are based in part on their business planning and control, in which we do not participate. Therefore, we cannot predict the level of incentive financing programs AHM and HCI may sponsor in the future and a significant change in the level of incentive financing programs in a fiscal period typically only has a limited impact on our results of operations for that period. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview."

Honda Aviation Financing

Honda Aviation Finance Company LLC, a wholly-owned subsidiary of AHFC, provides financing and account servicing for customers of Honda Aircraft Company LLC, a subsidiary of AHM, in the United States. Customers submit a credit application and if our underwriting policies and legal requirements are met, the retail loan is approved.

Dealer Financing

Wholesale Flooring Loans

We provide wholesale flooring loans to dealers of Honda and Acura automobiles and Honda motorcycles, power equipment, and marine engines through our Dealer Financial Services (DFS) business unit.

Wholesale flooring loans are available primarily through revolving lines of credit and may only be used by dealers to finance the purchase of inventory. AHFC will finance new automobiles and motorcycles up to 100% of the dealer invoice price and used automobiles and motorcycles up to 100% of the applicable market value determined in accordance with industry pricing guides in the United States. HCFI will finance new automobiles and motorcycles up to 100% of the dealer invoice price and used automobiles and motorcycles up to the current market value determined in accordance with industry pricing guides in Canada. Dealers pay a variable interest rate on wholesale flooring loans. Wholesale flooring loans must be repaid at specified intervals and increments and generally must be paid in full upon the sale of the product. AHM and HCI sponsor incentive financing programs in the United States and Canada, respectively, to Honda and Acura dealers approved for wholesale flooring loans.

In establishing a wholesale flooring loan, we conduct a comprehensive review of the dealership, including a review of its business operations and management, any credit reports, financial statements, tax returns, bank references, and/or other available historical credit information and a review of the personal financial statements of the dealership's individual owner(s). This data is organized into an electronic scorecard which supports our determination of whether we will provide a wholesale flooring loan and, if so, the amount of the loan and the interest rate. Once a wholesale flooring loan has been approved, we maintain an ongoing review process of the dealerships we finance. We use a third party to perform random periodic on-site physical inspections of financed dealership inventory at a frequency determined by the dealership's scorecard and financial performance. Monitoring activities are performed more frequently for dealerships with higher levels of credit risk.

We seek to retain a purchase money security interest in all products that are financed pursuant to wholesale flooring loan agreements we enter into with dealers. In addition, we generally secure wholesale flooring loans with liens on the dealership's other assets and obtain a personal guarantee from dealership owners, as well as corporate guarantees from, or on behalf of, dealership owner(s)' other dealerships. 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. We require dealerships to maintain insurance on all inventory, including peril coverage for flood, hail, wind, false pretense, liability, earthquake, vandalism, and other risks.

In the event of a default on a wholesale flooring loan, we may repossess the financed product, sell the repossessed assets, and seek other available legal remedies pursuant to the related wholesale flooring loan agreement and related guarantees consistent with commercially accepted practices and applicable laws. After the sale of a financed product to consumers in the ordinary course of business, we have no right to recover the product and are limited to the remedies under our wholesale flooring loan agreement with the dealer. Additionally, we have agreements with AHM and HCI that provide for their repurchase of new, unused, undamaged, and unregistered vehicle or equipment that have been repossessed from dealers who defaulted under the terms of its wholesale flooring agreement.

A wholesale flooring loan is considered delinquent when any payment is contractually past due. Collection efforts are initiated using our staff. We file replevin actions, send past due notices, enter into forbearance agreements, and renegotiate contracts with delinquent dealers. If we determine a dealer cannot meet the obligations under its wholesale flooring loan agreement, legal action may commence. Subject to recording, filing and notice requirements of state, provincial or other laws, we are generally permitted by the applicable laws to repossess the underlying collateral that have not been sold to a buyer in the ordinary course of business.

In the United States, wholesale flooring loans are serviced at AHFC's regional offices in California, Texas, Massachusetts, Illinois, North Carolina, Delaware, and Georgia. In Canada, wholesale flooring loans are serviced at HCFI's headquarters in Ontario.

Commercial Loans

We provide commercial loans to Honda and Acura automobile dealers through our DFS business unit. This commercial financing is available primarily through mortgage loans for financing dealership property or construction, and term loans for financing equipment or facility improvements. We offer either fixed or floating interest rates on commercial loans.

In establishing a commercial loan, we conduct a comprehensive review of the dealership, including a review of its business operations and management, appraisals of dealership property, credit reports, financial statements, tax returns, bank references, and/or other available historical credit information and a review of the personal financial statements of the dealership's individual owner(s). Once the loan has been approved, we maintain an ongoing review process of the dealership we finance, which we believe is consistent with industry practices.

Commercial loans are generally secured by the associated properties, inventory, and other dealership assets. In addition, we generally obtain a personal guarantee from dealership owners, as well as corporate guarantees from, or on behalf of, dealership individual owner(s)' other dealerships. Although our commercial loans are typically collateralized or guaranteed, the value of the underlying collateral or guarantees may not be sufficient to cover our exposure. Commercial loans are considered delinquent when any payment is contractually past due.

In the United States, commercial loans are serviced at AHFC's headquarters in California. In Canada, commercial loans are serviced at HCFI's headquarters in Ontario.

Competition

The automobile financing industries in the United States and Canada are very competitive. Providers of vehicle and similar product financing have traditionally competed based on interest rates charged, the quality of credit accepted, the flexibility of loan terms offered, the quality of service provided to dealers and customers, and the strength of dealer relationships.

National and regional commercial banks, credit unions, savings and loan associations, finance companies, and other captive finance companies provide consumer financing for new and used Honda and Acura products. Commercial banks, finance companies, and captive finance companies of other manufacturers also provide inventory financing for Honda and Acura dealers. Our primary competition in the wholesale motorcycle, power equipment, and marine engine financing business tends to be local banks and specialty finance firms that are familiar with the particular characteristics of these businesses. In Canada, commercial banks are strong competitors in the automobile consumer financing business.

Relationships with HMC and Other Affiliates

The following is a description of certain relationships with HMC and other affiliates.

HMC and AHFC Keep Well Agreement

HMC and AHFC are parties to a keep well agreement (the HMC-AHFC Agreement), which became effective on September 9, 2005.

Under the terms of the HMC-AHFC Agreement, HMC has agreed to:

- own and hold, at all times, directly or indirectly, at least 80% of AHFC's issued and outstanding shares of voting stock and not pledge, directly or indirectly, encumber, or otherwise dispose of any such shares or permit any of HMC's subsidiaries to do so, except to HMC or wholly-owned subsidiaries of HMC;
- cause AHFC to, on the last day of each of AHFC's fiscal years, have a positive consolidated tangible net worth (with "tangible net worth" for purposes of this discussion of the HMC-AHFC Agreement understood to mean (a) shareholders' equity less (b) any intangible assets, as determined in accordance with U.S. generally accepted accounting principles (GAAP)); and
- ensure that, at all times, AHFC has sufficient liquidity and funds to meet its payment obligations under any Debt (with "Debt" for purposes of this discussion of the HMC-AHFC Agreement defined as AHFC's debt for borrowed money that HMC has confirmed in writing is covered by the HMC-AHFC Agreement) in accordance with the terms of such Debt, or where necessary, HMC will make available to AHFC, or HMC will procure for AHFC, sufficient funds to enable AHFC to pay its Debt in accordance with its terms.

The HMC-AHFC Agreement is not a guarantee by HMC of any Debt or other obligation, indebtedness, or liability of any kind of AHFC.

The HMC-AHFC Agreement includes AHFC's agreement that it will use any funds made available to it by HMC thereunder solely for fulfilling AHFC's payment obligations in respect of Debt. Any claims of HMC arising from any provisions of funds to AHFC by HMC shall be subordinated to the claims of all holders of Debt with respect to such Debt, whether or not such claims exist at the time such funds are made available to AHFC, and HMC will not demand payment of such claims from AHFC unless and until all outstanding Debt has been paid in full.

HMC or AHFC may each terminate the HMC-AHFC Agreement upon giving to the other party 30 days' prior written notice and the HMC-AHFC Agreement may be modified or amended only by the written agreement of HMC and AHFC and upon 30 days' prior written notice to each rating agency rating any covered Debt. However, such termination, modification, or amendment will not be effective with respect to any Debt outstanding at the time of such termination, modification, or amendment unless: (i) such termination, modification, or amendment is permitted under the documentation governing such Debt, (ii) all affected holders of such Debt (or, in the case of Debt incurred pursuant to documentation that permits the HMC-AHFC Agreement to be terminated, modified, or amended with the consent of less than all of the holders of such Debt, the requisite holders of such Debt) otherwise consent in writing, or (iii) with respect to Debt that is rated by one or more rating agencies at the request of HMC or AHFC, each such rating agency confirms in writing that the rating assigned to such Debt will not be withdrawn or reduced because of the proposed action.

An amendment, modification, or termination of the HMC-AHFC Agreement may constitute an event of default under certain of AHFC's Debt, subject to certain limited exceptions contained in the instruments governing such Debt. In addition, failure by HMC to meet its obligations under the HMC-AHFC Agreement would constitute an event of default under such Debt, but only if, in the case of certain of AHFC's Debt, such failure continued for 30 days and was continuing at the time the default was declared.

Under its terms, the HMC-AHFC Agreement is not enforceable against HMC by anyone other than: (i) AHFC or (ii) if any case is commenced under the United States Bankruptcy Code (11 USC §§101 et seq.), or any successor statutory provisions, or the Bankruptcy Code, in respect of AHFC, the debtor in possession or trustee appointed by the court having jurisdiction over such proceeding. In the event of (1) a breach by HMC in performing a provision of the HMC-AHFC Agreement and (2) the commencement of such a case under the Bankruptcy Code in respect of AHFC while any Debt is outstanding, the remedies of a holder of Debt shall include the right, if no proceeding in respect of AHFC has already been commenced in such case, to file a petition in respect of AHFC thereunder with a view to the debtor in possession, or the trustee appointed by the court having jurisdiction over such proceeding, pursuing AHFC's rights under the HMC-AHFC Agreement against HMC. However, all holders of outstanding Debt may (i) demand in writing that AHFC enforce its rights under the HMC-AHFC Agreement and (ii) proceed directly against HMC to enforce compliance by HMC with its obligations under the HMC-AHFC Agreement if AHFC fails or refuses to take action to enforce its rights under that agreement within 30 days following AHFC's receipt of demand for such enforcement by such holder.

The HMC-AHFC Agreement is governed by and construed in accordance with the laws of the State of New York.

HMC and HCFI Keep Well Agreement

HMC and HCFI are parties to a Keep Well Agreement (the HMC-HCFI Agreement), which became effective on September 26, 2005.

Under the terms of the HMC-HCFI Agreement, HMC has agreed to:

- own and hold, at all times, directly or indirectly, at least 80% of HCFI's issued and outstanding shares of voting stock and not pledge, directly or indirectly, encumber, or otherwise dispose of any such shares or permit any of HMC's subsidiaries to do so, except to HMC or wholly-owned subsidiaries of HMC;
- cause HCFI to, on the last day of each of HCFI's fiscal years, have a positive consolidated tangible net worth (with "tangible net worth" for purposes of this discussion of the HMC-HCFI Agreement understood to mean (a) shareholders' equity less (b) any intangible assets, as determined in accordance with generally accepted accounting principles in Canada); and
- ensure that, at all times, HCFI has sufficient liquidity and funds to meet its payment obligations under any Debt (with "Debt" for purposes of this discussion of the HMC-HCFI Agreement defined as HCFI's debt for borrowed money that HMC has confirmed in writing is covered by the HMC-HCFI Agreement) in accordance with the terms of such Debt, or where necessary, HMC will make available to HCFI, or HMC will procure for HCFI, sufficient funds to enable HCFI to pay its Debt in accordance with its terms.

The HMC-HCFI Agreement is not a guarantee by HMC of any Debt or other obligation, indebtedness, or liability of any kind of HCFI.

The HMC-HCFI Agreement includes HCFI's agreement that it will use any funds made available to it by HMC thereunder solely for the purposes of fulfilling HCFI's payment obligations in respect of Debt. Any claims of HMC arising from any provisions of funds to HCFI by HMC shall be subordinated to the claims of all holders of Debt with respect to such Debt, whether or not such claims exist at the time such funds are made available to HCFI, and HMC will not demand payment of such claims from HCFI unless and until all outstanding Debt has been paid in full.

HMC or HCFI may each terminate the HMC-HCFI Agreement upon giving to the other party 30 days' prior written notice and the HMC-HCFI Agreement may be modified or amended only by the written agreement of HMC and HCFI and upon 30 days' prior written notice to each rating agency rating any covered Debt. However, such termination, modification, or amendment will not be effective with respect to any Debt outstanding at the time of such termination, modification, or amendment unless: (i) such termination, modification, or amendment is permitted under the documentation governing such Debt, (ii) all affected holders of such Debt (or, in the case of Debt incurred pursuant to documentation that permits the HMC-HCFI Agreement to be terminated, modified, or amended with the consent of less than all of the holders of such Debt, the requisite holders of such Debt) otherwise consent in writing, or (iii) with respect to Debt that is rated by one or more rating agencies at the request of HMC or HCFI, each such rating agency confirms in writing that the rating assigned to such Debt will not be withdrawn or reduced because of the proposed action.

An amendment, modification, or termination of the HMC-HCFI Agreement may constitute an event of default under certain of HCFI's Debt, subject to certain limited exceptions contained in the instruments governing such Debt. In addition, failure by HMC to meet its obligations under the HMC-HCFI Agreement would constitute an event of default under such Debt, but only if, in the case of certain of HCFI's Debt, such failure continued for 30 days and was continuing at the time the default was declared.

Under its terms, the HMC-HCFI Agreement is not enforceable against HMC by anyone other than: (i) HCFI or (ii) if any case is commenced under the Canadian Bankruptcy and Insolvency Act, the Canadian Companies' Creditors Arrangement Act, or the Canadian Winding Up and Restructuring Act by or against HCFI, the debtor in possession or trustee or receiver appointed by the court having jurisdiction over such proceeding. In the event of (1) a breach by HMC in performing a provision of the HMC-HCFI Agreement and (2) the insolvency of HCFI while any Debt is outstanding, the remedies of a holder of Debt shall include the right, if no proceeding in respect of HCFI has already been commenced in such proceeding, to file an application in respect of HCFI for the appointment of a trustee or receiver by the court having jurisdiction over such proceeding in order to pursue HCFI's rights under the HMC-HCFI Agreement against HMC. However, all holders of outstanding Debt may (i) demand in writing that HCFI enforce its rights under the HMC-HCFI Agreement and (ii) proceed directly against HMC to enforce compliance by HMC with its obligations under the HMC-HCFI Agreement if HCFI fails or refuses to take action to enforce its rights under that agreement within 30 days following HCFI's receipt of demand for such enforcement by such holder.

The HMC-HCFI Agreement is governed by and construed in accordance with the laws of the State of New York.

Incentive Financing Programs

AHM and HCI sponsor incentive financing programs in the United States and Canada, respectively. These programs offer promotional rates on loans and leases to purchasers, lessees, and dealers of Honda and Acura products. AHM or HCI, as applicable, pay us subsidies that enable us to realize a market yield on any financing contract we indirectly or directly finance under these programs. These subsidy payments supplement the revenues on our financing products offered under our incentive financing programs. See "*—Consumer Financing—Incentive Financing Programs for Retail Loans and Leases*" above for more information.

Related Party Debt

HCFI issues fixed rate short-term notes to HCI to fund HCFI's general corporate operations. See Note 4—Debt of *Notes to Consolidated Financial Statements* for further information regarding our related party debt.

Vehicle Service Contract Administration

Our Consumer Assurance Products and Service Group is responsible for the administration of vehicle service contracts issued by AHM, and wholly-owned subsidiaries of AHM, American Honda Protection Products Corporation (AHPPC) and American Honda Service Contracts Corporation (AHSCC). HCFI performs marketing services for vehicle service contracts issued by HCI. We receive fees to perform administrative and marketing services for AHM, AHPPC, AHSCC or HCI, as applicable.

A vehicle service contract is a contractual agreement between the dealer, manufacturer or an independent third party, and the dealer's customer. The contract provides for certain repairs, mechanical breakdown coverage, roadside assistance, and/or oil changes for the customer's new or used automobile. A vehicle service contract can be obtained on both Honda and Acura automobiles.

As the administrator, we approve claims and provide customer service to purchasers of vehicle service contracts. We do not provide the maintenance or roadside assistance provided by the vehicle service contracts.

Shared Services

Honda North America, Inc. (HNA), a wholly-owned subsidiary of HMC, provides services to Honda's North American operations. HNA provides us with information technology, legal, internal audit, and other services pursuant to a shared services agreement. HNA is paid a compensation fee for these services.

In Canada, we also share certain common expenditures with HCI, including professional services, data processing services, insurance, software development and facilities.

Benefit Plans

Our employees participate in various employee benefit plans that are sponsored by AHM and HCI, respectively. Refer to Note 8—Benefit Plans of *Notes to Consolidated Financial Statements* for additional information about employee benefit plans.

Income taxes

AHFC and its United States subsidiaries are included in the consolidated United States federal income tax returns of AHM and many consolidated or combined state and local income tax returns of AHM. In some cases, AHFC and its United States subsidiaries file tax returns separately as required by certain state and local jurisdictions. AHFC and its United States subsidiaries pay for their share of the consolidated or combined income tax on a modified separate return basis pursuant to an intercompany tax allocation agreement with AHM. AHFC and its applicable United States subsidiaries file a separate California return based on California's worldwide income and apportionment rules. To the extent AHFC and its United States subsidiaries have taxable losses in AHM's consolidated federal and consolidated or combined state and local tax returns, AHM reimburses AHFC and its United States subsidiaries, as applicable, to the extent the losses are utilized by AHM or another member of the consolidated or combined group under the terms of the intercompany tax allocation agreement. All but an insignificant amount of the federal and state taxes payable or receivable shown on the consolidated balance sheets are due to or from AHM, pursuant to the intercompany tax allocation agreement.

Our Canadian subsidiary, HCFI, files Canadian federal and provincial income tax returns based on separate legal entity financial statements. HCFI does not file federal, state or local income tax returns in the United States. Consequently, HCFI does not participate in the intercompany tax allocation agreement that AHFC and its United States subsidiaries have with AHM.

Refer to Note 7—Income Taxes of *Notes to Consolidated Financial Statements* for additional information about income taxes.

Repurchase Agreements

We have agreements with AHM and HCI that provide for their repurchase of new, unused, undamaged, and unregistered vehicles or equipment that have been repossessed from dealers who defaulted under the terms of its wholesale flooring agreement.

Seasonality

We are subject to seasonal variations in credit losses, which are historically higher in the first and fourth quarters of the calendar year. This seasonality does not have a significant impact on our results of operations. However, the COVID-19 pandemic may have an impact on consumer and dealer behaviors that result in changes in the seasonal fluctuations of our business.

Employee Relations

At March 31, 2020, we had 1,476 employees. We consider our employee relations to be satisfactory. We are not subject to any collective bargaining agreements with our employees.

Governmental Regulations

Our consumer financing and dealer financing operations are subject to regulation, supervision, and licensing under various United States, Canadian, state, provincial, and local statutes, ordinances and regulations. In recent years, regulators have increased their focus on the regulation of the financial services industry and consumer financing in particular. As a result, there have been and may continue to be proposals for laws and regulations that could increase the scope and nature of laws and regulations that are currently applicable to us. We actively monitor proposed changes to relevant legal and regulatory requirements in order to maintain our compliance. The cost of our ongoing compliance efforts in our consumer financing and dealer financing operations has not had a material adverse effect on our results of operations, cash flows, or financial condition to date, although future compliance efforts may have such an effect.

United States

Our consumer financing operations in the United States are regulated under both federal and state laws, including consumer protection statutes and related regulations. Management believes that AHFC is in compliance in all material respects, with the applicable federal and state laws, including consumer protection statutes and related regulations.

Federal Regulation

We are subject to extensive federal regulation, including the regulations discussed below. These laws, in part, require us to provide certain disclosures prior to and throughout the duration of consumer retail and lease financing transactions and prohibit certain credit and collection practices.

- The Truth in Lending Act and the Consumer Leasing Act place disclosure and substantive transaction restrictions on consumer credit and leasing transactions.
- The Equal Credit Opportunity Act is designed to prevent discrimination based on certain protected classes in any aspect of a credit transaction, requires the distribution of specified credit decision notices and limits the information that may be requested and considered in a credit transaction.
- 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, credit decision notices, the accuracy and integrity of information reported to the credit reporting agencies, consumer dispute handling procedures, and identity theft prevention requirements.
- The Gramm-Leach-Bliley Act requires certain communications periodically with consumers on privacy matters, restricts the disclosure of nonpublic personal information about consumers by financial institutions and prohibits the sharing of account number information for certain marketing purposes.
- The Servicemembers Civil Relief Act provides special protection to certain customers in military service and is designed to protect military personnel from personal hardship or loss resulting from financial obligations while in service.
- The Right to Financial Privacy Act restricts the disclosure of customers' financial records to federal government agencies.
- The Telephone Consumer Protection Act governs communication methods that may be used to contact consumers and among other things, prohibits the use of automated dialers to call cellular telephones without consent of the consumer.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which was enacted in 2010, has broad implications for the financial services industries, including automotive financing, securitizations and derivatives, and requires the development, adoption, and implementation of many regulations which will impact the offering, marketing, and regulation of consumer financial products and services offered by financial institutions. Agencies have issued rules establishing a comprehensive framework for the regulation of derivatives, providing for the regulation of non-bank financial institutions that pose systemic risk, and requiring sponsors of asset-backed securities to retain an ownership stake in securitization transactions. Although we have analyzed these and other rulemakings, the absence of final rules in some cases and the complexity of some of the proposed rules make it difficult for us to estimate the financial, compliance and operational impacts.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB), which has broad rule-making, examination and enforcement authority with respect to the laws and regulations that apply to consumer financial products and services. The CFPB has supervisory, examination and enforcement authority over certain non-depository institutions, including those entities that are large participants of a market for consumer financial products or services, as defined by rule. We are subject to the CFPB's supervisory authority with respect to our compliance with applicable consumer protection laws.

State Regulation

We are also subject to laws and regulations that vary among the states. A majority of states have enacted legislation establishing licensing requirements to conduct consumer-financing activities. We are also periodically subject to state audits and inquiries, which monitor our compliance with consumer and other regulations.

State rules and regulations generally include requirements as to the form and content of finance contracts and limitations on the maximum rate of consumer finance charges, including interest rate. In periods of high interest rates, interest rate limitations could have an adverse effect on our operations if we are unable to pass on our increased costs to our customers or dealers. State rules and regulations also restrict collection practices and creditor's rights regarding our consumer accounts.

Canada

The consumer financing and dealer financing operations of HCFI are regulated under both Canadian federal and provincial law. Management believes that HCFI is in compliance in all material respects with the applicable statutes and regulations of the federal government of Canada, its jurisdiction of incorporation, as well as applicable provincial statutes and regulations.

Item 1A. Risk Factors

We are exposed to certain risks and uncertainties that could have a material adverse effect on our business, results of operations, cash flows, financial condition, or on our ability to service our indebtedness. There may be additional risks and uncertainties (either currently unknown or not currently believed to be material) that could have a material adverse effect on our business, results of operations, cash flows, financial condition, or on our ability to service our indebtedness.

Risks Relating To Our Business

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations, cash flows and financial condition.

The ongoing global COVID-19 pandemic could materially adversely affect our business, results of operations, cash flows and financial condition. For instance, the COVID-19 pandemic and the actions taken to slow its spread, including quarantines, government-mandated actions, stay-at-home orders and other restrictions, have impacted and may continue to impact our workforce and have resulted in and may continue to result in the temporary closure of the sales operations of a number of Honda and Acura dealerships. A large portion of our workforce is temporarily working remotely. This may negatively affect our business, particularly if our infrastructure and information technology systems are not capable of supporting our remote work force or otherwise experience business interruptions or failed processes or if most of our workforce transitions to working from home.

The COVID-19 pandemic and the related restrictions have also adversely affected the business of our parent, AHM, and our ultimate parent, HMC, in a number of ways, including the temporary suspension of production at all plants in North America, which continued through the start of May, and selected plants in countries outside of North America. There is a possibility of additional suspensions of production depending on whether there is a resurgence of COVID-19 in a given area. Disruption in the supply chain of the vehicles we finance may contribute to a significant decline in the sale of Honda and Acura products and our financing of those products. In addition, disruptions in the sales operations of dealerships and declines in consumer demand have and may continue to negatively impact the sale of Honda and Acura products.

The COVID-19 pandemic and the related restrictions have also caused an economic slowdown, an increase in unemployment claims, and have resulted and are expected to continue to result in decreased consumer spending. We expect these events will result in higher consumer delinquencies and defaults, lower used vehicle prices, or cause other unpredictable and adverse effects, including adversely affecting the financial condition of dealers. Similar to relief options we have previously offered to customers and dealers impacted by natural disasters, we are currently offering payment relief options to those customers and dealers impacted by COVID-19, including payment deferrals, contract extensions, waiver of late charges, interest deferments for dealer floorplans, and interest only payments for dealer commercial loans. Unlike the relief options we have historically offered for natural disasters, which were limited to the affected geographies, the foregoing relief is currently being offered through the end of June 2020 across the United States and Canada due to the widespread impact of the COVID-19 pandemic. These relief options may not be sufficient to avoid defaults for many of our customers. Charge-offs of retail loans and realized losses on early terminations of operating leases are expected to increase significantly. In addition, sustained declines in used vehicle prices may result in significant increases in depreciation expense over the remaining lease term and, depending on the severity of the decline, potential impairment charges on our operating leases.

The COVID-19 pandemic has also led to disruption and volatility in the global capital markets, which has increased and may continue to increase our cost of capital and has adversely affected and may continue to adversely affect our ability to access the capital markets. In addition, the foregoing events and the uncertainty relating thereto have adversely affected our short-term and long-term credit ratings and may continue to further adversely affect our ratings. For example, on March 27, 2020, Moody's Investors Service downgraded our short-term and long-term issuer ratings to P-2 and A3, respectively, and placed those ratings under review for further downgrade. On June 8, 2020, Moody's Investors Service confirmed our issuer ratings and changed its outlook to negative from rating under review. Additionally, on May 20, 2020, S&P Global Ratings downgraded our short-term and long-term issuer ratings to A-2 and A- respectively, with negative outlook. With the S&P Global Ratings downgrade to our short-term issuer rating, we have lost our Tier-1 commercial paper issuer status, which has increased our costs in the commercial paper markets. Additionally, further downgrades or placement on review for possible downgrades of our long-term unsecured ratings could also result in an increase in our borrowing costs as well as reduced access to global debt capital markets.

The duration and potential resurgence of the COVID-19 pandemic is uncertain, and the extent to which the COVID-19 outbreak adversely impacts our business, results of operations, cash flows and financial condition will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the related actions taken to contain its impact. While we do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole, the effects could have a material adverse effect on our business, financial condition, results of operations, and cash flows, including further increases in our allowance and provision for credit losses and early termination losses on operating leases. Moreover, many risk factors set forth in this Annual Report on Form 10-K should be interpreted as heightened risks as a result of the impact of the COVID-19 pandemic.

Our results of operations, cash flows, and financial condition are substantially dependent upon HMC and the sale of Honda and Acura products and any decline in the financial condition of HMC or the sales of Honda and Acura products could have a materially adverse impact on our financial condition, cash flows, and results of operations.

Our results of operations, cash flows, and financial condition are substantially dependent upon the sale of Honda and Acura products in the United States and Canada. Any prolonged reduction or suspension of HMC's production or sales of Honda or Acura products in the United States or Canada resulting from a decline in demand, a change in consumer preferences, a decline in the actual or perceived quality, safety, or reliability of Honda and Acura products, a reduction of incentive financing programs, volatility in fuel prices, sustained economic stagnation or the occurrence of a recession, a financial crisis, a work stoppage, governmental action, including a change in regulation, trade policies, adverse publicity, a recall, a war, a use of force by foreign countries, a terrorist attack, a multinational conflict, a natural disaster, a pandemic, or similar events could have a substantially unfavorable effect on us.

The production and sale of HMC's products will depend significantly on HMC's ability to continue its capital expenditure and product development programs and to market its vehicles successfully. This ability is subject to several risks, including:

- any prolonged reduction or suspension of production or sales as discussed above;
- rapid changes in HMC's industry, including advancement of technology and the introduction of new types of competitors who may possess various innovations;
- discovery of defects in vehicles which could lead to recall campaigns and suspended sales;
- volatility in the price of automobiles, motorcycles, power equipment and marine products;
- currency and interest rate fluctuation affecting pricing of products sold and materials purchased and any derivative financial instruments used to hedge against these risks;
- extensive environmental and government regulation of the automotive, motorcycle, and power product industries;
- the inability to protect and preserve its valuable intellectual property;
- legal proceedings, which could adversely affect business, financial condition, cash flows, or results of operations;
- reliance on external suppliers for the provision of raw materials and parts used in the manufacturing of its products;
- increased costs from conducting business worldwide;
- inadvertent disclosures of confidential information despite internal controls and procedures; and
- pension costs and benefit obligations.

Additionally, our credit ratings depend, in large part, on the existence of the Keep Well Agreements with HMC and on the financial condition and results of operations of HMC. If these arrangements (or replacement arrangements acceptable to the rating agencies, if any) become unavailable to us, or if a credit rating of HMC is lowered, our credit ratings will also likely be adversely impacted, leading to higher borrowing costs.

Because our operations are heavily dependent on retail sales of motor vehicles and other retail products, a decline in general business and economic conditions can have a significant adverse impact on our results of operations, cash flows, and financial condition.

Because our operations are heavily dependent on retail sales of motor vehicles and other retail products, general business and economic conditions have a significant impact on our operations. In particular, changes in the following events can adversely affect our results of operations, cash flows, and financial condition:

- changes in the United States or Canadian economies;
- changes in the overall market for consumer financing or dealer financing;
- changes in consumer trends and preferences within the automotive industry
- changes in the United States and Canadian regulatory environment;
- a decline or slowdown in the new or used vehicle market;
- increased fuel prices;
- inflation; and
- the fiscal and monetary policies in the countries in which we issue debt.

Elevated levels of market disruption and volatility could adversely affect our ability to access the global capital markets in a similar manner and at a similar cost as we have had in the past. These market conditions could also have an adverse effect on our results of operations, cash flows, and financial condition by diminishing the value of financial assets. If, as a result, we increase the rates we charge to our customers and dealers, our competitive position could be negatively affected.

Additionally, the United States and Canada have experienced periods of economic slowdown and recession. These periods have been accompanied by decreases in consumer demand for automobiles and other products. High unemployment, decreases in home values, and lack of availability of credit may lead to increased default rates. Significant increases in the inventory of used automobiles during periods of economic recession may also depress the prices at which returned or repossessed automobiles may be sold or delay the timing of these sales. Dealers may also be affected by an economic slowdown or recession, which in turn may increase the risk of default of certain dealers within our wholesale flooring and commercial financing portfolios.

Fluctuations in interest rates could have an adverse impact on our results of operations, cash flows, and financial condition.

Our results of operations, cash flows, and financial condition could be adversely affected during any period of changing interest rates, possibly to a material degree. Interest rate risks arise from the mismatch between assets and the related liabilities used for funding. We provide consumer financing, dealer financing, incentive financing, originations and servicing, all of which are exposed, in varying degrees, to changes in value due to movements in interest rates. Furthermore, an increase in interest rates could increase our costs of providing dealer and consumer financing originations, which could, in turn, adversely affect our financing volumes because financing can be less attractive to our dealers and customers and qualifying for financing may be more difficult.

We monitor the interest rate environment and enter into various financial instruments, including interest rate and basis swaps, to manage our exposure to the risk of interest rate fluctuations. However, our hedging strategies may not fully mitigate the impact of changes in interest rates. Further, these instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. For example, in July 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. At this time, it is unclear if new methods of calculating LIBOR will be established or if a new alternative reference rate will replace LIBOR. The potential impact of changes to LIBOR or a possible new alternative reference rate is unknown and could adversely affect the market valuation of LIBOR-linked securities, loans and other financial obligations, the interest rates on our current or future cost of funds and/or access to capital markets. See “—*The failure or commercial soundness of our counterparties and other financial institutions may have an adverse effect on our results of operations, cash flows, or financial condition*” below.

Our results of operations, cash flows, and financial condition may be adversely affected because of currency risk.

Currency risk or exchange rate risk refers to potential changes of value of financial assets, including Canadian dollar denominated finance receivables, foreign currency denominated debt or derivatives used to manage exposure of foreign currency denominated debt in response to fluctuations in exchange rates of various currencies. Changes in exchange rates can have adverse effects on our results of operations, cash flows, and financial condition.

We monitor the exchange rate environment and enter into various financial instruments, including currency swap agreements, to manage our exposure to the risk of exchange rate fluctuations. However, our hedging strategies may not fully mitigate the impact of changes in exchange rates. Further, these instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. See “—*The failure or commercial soundness of our counterparties and other financial institutions may have an adverse effect on our results of operations, cash flows, or financial condition*” below.

We need substantial capital to finance our operations and a disruption in our funding sources and access to the capital markets would have an adverse effect on our results of operations, cash flows, and financial condition.

We depend on a significant amount of capital funding to operate our business. Our business strategies utilize diverse sources to fund our operations, including the issuance of commercial paper, medium term notes, asset-backed securities, bank loans and borrowings from AHM and HCI, as applicable.

The availability of these financing sources at the prices we desire may depend on factors outside of our control, including our credit ratings, disruptions to the capital markets, the fiscal and monetary policies of government, government regulations and industry standards. In the event that we are unable to raise the funds we require at reasonable rates, we may curtail our various loan originations or incur the effects of increased costs of operation. Reducing loan originations or increasing the rates we charge consumers and dealers may adversely affect our ability to remain a preferred source of financing for consumers and dealers for Honda and Acura products and will have an adverse effect on our results of operations, cash flows, and financial condition. See “—*Fluctuations in interest rates could have an adverse impact on our results of operations, cash flows, and financial condition*” above.

Our borrowing costs and access to the debt capital markets depend significantly on our credit ratings, the credit ratings of HMC and the Keep Well Agreements.

The cost and availability 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 Keep Well Agreements with HMC and on the financial condition and results of operations of HMC. If these arrangements (or replacement arrangements acceptable to the rating agencies, if any) become unavailable to us, or if a credit rating of HMC is lowered, our credit ratings will also likely be adversely impacted, leading to higher borrowing costs.

Credit rating agencies that rate the credit of HMC and its affiliates, including AHFC, may qualify, alter, or terminate their ratings at any time. For example, Moody's Investors Service downgraded the credit rating of Honda Motor Co., Ltd. on March 26, 2020, and downgraded our credit ratings on March 27, 2020. Additionally, S&P Global Ratings downgraded the credit rating of Honda Motor Co., Ltd. and its subsidiaries, including us, on May 20, 2020. See above under "*The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations, cash flows and financial condition.*" for additional information. Global economic conditions and other geopolitical factors may directly or indirectly affect such ratings. Any downgrade in the sovereign credit ratings of the United States, Japan, or Canada may directly or indirectly have a negative effect on the ratings of HMC and AHFC. Downgrades, the change to a negative outlook, or placement on review for possible downgrades of such ratings have resulted and could continue to result in an increase in our borrowing costs and could reduce our access to global debt capital markets. These factors would have a negative impact on our business, including our competitive position, results of operations, cash flows and financial condition.

We are subject to consumer and dealer credit risk, which could adversely impact our results of operations, cash flows, and financial condition.

Credit risk is the risk of loss arising from the failure of a consumer or dealer to meet the terms of any contract with us or otherwise fail to perform as agreed. Credit losses are an expected cost of extending credit. The majority of our credit risk is with consumer financing, and to a lesser extent, with dealer financing. Our level of credit risk on our consumer financing portfolios is influenced primarily by two factors: the total number of contracts that default, and the amount of loss per occurrence, net of recoveries, which in turn are influenced by various factors, such as the used vehicle market, our purchase quality mix, contract term lengths, operational changes, and certain economic factors such as unemployment, levels of consumer debt service burden and personal income growth rates. Our level of credit risk on our dealer-financing portfolio is influenced primarily by the financial strength of dealers within the portfolio, the concentration of dealers demonstrating financial strength, the quality of the collateral securing the financing within the portfolio and economic factors. An increase in credit risk would increase our provision for credit losses and early termination losses on operating lease assets, which would have a negative impact on our results of operations, cash flows, and financial condition.

We manage credit risk by managing the credit quality of our consumer financing and dealer financing portfolios, pricing contracts for expected losses and focusing collection efforts to minimize losses. However, our monitoring of credit risk and our efforts to mitigate credit risk may not be sufficient to prevent a material adverse effect on our results of operations, cash flows, and financial condition.

We are exposed to residual value risk on the vehicles we lease.

Customers of leased vehicles typically have an option to return the vehicle to the dealer at the end of the lease term or to buy the vehicle for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market based price. Returned lease vehicles that are not purchased by the grounding dealer are sold through online and physical auctions. Residual value risk is the risk that the contractual residual value determined at lease inception will not be recoverable at the end of the lease term. When the market value of a leased vehicle at contract maturity is less than its contractual residual value, there is a higher probability that the vehicle will be returned to us. As a result, we are exposed to risk of loss on the disposition of leased vehicles to the extent that sales proceeds are not sufficient to cover the carrying value of the leased asset at termination. Among the factors that can affect the value of returned lease vehicles are the volume of vehicles returned, adverse economic conditions, preferences for particular types of vehicles, new vehicle pricing, new vehicle incentive financing programs, new vehicle sales, the actual or perceived quality, safety, or reliability of vehicles, recalls, future plans for new Honda and Acura product introductions, competitor actions and behavior, product attributes of popular vehicles, the mix of used vehicle supply, the level of current used vehicle values, and fuel prices. See “—*We are subject to consumer and dealer credit risk, which could adversely impact our results of operations, cash flows, and financial condition*” above.

Our leasing volumes and those of the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years, which could negatively affect used vehicle prices. Our results of operations, cash flows, and financial condition could be adversely affected by declines in the value of returned lease vehicles.

We are required to apply significant judgments and assumptions in the preparation of our financial statements, and actual results may vary from those assumed in our judgments and assumptions.

Certain of our accounting policies require the application of our most difficult, subjective, or complex judgments, often requiring us to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period would have had a material impact on the presentation of our financial condition and results of operations.

We maintain an allowance for credit losses for management’s estimate of probable losses incurred on our finance receivables. We also maintain an estimate for early termination losses on operating lease assets due to lessee defaults and an allowance for credit losses on past due operating lease rental payments. Our allowance for credit losses and early termination losses on operating leases requires significant judgment about inherently uncertain factors. Actual losses may differ from the original estimates due to actual results varying from those assumed in our estimates, which may have a negative impact on our results of operations, cash flows and financial condition. Refer to “*Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Credit Losses*” for additional information regarding our estimates.

We maintain projections for expected residual values and return volumes of the vehicles we lease. Actual proceeds realized by us upon sales of returned leased vehicles at lease termination might be lower than the projected amount, which would reduce the profitability of the lease transaction and could have the potential to adversely affect our gain or loss on the disposition of lease vehicles and our results of operations, cash flows and financial condition. Refer to “*Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Determination of Lease Residual Values*” for additional information regarding our estimates.

The failure or commercial soundness of our counterparties and other financial institutions may have an adverse effect on our results of operations, cash flows, 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 creditworthiness, actions, and commercial soundness of these financial institutions. Deterioration of social, political, labor, or economic conditions along with increased regulation 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 because 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 institution and other counterparty to which we have exposure, directly or indirectly, to perform their contractual obligations, and any losses resulting from that failure, could have a material adverse effect on our results of operations, cash flows, or financial condition.

If we are unable to compete successfully or if competition continues to increase in the businesses in which we operate, our results of operations, cash flows, and financial condition could be materially and adversely affected.

The finance industries in the United States and Canada are highly competitive. We compete with national and regional commercial banks, credit unions, savings and loan associations, finance companies, and other captive finance companies that provide consumer financing for new and used Honda and Acura products. Additionally, Canadian commercial banks are strong competitors in the automobile consumer financing markets. Commercial banks, finance companies, and captive finance companies of other manufacturers also provide wholesale flooring financing for Honda and Acura dealers. Our primary competition in the wholesale motorcycle, power equipment, and marine engine financing business tends to be local banks and specialty finance firms that are familiar with the particular characteristics of these businesses. Changes in the financial services industry resulting from technological innovations and changes in consumer preferences in how they seek financing may also result in increased competition. Our ability to maintain and expand our market share is contingent upon, among other things, us offering competitive pricing, the quality of credit accepted, the flexibility of loan terms offered, the quality of service provided to dealers and customers and strong dealer relationships. Our inability to compete successfully, as well as increases in competitive pressures, could have an adverse impact on our contract volume, market share, revenues, and margins and have a material adverse effect on us.

Our results of operations may be adversely affected by the rate of prepayment of our financing and leasing contracts.

Our financing and leasing contracts may be repaid by borrowers at any time at their option. Early repayment of contracts will limit the amount of earnings we would have otherwise generated under those contracts and we may not be able to reinvest the portions repaid early immediately into new loans and new leases or loans and leases with similar pricing.

Changes in laws and regulations, or the application thereof, may adversely affect our business, results of operations, cash flows, and financial condition.

Our operations are subject to regulation, supervision, and licensing under various United States, Canadian, state, provincial, and local statutes, ordinances, and regulations. A failure to comply with applicable regulatory, supervisory, or licensing requirements may adversely affect our business, results of operations, cash flows, and financial condition. Due to events in the global financial markets, regulators have increased their focus on the regulation of the financial services industry. As a result, there have been and may continue to be proposals for laws and regulations that could increase the scope and nature of laws and regulations that are currently applicable to us. Any change in such laws and regulations, whether in the form of new or amended laws or regulations, regulatory policies, supervisory action, or the application of any of the above, may adversely affect our business, results of operations, cash flows, and financial condition by increasing our costs to comply with the new laws, prohibiting or limiting the amount of certain revenues we currently receive, or constraining certain collection or collateral recovery action which are currently available to us. See “—*The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations, cash flows and financial condition*” above.

Financial or consumer regulations may adversely affect our business, results of operations, cash flows and financial condition.

The Dodd-Frank Act is extensive and significant legislation that, among other things:

- created a liquidation framework for purposes of liquidating certain bank holding companies or other nonbank financial companies determined to be “covered financial companies,” and certain of their respective subsidiaries, defined as “covered subsidiaries,” if, among other conditions, it is determined such a company is in default or in danger of default and the resolution of such a company under other applicable law would have serious adverse effects on financial stability in the United States;
- created the CFPB, an agency with broad rule-making examination and enforcement authority with respect to the laws and regulations that apply to consumer financial products and services, such as the extension of credit to finance the purchase of automobiles and motorcycles;
- created a new framework for the regulation of over-the-counter derivatives activities; and
- strengthened the regulatory oversight of securities and capital markets activities by the SEC.

The scope of the Dodd-Frank Act has broad implications for the financial services industry, including us, and requires the implementation of numerous rules and regulations. The Dodd-Frank Act affects the offering, marketing, and regulation of consumer financial products and services offered by financial institutions. The potential impact of the Dodd-Frank Act and its rules and regulations may include supervision and examination, limitations on our ability to expand product and service offerings and new or modified disclosure requirements.

The CFPB has supervisory, examination and enforcement authority over certain non-depository institutions, including those entities that are larger participants of a market for consumer financial products or services, as defined by rule. We are subject to the CFPB’s supervisory authority with respect to our compliance with applicable consumer protection laws. For example, in July 2015 we reached a settlement with the CFPB and the U.S. Department of Justice and entered into consent orders related to their investigation of, and allegations regarding pricing practices by dealers originating automobile retail installment sales contracts that we purchased. As a part of the consent orders, we implemented a new dealer compensation policy and agreed to maintain general compliance management systems reasonably designed to assure compliance with all relevant federal consumer financial laws. Over the past few years, the CFPB has become active in investigating the products, services and operations of credit providers. The CFPB’s investigations of, and initiation of enforcement actions against, credit providers, whether on its own initiative or jointly with other agencies and regulators, may continue for the foreseeable future.

We are also subject to state laws and regulations that vary among the states. A majority of states have enacted legislation establishing licensing requirements to conduct consumer-financing activities. We are also periodically subject to state audits and inquiries, which monitor our compliance with consumer and other regulations. We expect state regulators to continue their supervision and regulation of financial products and services within their jurisdictions.

Compliance with the regulations under the Dodd-Frank Act or the oversight of the SEC, CFPB, state regulators or other governmental entities and enforcement actions, if any, may impose costs on, create operational constraints for, or place limits on pricing with respect to, finance companies such as us. Such compliance and enforcement actions may result in monetary penalties, increase our compliance costs, require changes in our business practices, affect our competitiveness, reduce our profitability, affect our reputation, or otherwise adversely affect our business.

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

We are exposed to geographic concentration risk in our consumer financing operations. Factors adversely affecting the economy and applicable laws in various states or provinces where we have concentration risk, such as California and New York, could have an adverse effect on our results of operations, cash flows, and financial condition.

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, inadequate or failed processes, systems or internal controls, theft, fraud, cybersecurity breaches, or natural disasters. Operational risk can occur in many forms including, but not limited to, errors, business interruptions, failure of controls, 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. These events can potentially result in financial losses, regulatory inquiries or other damage to us, including damage to our reputation.

We rely on internal and external information technology systems to help us manage and maintain our operations and are exposed to risk of loss resulting from breaches in the security or other failures of these systems. Any failure, upgrade, replacement or interruption of these systems could disrupt our normal operating procedures and have an adverse effect on our results of operations, cash flows, and financial condition.

We also 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 us.

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

A security breach or cyber attack of our systems could interrupt, damage or harm our operations or result in the slow performance or unavailability of our information systems for some customers. We collect, analyze and retain certain types of personally identifiable and other information pertaining to our customers and employees through internal and third party information technology systems. We also store confidential business, employee and technical information. A security breach or cyber attack of these systems, including those caused by physical or electronic break-ins, computer virus, malware, attacks by hackers or foreign governments, disruptions from authorized access and tampering (including through social engineering such as phishing attacks) and similar breaches, could expose us to a risk of loss of this information, regulatory scrutiny, claims for damages, penalties, litigation, reputational harm, and a loss of confidence that could potentially have an adverse impact on current and future business with current and potential customers. Information security risks have increased recently 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 organized crime, perpetrators of fraud, hackers, terrorists, and others. In some cases, it may be difficult to anticipate or immediately detect security breaches and the damage they cause. We monitor and review our security systems and by using a Total Quality Management methodology, we update the posture of these systems based on the current threat environment.

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. It is also possible that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. The occurrence of any of these events could have a material adverse effect on our business. For example, in June 2020, HMC and its subsidiaries, including AHFC and HCFI, experienced a cyber-attack. As a result, certain business operations were temporarily suspended but have since resumed. HMC and affected subsidiaries are continuing to investigate, including the identity of the attackers and the method by which they gained access. As of the date of this report, no damages to customers or other third parties, such as leaks of information, have been confirmed. While countermeasures have been taken to minimize the impacts of the attack and prevent similar or additional attacks, because the investigation has not been completed yet, there may be undetected impacts of the attack, and the countermeasures may not be sufficient to prevent similar or additional attacks.

We are subject to various privacy, data protection and information security laws, including requirements concerning security breach notification. Compliance with current and future privacy, data protection and information security laws affecting customer or employee data to which we are subject could result in higher compliance and technology costs. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions, damage to our reputation and could materially and adversely affect our profitability.

Our defined benefit plan costs and those of AHM and HCI may affect our financial condition, cash flows, and results of operations.

Our employees may participate in either AHM's or HCI's defined benefit plans. HMC also has a defined benefit plan but a great majority of our employees do not participate in that plan. The amount of pension benefits and lump-sum payments provided in those plans are primarily based on the combination of years of service and compensation. AHM and HCI each determine and make periodic contributions to their respective defined benefit plans pursuant to applicable regulations and we are allocated our share of pension plan costs due to the participation of our employees. Since benefit obligations and pension costs are based on many assumptions, including, but not limited to, participant mortality, discount rate, rate of salary increase, expected long-term rate of return on plan assets, differences in actual expenses and costs or changes in those assumptions could affect AHM's, HCI's, and our cash contributions and liquidity. Under the Employee Retirement Income Security Act of 1974 (ERISA), we are jointly and severally liable for the obligations under AHM's plans that are subject to ERISA, even for participants in the plans that are not our employees.

Vehicle recalls and other announcements may impact our business

From time to time, AHM and/or HCI may recall, suspend sales and production of, or initiate market actions on certain Honda or Acura products to address performance, customer satisfaction, compliance or safety-related issues. Because our business is substantially dependent upon the sale of Honda and Acura products such actions may negatively impact our business. A decrease in the level of vehicle sales would negatively impact our financing volume. Additionally, recalls may affect the demand for used recalled vehicles, or impact our timely disposal of repossessed and returned lease vehicles, which may affect the sales proceeds of those vehicles. For example, during fiscal years 2016 and 2017, we experienced delays in the disposition of returned lease vehicles due to a recall of certain Honda and Acura vehicles. The delays in disposition resulted in the recognition of impairment losses, additional depreciation expense, and lower gains on the disposition of lease vehicles due to the negative impact on the sales proceeds of the affected vehicles.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are located in Torrance, California. Our United States operations have regional offices and national servicing centers located in California, Georgia, Texas, Massachusetts, Illinois, North Carolina, and Delaware. HCFI's headquarters are located in Markham, Ontario, Canada and our Canadian operations have regional offices and national servicing centers located in Quebec and Ontario. All premises are occupied pursuant to lease agreements.

We believe that our properties are suitable to meet the requirements of our business.

Item 3. Legal Proceedings

For information on our legal proceedings, see Note 9—Commitments and Contingencies—Legal Proceedings and Regulatory Matters of *Notes to Consolidated Financial Statements*, which is incorporated by reference herein.

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

All of the outstanding common stock of AHFC is owned by AHM. Accordingly, shares of our common stock are not listed on any national securities exchange, there is no established public trading market for AHFC’s common stock, and there is no intention to create a public market or list the common stock on any securities exchange. As of the date of this annual report, there are no shares of AHFC common stock that are subject to outstanding options or warrants to purchase, or securities convertible into AHFC common stock. No shares of AHFC common stock can be sold pursuant to Rule 144 under the Securities Act of 1933, as amended.

Dividends are declared and paid by AHFC if, when, and as determined by its Board of Directors. AHFC declared and paid semi-annual cash dividends to its parent, AHM, of \$292 million and \$313 million during the fiscal year ended March 31, 2020 and \$235 million and \$271 million during the fiscal year ended March 31, 2019.

Item 6. Selected Financial Data

The following information is a historical summary only and should be read in conjunction with, and is qualified in its entirety by reference to, the information contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation” and our consolidated financial statements and related notes included elsewhere in this annual report.

We derived the consolidated balance sheet data as of March 31, 2020 and 2019 and the consolidated statements of income data for the fiscal years ended March 31, 2020, 2019 and 2018 from our audited consolidated financial statements included elsewhere in this annual report. We derived the consolidated balance sheet data as of March 31, 2018 from our audited consolidated financial statements that are not included in this annual report. Our historical results are not necessarily indicative of the results to be expected in any future period.

	Years ended March 31,		
	2020	2019	2018
(U.S. dollars in millions)			
Consolidated Statement of Income Data			
Revenues:			
Retail loans	\$ 1,737	\$ 1,614	\$ 1,382
Dealer loans	222	232	175
Operating leases	7,749	7,253	6,890
Total revenues	9,708	9,099	8,447
Leased vehicle expenses ⁽¹⁾	5,693	5,389	5,391
Interest expense	1,241	1,190	897
Net revenues	2,774	2,520	2,159
Other income	88	71	56
Total net revenues	2,862	2,591	2,215
Expenses:			
General and administrative expenses	498	456	439
Provision for credit losses	402	249	244
Impairment loss on operating leases	—	14	—
Early termination loss on operating leases	331	101	108
(Gain)/Loss on derivative instruments	305	509	(550)
(Gain)/Loss on foreign currency revaluation of debt	(107)	(407)	494
Total expenses	1,429	922	735
Income before income taxes	1,433	1,669	1,480
Income tax expense/(benefit) ⁽²⁾	424	428	(2,629)
Net income	1,009	1,241	4,109
Less: Net income attributable to noncontrolling interest	97	96	100
Net income attributable to American Honda Finance Corporation	\$ 912	\$ 1,145	\$ 4,009

March 31,		
2020	2019	2018

(U.S. dollars in millions)

Consolidated Balance Sheet Data

Finance receivables, net ⁽³⁾ :			
Retail loans	\$ 34,318	\$ 34,790	\$ 32,640
Dealer loans	5,606	5,835	5,495
Allowance for credit losses	(370)	(201)	(179)
Total finance receivables, net	<u>\$ 39,554</u>	<u>\$ 40,424</u>	<u>\$ 37,956</u>
Investment in operating leases, net	\$ 33,843	\$ 32,606	\$ 31,817
Total assets	\$ 77,256	\$ 75,964	\$ 72,626
Debt:			
Commercial paper	\$ 5,490	\$ 5,755	\$ 5,167
Related party debt	533	749	1,085
Bank loans	4,938	4,962	5,419
Medium term note programs	26,157	25,984	24,207
Other debt	3,266	3,514	3,250
Secured debt	9,748	8,790	8,733
Total debt	<u>\$ 50,132</u>	<u>\$ 49,754</u>	<u>\$ 47,861</u>
Total shareholder's equity ⁽⁴⁾	\$ 16,586	\$ 16,336	\$ 15,730

As of or for the years ended March 31,

	2020	2019	2018
Other Key Consolidated Financial Data			
Ratio of debt to shareholder's equity	3.02x	3.05x	3.04x

- (1) The change in presentation of lessor costs resulting from lessor accounting changes that were adopted on April 1, 2019 contributed to the increase in leased vehicle expenses in the fiscal year ended March 31, 2020. For additional information regarding leases, see Note 1—Summary of Business and Significant Accounting Policies of *Notes to Consolidated Financial Statements*.
- (2) The enactment of the Tax Cuts and Jobs Act on December 22, 2017 resulted in income tax benefit recognized for fiscal year ended March 31, 2018.
- (3) Net of unearned interest, fees and subsidy income, and deferred origination costs.
- (4) Excludes noncontrolling interest in subsidiary.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our primary focus, in collaboration with AHM and HCI, is to provide support for the sale of Honda and Acura products and maintain customer and dealer satisfaction and loyalty. To deliver this support effectively, we seek to maintain competitive cost of funds, efficient operations, and effective risk and compliance management. The primary factors influencing our results of operations, cash flows, and financial condition include the volume of Honda and Acura sales and the portion of those sales that we finance, our cost of funds, competition from other financial institutions, consumer credit defaults, and used motor vehicle prices.

A substantial portion of our consumer financing business is acquired through incentive financing programs sponsored by AHM and HCI. The volume of these incentive financing programs and the allocation of those programs between retail loans and leases may vary from fiscal period to fiscal period depending upon the respective marketing strategies of AHM and HCI. AHM and HCI’s marketing strategies are based in part on their business planning and control, in which we do not participate. Therefore, we cannot predict the level of incentive financing programs AHM and HCI may sponsor in the future. Our consumer financing acquisition volumes are substantially dependent on the extent to which incentive financing programs are offered. Increases in incentive financing programs generally increase our financing penetration rates, which typically results in increased financing acquisition volumes for us. The amount of subsidy payments we receive from AHM and HCI is dependent on the terms of the incentive financing programs and the interest rate environment. Subsidy payments are received upon acquisition and recognized in revenue throughout the life of the loan or lease; therefore, a significant change in the level of incentive financing programs in a fiscal period typically only has a limited impact on our results of operations for that period. The amount of subsidy income we recognize in a fiscal period is dependent on the cumulative level of subsidized contracts outstanding that were acquired through incentive financing programs.

We seek to maintain high quality consumer and dealer account portfolios, which we support with strong underwriting standards, risk-based pricing, and effective collection practices. Our cost of funds is facilitated by the diversity of our funding sources, and effective interest rate and foreign currency exchange risk management. We manage expenses to support our profitability, including adjusting staffing needs based upon our business volumes and centralizing certain functions. Additionally, we use risk and compliance management practices to optimize credit and residual value risk levels and maintain compliance with our pricing, underwriting and servicing policies at the United States, Canadian, state and provincial levels.

In our business operations, we incur costs related to funding, credit loss, residual value loss, and general and administrative expenses, among other expenses.

We analyze our operations in two business segments defined by geography: the United States and Canada. We measure the performance of our United States and Canada segments on a pre-tax basis before the effect of valuation adjustments on derivative instruments and revaluations of foreign currency denominated debt. For additional information regarding our segments, see Note 15—Segment Information of *Notes to Consolidated Financial Statements*. The following tables and the related discussion are presented based on our geographically segmented consolidated financial statements.

References in this report to our "fiscal year 2021", "fiscal year 2020" and "fiscal year 2019" refer to our fiscal year ending March 31, 2021, fiscal year ended March 31, 2020 and fiscal year ended March 31, 2019, respectively.

COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a global pandemic. Extraordinary governmental measures were enacted in efforts to slow down and control the spread of COVID-19 including travel bans and border closings, shelter-in-place orders, closures of non-essential businesses and social distancing requirements. These restrictions, along with the related changes in consumer behaviors, have resulted in an economic slowdown and a significant increase in unemployment in the United States and Canada.

We have modified certain business practices, including remote work arrangements, and we may take further action as may be required by government authorities, or that we determine are in the best interest of our employees, customers and dealers. As of the date of this report, our remote work arrangements have not caused material adverse disruptions to our business operations or financial reporting functions. We also implemented temporary furloughs and salary reductions in an effort to reduce expenses.

To assist our existing retail loan and lease customers who may have been impacted by COVID-19, we granted payment deferrals to those customers who requested assistance beginning in mid-March 2020. The deferral period is up to a maximum of 3 months in the United States and 4 months in Canada, generally from the date the customer was initially granted the deferral. Interest on retail loans continues to accrue during the deferral period. Through the end of May 2020, approximately 9% of our retail loans and approximately 11% of our retail leases have been granted payment deferrals. The highest volume of payment deferrals were granted during the month of April 2020. We plan to continue offering payment deferrals for those customers who request them through the end of June 2020. Although these payment deferrals will result in delays in collections, customers who are taking advantage of the deferrals are not considered delinquent during such deferral periods and therefore are not reflected in our delinquency measures as of March 31, 2020. It is expected that some customers will not be able to make their contractual payments after the deferral period and will ultimately default. We also had a temporary moratorium on involuntary repossessions starting mid-March but have since resumed repossessing vehicles in June 2020 in certain states. Delinquencies, repossessions, and charge-offs on retail loans and realized losses on early terminations of operating leases are expected to begin rising in the first and second quarters of fiscal year 2021 as the payment deferrals expire. We increased our allowance for credit losses and estimated early termination losses on operating leases significantly as of March 31, 2020 to reflect the current estimated impact of COVID-19.

Many Honda and Acura dealerships temporarily suspended their sales operations beginning in mid-March. To help support the dealers during this period of disruption to their operations, beginning in March 2020, we granted deferrals of interest payments on floorplans and principal payments on commercial loans generally for a period of 3 months. For the majority of dealers who were granted deferrals, the deferral period will expire in June 2020. Interest continues to accrue during the deferral period.

The suspension of sales operations at Honda and Acura dealerships and the decline in consumer demand had a significant impact on the sale of Honda and Acura vehicles starting in mid-March 2020. As a result, our consumer financing acquisition volumes also declined significantly. As a general indicator of the magnitude of the decline, consumer financing acquisition volumes was approximately 35% lower during the first two months of fiscal year 2021 as compared to the same period in fiscal year 2020. The decline in acquisition volumes was the most severe during April 2020 but improved in May 2020 as most dealerships resumed their sales operations. Month-over-month, overall consumer financing acquisition volumes increased by approximately 90% during May 2020 as compared to April 2020 primarily due to increased acquisition of new auto retail loans.

Sales of returned vehicles were limited during April 2020 as most physical auctions temporarily suspended operations. In early May 2020, physical auctions resumed under limited capacity and sales volumes have increased steadily since then. We expect used vehicle prices to be negatively impacted in the near term. Sustained declines in estimated used vehicle prices may result in a significant increase in depreciation expense over the remaining lease terms and, depending on the severity of the decline, potential impairment charges.

The COVID-19 pandemic has also led to disruption and volatility in the global capital markets, which has and may continue to increase our cost of capital and adversely affect our ability to access the capital markets. To improve our liquidity position for potential disruptions in funding sources, we increased our cash balances in part through additional term loans in March 2020 and a medium-term note issuance in April 2020.

The near-and-long term impact of COVID-19 to our business remains highly uncertain and cannot be accurately predicted at this time. Although some of the initial governmental measures that were enacted to control the spread of COVID-19 have begun to be scaled back, a resurgence in the spread of COVID-19 may result in the reimplementing of certain restrictions. See Item 1A, Risk Factors in this Annual Report on Form 10-K for additional information.

Results of Operations

The following table presents our income before income taxes:

	Years ended March 31,		
	2020	2019	2018
(U.S. dollars in millions)			
Income before income taxes:			
United States segment	\$ 1,157	\$ 1,396	\$ 1,194
Canada segment	276	273	286
Total income before income taxes	<u>\$ 1,433</u>	<u>\$ 1,669</u>	<u>\$ 1,480</u>

Comparison of Fiscal Years Ended March 31, 2020 and 2019

Our consolidated income before income taxes was \$1,433 million in fiscal year 2020 compared to \$1,669 million in fiscal year 2019. This decrease of \$236 million, or 14%, was due to the following differences:

	Years ended March 31,			
	2020	2019	Difference	% Change
(U.S. dollars in millions)				
Net revenues:				
Retail	\$ 1,737	\$ 1,614	\$ 123	8 %
Dealer	222	232	(10)	(4)%
Operating leases, net of leased vehicle expenses	2,056	1,864	192	10 %
Interest expense	(1,241)	(1,190)	(51)	4 %
Other income	88	71	17	24 %
Total net revenues	<u>2,862</u>	<u>2,591</u>	<u>271</u>	<u>10 %</u>
Expenses:				
General and administrative expenses	498	456	42	9 %
Provision for credit losses	402	249	153	61 %
Impairment loss on operating leases	—	14	(14)	n/m
Early termination loss on operating leases	331	101	230	228 %
(Gain)/Loss on derivative instruments	305	509	(204)	(40)%
(Gain)/Loss on foreign currency revaluation of debt	(107)	(407)	300	(74)%
Total expenses	<u>1,429</u>	<u>922</u>	<u>507</u>	<u>55 %</u>
Total income before income taxes	<u>\$ 1,433</u>	<u>\$ 1,669</u>	<u>\$ (236)</u>	<u>(14)%</u>

n/m= not meaningful

Segment Results—Comparison of Fiscal Years Ended March 31, 2020 and 2019

Results of operations for the United States segment and the Canada segment are summarized below:

	United States Segment			Canada Segment			Consolidated		
	Years ended March 31,			Years ended March 31,			Years ended March 31,		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
(U.S. dollars in millions)									
Revenues:									
Retail	\$ 1,533	\$ 1,406	\$ 1,181	\$ 204	\$ 208	\$ 201	\$ 1,737	\$ 1,614	\$ 1,382
Dealer	198	211	158	24	21	17	222	232	175
Operating leases	6,402	6,001	5,815	1,347	1,252	1,075	7,749	7,253	6,890
Total revenues	8,133	7,618	7,154	1,575	1,481	1,293	9,708	9,099	8,447
Leased vehicle expenses	4,667	4,420	4,532	1,026	969	859	5,693	5,389	5,391
Interest expense	1,063	1,015	770	178	175	127	1,241	1,190	897
Net revenues	2,403	2,183	1,852	371	337	307	2,774	2,520	2,159
Other income	77	63	50	11	8	6	88	71	56
Total net revenues	2,480	2,246	1,902	382	345	313	2,862	2,591	2,215
Expenses:									
General and administrative expenses	439	403	384	59	53	55	498	456	439
Provision for credit losses	393	242	239	9	7	5	402	249	244
Impairment loss on operating leases	—	14	—	—	—	—	—	14	—
Early termination loss on operating leases	327	98	105	4	3	3	331	101	108
(Gain)/Loss on derivative instruments	271	500	(514)	34	9	(36)	305	509	(550)
(Gain)/Loss on foreign currency revaluation of debt	(107)	(407)	494	—	—	—	(107)	(407)	494
Income before income taxes	\$ 1,157	\$ 1,396	\$ 1,194	\$ 276	\$ 273	\$ 286	\$ 1,433	\$ 1,669	\$ 1,480

Revenues

Revenue from retail loans in the United States segment increased by \$127 million, or 9%, during fiscal year 2020 compared to fiscal year 2019. The increase in revenue was attributable to higher average outstanding balances and higher yields. Revenue from retail loans in the Canada segment, which includes the remaining balance of direct financing leases, decreased by \$4 million, or 2%, during fiscal year 2020 compared to fiscal year 2019. The decrease in revenue was attributable to the decline in direct financing leases due to runoff.

Operating lease revenue increased by \$401 million, or 7%, in the United States segment and by \$95 million, or 8%, in the Canada segment during fiscal year 2020 compared to fiscal year 2019. The increases in the United States and Canada segments were attributable to higher net revenue on more recently acquired operating leases and higher average outstanding operating lease assets.

Revenue from dealer loans in the United States segment decreased by \$13 million, or 6%, during fiscal year 2020 compared to fiscal year 2019. The decrease was attributable to lower yields and lower average outstanding balances. Revenue from dealer loans in the Canada segment increased by \$3 million, or 14%, primarily due to higher average outstanding balances and higher yields.

Consolidated subsidy income from AHM and HCI sponsored incentive programs increased by \$6 million to \$1,639 million during fiscal year 2020 compared to \$1,633 million during fiscal year 2019. The increase was primarily due to higher average subsidy payments received.

Leased vehicle expenses

Leased vehicle expense increased by \$247 million, or 6%, in the United States segment and by \$57 million, or 6%, in the Canada segment during fiscal year 2020 compared to fiscal year 2019. The increases in the United States and Canada segments were attributable to the increase in depreciation on operating leases due to higher average outstanding operating lease assets and the change in presentation of lessor costs resulting from lessor accounting changes that were adopted on April 1, 2019. For additional information regarding leases, see Note 1—Summary of Business and Significant Accounting Policies of *Notes to Consolidated Financial Statements*.

Interest expense

Interest expense in the United States segment increased by \$48 million, or 5%, during fiscal year 2020 compared to fiscal year 2019. The increase was attributable to an increase in average outstanding debt and higher average interest rates. Interest expense in the Canada segment increased by \$3 million, or 2%, primarily due to higher average interest rates. See “—*Liquidity and Capital Resources*” below for more information.

Provision for credit losses

The provision for credit losses in the United States segment increased by \$151 million, or 62%, during fiscal year 2020 compared to fiscal year 2019. The increase in the provision was primarily attributable to the estimated impact of COVID-19 and the expected increase in defaults on retail loans. The increase in the provision was partially offset by the change to the income statement presentation for uncollectible operating lease receivables from the lessor accounting change that was adopted on April 1, 2019. For additional information regarding leases, see Note 1—Summary of Business and Significant Accounting Policies of *Notes to Consolidated Financial Statements*. The provision for credit losses in the Canada segment increased by \$2 million, or 29%, during fiscal year 2020 compared to fiscal year 2019 due to the estimated impact of COVID-19. See “—*COVID-19 Pandemic*” above and “—*Financial Condition—Credit Risk*” below for more information.

Impairment loss on operating leases

No impairment losses on operating leases due to declines in estimated residual values were recognized during fiscal year 2020. Impairment loss on operating leases of \$14 million was recognized in the United States segment during fiscal year 2019 due to lower estimated residual values of a certain model of leased vehicles. See “—*Financial Condition—Lease Residual Value Risk*” below for more information.

Early termination loss on operating leases

Early termination losses on operating leases in the United States segment increased by \$229 million, or 234%, during fiscal year 2020 compared to fiscal year 2019 primarily due to the estimated impact of COVID-19. Early termination losses on operating leases in the Canada segment increased by \$1 million during fiscal year 2020 compared to fiscal year 2019. See “—*COVID-19 Pandemic*” above and “—*Financial Condition—Credit Risk*” below for more information.

Gain/loss on derivative instruments

In the United States segment, we recognized a loss on derivative instruments of \$271 million during fiscal year 2020 compared to a loss of \$500 million during fiscal year 2019. The loss in fiscal year 2020 was attributable to losses on pay fixed interest rate swaps of \$676 million and cross currency swaps of \$177 million, partially offset by gains on pay float interest rate swaps of \$582 million. The losses on pay fixed interest rate swaps and gains on pay float interest rate swaps during fiscal year 2020 were primarily due to declines in applicable swap rates during the period. The losses on cross currency swaps during fiscal year 2020 were attributable to the U.S. dollar strengthening against the Euro and Sterling and the effect of unwinding the discount on swap valuations during the period. In the Canada segment, we recognized a loss on derivative instruments of \$34 million during fiscal year 2020 compared to a loss of \$9 million during fiscal year 2019. The losses during fiscal year 2020 were due to declines in applicable swap rates during the period. See “—*Derivatives*” below for more information.

Gain/loss on foreign currency revaluation of debt

In the United States segment, we recognized a gain on the revaluation of foreign currency denominated debt of \$107 million during fiscal year 2020 compared to a gain of \$407 million during fiscal year 2019. The gain during fiscal year 2020 was primarily due to the U.S. dollar strengthening against the Euro and Sterling during the period.

Income tax expense

Our consolidated effective tax rate was 29.6% for fiscal year 2020 and 25.6% for fiscal year 2019. The increase in the effective tax rate for fiscal year 2020 was primarily due to the net effect of a reduction in the benefit of tax credits generated in fiscal year 2020, a non-recurring tax benefit in fiscal year 2019 related to U.S. tax reform Transition Tax adjustments, an increase in uncertain tax positions, and a decrease in state taxes due to a change in estimated state tax rates. For additional information regarding income taxes, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements*.

Financial Condition

Consumer Financing

Consumer Financing Acquisition Volumes

The following table summarizes the number of retail loans and leases we acquired and the number of such loans and leases acquired through incentive financing programs sponsored by AHM and HCI:

	Years ended March 31,					
	2020		2019		2018	
	Acquired	Sponsored ⁽²⁾	Acquired	Sponsored ⁽²⁾	Acquired	Sponsored ⁽²⁾
	(Units ⁽¹⁾ in thousands)					
United States Segment						
Retail loans:						
New auto	414	229	486	332	477	307
Used auto	125	21	123	26	104	26
Motorcycle and other	70	1	69	4	73	11
Total retail loans	609	251	678	362	654	344
Leases	549	436	495	438	452	361
Canada Segment						
Retail loans:						
New auto	58	51	63	61	70	68
Used auto	5	1	5	1	9	6
Motorcycle and other	8	7	8	6	8	7
Total retail loans	71	59	76	68	87	81
Leases	88	83	92	91	85	84
Consolidated						
Retail loans:						
New auto	472	280	549	393	547	375
Used auto	130	22	128	27	113	32
Motorcycle and other	78	8	77	10	81	18
Total retail loans	680	310	754	430	741	425
Leases	637	519	587	529	537	445

- (1) A unit represents one retail loan or lease contract, as noted, that was originated in the United States and acquired by AHFC or its subsidiaries, or that was originated in Canada and acquired by HCFI, in each case during the period shown.
- (2) Represents the number of retail loans and leases acquired through incentive financing programs sponsored by AHM and/or HCI and only those contracts with subsidy payments. Excludes contracts where contractual rates met or exceeded AHFC's yield requirements and subsidy payments were not required.

Consumer Financing Penetration Rates

The following table summarizes the percentage of AHM and/or HCI sales of new automobiles and motorcycles that were financed with either retail loans or leases that we acquired:

	Years ended March 31,		
	2020	2019	2018
<u>United States Segment</u>			
New auto	63%	61%	57%
Motorcycle	34%	36%	38%
<u>Canada Segment</u>			
New auto	83%	79%	78%
Motorcycle	30%	29%	32%
<u>Consolidated</u>			
New auto	65%	63%	59%
Motorcycle	33%	35%	37%

Consumer Financing Asset Balances

The following table summarizes our outstanding retail loan and lease asset balances and units:

	March 31,			March 31,		
	2020	2019	2018	2020	2019	2018
	(U.S. dollars in millions)			(Units ⁽¹⁾ in thousands)		
United States Segment						
Retail loans:						
New auto	\$ 24,353	\$ 25,201	\$ 23,700	1,510	1,569	1,590
Used auto	4,999	4,522	3,685	356	318	268
Motorcycle and other	1,145	1,104	1,074	192	193	197
Total retail loans	\$ 30,497	\$ 30,827	\$ 28,459	2,058	2,080	2,055
Investment in operating leases	\$ 28,809	\$ 27,493	\$ 27,040	1,318	1,300	1,301
Securitized retail loans ⁽²⁾	\$ 8,977	\$ 7,896	\$ 7,633	703	665	691
Canada Segment						
Retail loans:						
New auto	\$ 3,195	\$ 3,458	\$ 3,604	258	263	260
Used auto	178	226	309	24	29	36
Motorcycle and other	84	86	89	20	21	21
Total retail loans	\$ 3,457	\$ 3,770	\$ 4,002	302	313	317
Investment in operating leases	\$ 5,034	\$ 5,113	\$ 4,777	296	289	259
Securitized retail loans ⁽²⁾	\$ 668	\$ 1,177	\$ 1,262	58	92	89
Securitized investment in operating leases ⁽²⁾	\$ 493	\$ —	\$ —	24	—	—
Consolidated						
Retail loans:						
New auto	\$ 27,548	\$ 28,659	\$ 27,304	1,768	1,832	1,850
Used auto	5,177	4,748	3,994	380	347	304
Motorcycle and other	1,229	1,190	1,163	212	214	218
Total retail loans	\$ 33,954	\$ 34,597	\$ 32,461	2,360	2,393	2,372
Investment in operating leases	\$ 33,843	\$ 32,606	\$ 31,817	1,614	1,589	1,560
Securitized retail loans ⁽²⁾	\$ 9,645	\$ 9,073	\$ 8,895	761	757	780
Securitized investment in operating leases ⁽²⁾	\$ 493	\$ —	\$ —	24	—	—

(1) A unit represents one retail loan or lease contract, as noted, that was outstanding as of the date shown.

(2) Securitized retail loans and investments in operating leases represent the portion of total managed assets that have been sold in securitization transactions but continue to be recognized on our balance sheet. The outstanding securitized retail loan units as of March 31, 2019 as disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019 was incorrect due to a clerical error and the corrected units are presented above.

In the United States segment, retail loan acquisition volumes decreased by 10% during fiscal year 2020 compared to fiscal year 2019 primarily due to the decline in sponsored new auto loan acquisition volumes. Lease acquisition volumes increased by 11% during fiscal year 2020 compared to fiscal year 2019 primarily due to the increase in non-sponsored program volumes. In the Canada segment, retail loan acquisition volumes decreased by 7% during fiscal year 2020 compared to fiscal year 2019 primarily due to the decline in sponsored new auto loan acquisition volumes. Lease acquisition volumes decreased by 4% during fiscal year 2020 compared to fiscal year 2019 primarily due to the decrease in sponsored program volumes. Beginning in mid-March 2020, consumer financing acquisition volumes declined significantly due to the impact of COVID-19. See "*—COVID-19 Pandemic*" above for more information

Dealer Financing

Wholesale Flooring Financing Penetration Rates

The following table summarizes the number of dealerships with wholesale flooring financing agreements as a percentage of total Honda and Acura dealerships in the United States and/or Canada, as applicable:

	March 31,		
	2020	2019	2018
<u>United States Segment</u>			
Automobile	29%	30%	28%
Motorcycle	97%	97%	98%
Other	16%	20%	21%
<u>Canada Segment</u>			
Automobile	36%	35%	36%
Motorcycle	96%	95%	95%
Other	93%	95%	95%
<u>Consolidated</u>			
Automobile	30%	31%	30%
Motorcycle	97%	97%	97%
Other	19%	22%	23%

Wholesale Flooring Financing Percentage of Sales

The following table summarizes the percentage of AHM unit sales in the United States and/or HCI unit sales in Canada, as applicable, that we financed through wholesale flooring loans with dealerships:

	Years ended March 31,		
	2020	2019	2018
<u>United States Segment</u>			
Automobile	26%	27%	28%
Motorcycle	98%	97%	98%
Other	6%	7%	8%
<u>Canada Segment</u>			
Automobile	32%	32%	31%
Motorcycle	94%	92%	94%
Other	96%	96%	95%
<u>Consolidated</u>			
Automobile	27%	27%	28%
Motorcycle	97%	96%	97%
Other	9%	9%	10%

Dealer Financing Asset Balances

The following table summarizes our outstanding dealer financing asset balances and units:

	March 31,			March 31,		
	2020	2019	2018	2020	2019	2018
	(U.S. dollars in millions)			(Units ⁽¹⁾ in thousands)		
United States Segment						
Wholesale flooring loans:						
Automobile	\$ 3,049	\$ 3,308	\$ 3,075	109	121	113
Motorcycle	760	750	738	96	101	100
Other	55	59	60	56	63	67
Total wholesale flooring loans	\$ 3,864	\$ 4,117	\$ 3,873	261	285	280
Commercial loans	\$ 1,020	\$ 1,084	\$ 978			
Canada Segment						
Wholesale flooring loans:						
Automobile	\$ 547	\$ 441	\$ 452	21	17	18
Motorcycle	91	95	98	13	13	13
Other	24	25	29	27	28	31
Total wholesale flooring loans	\$ 662	\$ 561	\$ 579	61	58	62
Commercial loans	\$ 54	\$ 65	\$ 65			
Consolidated						
Wholesale flooring loans:						
Automobile	\$ 3,596	\$ 3,749	\$ 3,527	130	138	131
Motorcycle	851	845	836	109	114	113
Other	79	84	89	83	91	98
Total wholesale flooring loans	\$ 4,526	\$ 4,678	\$ 4,452	322	343	342
Commercial loans	\$ 1,074	\$ 1,149	\$ 1,043			

(1) A unit represents one automobile, motorcycle, power equipment, or marine engine, as applicable, financed through a wholesale flooring loan that was outstanding as of the date shown.

Credit Risk

Credit losses are an expected cost of extending credit. The majority of our credit risk is in consumer financing and to a lesser extent in dealer financing. Credit risk of our portfolio of consumer finance receivables can be affected by general economic conditions. Adverse changes such as a rise in unemployment can increase the likelihood of defaults. Declines in used vehicle prices can reduce the amount of recoveries on repossessed collateral. We manage our exposure to credit risk in retail loans by monitoring and adjusting our underwriting standards, which affect the level of credit risk that we assume, pricing contracts for expected losses, focusing collection efforts to minimize losses, and ongoing reviews of the financial condition of dealers.

We are also exposed to credit risk on our portfolio of operating lease assets. We expect a portion of our operating leases to terminate prior to their scheduled maturities when lessees default on their contractual obligations. Losses are generally realized upon the disposition of the repossessed operating lease vehicles. The factors affecting credit risk on our operating leases and our management of the risk are similar to that of our consumer finance receivables.

Credit risk on dealer loans is affected primarily by the financial strength of the dealers within the portfolio, the value of collateral securing the financings, and economic and market factors that could affect the creditworthiness of dealers. We manage our exposure to credit risk in dealer financing by performing comprehensive reviews of dealers prior to establishing financing arrangements and monitoring the payment performance and creditworthiness of these dealers on an ongoing basis. In the event of default by a dealer, we seek all available legal remedies pursuant to related dealer agreements, guarantees, security interests on collateral, or liens on dealership assets. Additionally, we have agreements with AHM and HCI that provide for their repurchase of new, unused, undamaged and unregistered vehicles or equipment that have been repossessed from dealers who defaulted under the terms of their respective wholesale flooring agreements.

An allowance for credit losses is maintained for management's estimate of probable losses incurred on finance receivables. We also maintain an estimate for early termination losses on operating lease assets due to lessee defaults and an allowance for credit losses for estimated probable losses incurred on past due operating lease rental payments.

Additional information regarding credit losses is provided in the discussion of "*Critical Accounting Policies—Credit Losses*" below.

The following table presents information with respect to our allowance for credit losses and credit loss experience of our finance receivables and losses related to lessee defaults on our operating leases:

	As of or for the years ended March 31,		
	2020	2019	2018
(U.S. dollars in millions)			
United States Segment			
Finance receivables:			
Allowance for credit losses at beginning of period	\$ 194	\$ 173	\$ 124
Provision for credit losses	393	203	209
Charge-offs, net of recoveries	(228)	(182)	(160)
Allowance for credit losses at end of period	<u>\$ 359</u>	<u>\$ 194</u>	<u>\$ 173</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	1.01%	0.53%	0.51%
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.63%	0.51%	0.49%
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 91	\$ 104	\$ 56
As a percentage of ending receivable balance ^{(1), (2)}	0.25%	0.28%	0.17%
Operating leases:			
Early termination loss on operating leases	\$ 327	\$ 98	\$ 105
Revenue reduction / provision for uncollectible operating lease receivables ⁽³⁾	27	39	30
Canada Segment			
Finance receivables:			
Allowance for credit losses at beginning of period	\$ 7	\$ 6	\$ 9
Provision for credit losses	9	6	4
Charge-offs, net of recoveries	(5)	(5)	(7)
Effect of translation adjustment	—	—	—
Allowance for credit losses at end of period	<u>\$ 11</u>	<u>\$ 7</u>	<u>\$ 6</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.22%	0.14%	0.13%
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.12%	0.12%	0.16%
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 3	\$ 4	\$ 8
As a percentage of ending receivable balance ^{(1), (2)}	0.08%	0.09%	0.16%
Operating leases:			
Early termination loss on operating leases	\$ 4	\$ 3	\$ 3
Revenue reduction / provision for uncollectible operating lease receivables ⁽³⁾	1	1	1

Consolidated

Finance receivables:

Allowance for credit losses at beginning of period	\$ 201	\$ 179	\$ 133
Provision for credit losses	402	209	213
Charge-offs, net of recoveries	(233)	(187)	(167)
Effect of translation adjustment	—	—	—
Allowance for credit losses at end of period	<u>\$ 370</u>	<u>\$ 201</u>	<u>\$ 179</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.92%	0.49%	0.46%
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.57%	0.47%	0.44%
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 94	\$ 108	\$ 64
As a percentage of ending receivable balance ^{(1), (2)}	0.23%	0.26%	0.17%
Operating leases:			
Early termination loss on operating leases	\$ 331	\$ 101	\$ 108
Revenue reduction / provision for uncollectible operating lease receivables ⁽³⁾	28	40	31

- (1) Ending and average receivable balances exclude the allowance for credit losses, unearned subvention income related to our incentive financing programs and deferred origination costs. Average receivable balances are calculated based on the average of each month's ending receivables balance for that fiscal year.
- (2) For the purposes of determining whether a contract is delinquent, payment is generally considered to have been made, in the case of (i) dealer loans, upon receipt of 100% of the payment when due and (ii) consumer finance receivables, upon receipt of 90% of the sum of the current monthly payment plus any overdue monthly payments. Delinquent amounts presented are the aggregated principal balances of delinquent finance receivables. Finance receivables that were granted payment deferrals are not considered delinquent and are therefore excluded from these delinquency measures.
- (3) Provisions for uncollectible operating lease receivables were included in total provision for credit losses in our consolidated statements of income during fiscal years 2019 and 2018.

In the United States segment, the provision for credit losses on our finance receivables was \$393 million during fiscal year 2020 compared to \$203 million during fiscal year 2019. The increase in the provision for credit losses was primarily attributable to the estimated impact of COVID-19. The allowance for credit losses was increased significantly in the fourth quarter of fiscal year 2020 to reflect higher expected defaults on retail loans due to the sharp rise in unemployment. Net charge-offs of retail loans during fiscal year 2020 increased compared to the same period in fiscal year 2019, primarily due to higher charge-off frequencies in our lowest credit grade tiers and used auto loans. Delinquencies and net charge-offs during fiscal year 2020 were largely unaffected by COVID-19 since the increase in unemployment did not occur until the last weeks of the fiscal year. Delinquencies and charge-offs are expected to rise in the first and second quarters of fiscal year 2021 as the payment deferrals expire. As a result of lessor accounting changes that were adopted on April 1, 2019, allowances for uncollectible operating lease receivables were recognized as a reduction to lease revenue rather than recording the losses through the provision for credit losses. See Note 1—Summary of Business and Significant Accounting Policies of *Notes to Consolidated Financial Statements* for additional information. We recognized early termination losses on operating lease assets of \$327 million during fiscal year 2020 compared to \$98 million during fiscal year 2019. The increase was primarily due to the estimated impact of COVID-19 and the expected increase in lessee defaults.

In the Canada segment, the provision for credit losses on our finance receivables was \$9 million during fiscal year 2020 compared to \$6 million during fiscal year 2019. The increase was due to the estimated impact of COVID-19. Early termination losses on operating lease assets was \$4 million during fiscal year 2020 compared to \$3 million during fiscal year 2019.

Lease Residual Value Risk

Contractual residual values of lease vehicles are determined at lease inception based on expectations of future used vehicle values, taking into consideration external industry data and our own historical experience. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or for a market based price. Returned lease vehicles that are not purchased by the grounding dealers are sold through online and physical auctions. We are exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values.

We assess our estimates for end of lease term market values of leased vehicles, at minimum, on a quarterly basis. The primary factors affecting the estimates are the percentage of leased vehicles that we expect to be returned by the lessee at the end of lease term and expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends, and market information on new and used vehicles. Our leasing volumes and those across the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years, which could negatively impact used vehicle prices. Adjustments to estimated residual values are made on a straight-line basis over the remaining term of the lease and recognized as depreciation expense. Additional information regarding lease residual values is provided in the discussion of “—Critical Accounting Policies—Determination of Lease Residual Values” below.

We also review our investment in operating leases for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If impairment conditions are met, impairment losses are measured by the amount carrying values exceed their fair values.

We expect used vehicle prices to be negatively impacted in the near term due to the disruption in physical auctions and declines in demand for used vehicles as a result of COVID-19, which will result in higher depreciation expense. Sustained declines in used vehicle prices may result in significant increases in depreciation expense over the remaining lease terms and, depending on the severity of the declines, potential impairment charges.

The following table summarizes our number of lease terminations and the method of disposition:

	Years ended March 31,		
	2020	2019	2018
	(Units ⁽¹⁾ in thousands)		
<u>United States Segment</u>			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	359	319	264
Sales through auctions and dealer direct programs ⁽³⁾	156	155	167
Total termination units	<u>515</u>	<u>474</u>	<u>431</u>
<u>Canada Segment</u>			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	78	65	49
Sales through auctions and dealer direct programs ⁽³⁾	7	6	7
Total termination units	<u>85</u>	<u>71</u>	<u>56</u>
<u>Consolidated</u>			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	437	384	313
Sales through auctions and dealer direct programs ⁽³⁾	163	161	174
Total termination units	<u>600</u>	<u>545</u>	<u>487</u>

- (1) A unit represents one terminated lease by their method of disposition during the period shown. Unit counts do not include leases that were terminated due to lessee defaults.
- (2) Includes vehicles purchased by lessees or dealers for the contractual residual value at lease maturity or the outstanding contractual balance if purchased prior to lease maturity.
- (3) Includes vehicles sold through online auctions and market based pricing options under our dealer direct programs or through physical auctions.

Liquidity and Capital Resources

Our liquidity strategy is to fund current and future obligations through our cash flows from operations and our diversified funding programs in a cost and risk effective manner. Our cash flows are generally impacted by cash requirements related to the volume of finance receivable and operating lease acquisitions and various operating and funding costs incurred, which are largely funded through payments received on our assets and our funding sources outlined below. As noted, the levels of incentive financing sponsored by AHM and HCI can impact our financial results and liquidity from period to period. Increases or decreases in incentive financing programs typically increase or decrease our financing penetration rates, respectively, which result in increased or decreased acquisition volumes and increased or decreased liquidity needs, respectively. At acquisition, we receive the subsidy payments, which reduce the cost of consumer loan and lease contracts acquired, and we recognize such payments as revenue over the term of the loan or lease.

In an effort to minimize liquidity risk and interest rate risk and the resulting negative effects on our margins, results of operations and cash flows, our funding strategy incorporates investor diversification and the utilization of multiple funding sources including commercial paper, medium term notes, bank loans and asset-backed securities. We incorporate a funding strategy that takes into consideration factors such as the interest rate environment, domestic and foreign capital market conditions, maturity profiles, and economic conditions. See above under “—*COVID-19 Pandemic*” for additional information. We believe that our funding sources, combined with cash provided by operating and investing activities, will provide sufficient liquidity for us to meet our debt service and working capital requirements over the next twelve months.

The summary of outstanding debt presented in the tables and discussion below in this section “—*Liquidity and Capital Resources*” as of March 31, 2020, 2019 and 2018 includes foreign currency denominated debt which was translated into U.S. dollars using the relevant exchange rates as of March 31, 2020, 2019 and 2018, as applicable. Additionally, the amounts in this section that are presented in “C\$” (Canadian dollar), “€” (Euro) and “£” (Sterling) were converted into U.S. dollars solely for convenience based on the exchange rate on March 31, 2020 of 1.4062, 1.1016 and 1.2437, respectively, per U.S. dollar. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or that they could be converted into U.S. dollars at the rates indicated.

Summary of Outstanding Debt

The table below presents a summary of our outstanding debt by various funding sources:

	March 31,			Weighted average contractual interest rate		
	March 31,			March 31,		
	2020	2019	2018	2020	2019	2018
(U.S. dollars in millions)						
United States Segment						
Unsecured debt:						
Commercial paper	\$ 4,486	\$ 5,029	\$ 4,437	1.83%	2.67%	1.91%
Bank loans	3,797	3,896	4,393	2.21%	3.30%	2.52%
Private MTN program	999	999	1,698	3.84%	3.84%	5.40%
Public MTN program	25,130	24,117	21,398	2.07%	2.35%	1.92%
Euro MTN programme	28	868	1,111	2.23%	1.89%	1.95%
Total unsecured debt	34,440	34,909	33,037			
Secured debt	8,710	7,671	7,521	2.26%	2.41%	1.68%
Total debt	<u>\$ 43,150</u>	<u>\$ 42,580</u>	<u>\$ 40,558</u>			
Canada Segment						
Unsecured debt:						
Commercial paper	\$ 1,004	\$ 726	\$ 730	1.73%	2.06%	1.55%
Related party debt	533	749	1,085	1.76%	2.18%	1.64%
Bank loans	1,141	1,066	1,026	2.01%	2.62%	2.27%
Other debt	3,266	3,514	3,250	2.47%	2.50%	2.20%
Total unsecured debt	5,944	6,055	6,091			
Secured debt	1,038	1,119	1,212	2.13%	2.49%	2.09%
Total debt	<u>\$ 6,982</u>	<u>\$ 7,174</u>	<u>\$ 7,303</u>			
Consolidated						
Unsecured debt:						
Commercial paper	\$ 5,490	\$ 5,755	\$ 5,167	1.81%	2.60%	1.86%
Related party debt	533	749	1,085	1.76%	2.18%	1.64%
Bank loans	4,938	4,962	5,419	2.16%	3.16%	2.48%
Private MTN program	999	999	1,698	3.84%	3.84%	5.40%
Public MTN program	25,130	24,117	21,398	2.07%	2.35%	1.92%
Euro MTN programme	28	868	1,111	2.23%	1.89%	1.95%
Other debt	3,266	3,514	3,250	2.47%	2.50%	2.20%
Total unsecured debt	40,384	40,964	39,128			
Secured debt	9,748	8,790	8,733	2.25%	2.42%	1.74%
Total debt	<u>\$ 50,132</u>	<u>\$ 49,754</u>	<u>\$ 47,861</u>			

Commercial Paper

As of March 31, 2020, we had commercial paper programs in the United States of \$7.0 billion and in Canada of C\$2.5 billion (\$1.8 billion). Interest rates on the commercial paper are fixed at the time of issuance. During fiscal year 2020, consolidated commercial paper month-end outstanding principal balances ranged from \$4.2 billion to \$6.2 billion.

Related Party Debt

HCFI issues fixed rate notes to HCI to help fund HCFI's general corporate operations. Interest rates are based on prevailing rates of debt with comparable terms. Generally, the term of these notes is less than 120 days.

Bank Loans

During fiscal year 2020, AHFC entered into five floating rate term loan agreements for a total of \$1.0 billion and one fixed rate term loan for \$200 million. HCFI entered into one floating rate term loan agreement for C\$250 million (\$178 million) and two fixed rate term loan agreements for a total of C\$180 million (\$128 million). As of March 31, 2020, we had bank loans denominated in U.S. dollars and Canadian dollars with floating and fixed interest rates, in principal amounts ranging from \$36 million to \$600 million. As of March 31, 2020, the remaining maturities of all bank loans outstanding ranged from 87 days to approximately 5.0 years. The weighted average remaining maturity on all bank loans was 1.9 years as of March 31, 2020.

Our bank loans contain customary restrictive covenants, including limitations on liens, mergers, consolidations and asset sales, and a financial covenant that requires us to maintain positive consolidated tangible net worth. In addition to other customary events of default, the bank loans include cross-default provisions and provisions for default if HMC does not maintain ownership, whether directly or indirectly, of at least 80% of the outstanding capital stock of AHFC or HCFI, as applicable. All of these covenants and events of default are subject to important limitations and exceptions under the agreements governing the bank loans. As of March 31, 2020, management believes that AHFC and HCFI were in compliance with all covenants contained in our bank loans.

Medium Term Note (MTN) Programs

Private MTN Program

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. As of March 31, 2020, the remaining maturities of Private MTNs outstanding did not exceed 1.5 years. Private MTNs were issued pursuant to the terms of an issuing and paying agency agreement, which requires AHFC to comply with certain covenants, including negative pledge provisions, and includes customary events of defaults. As of March 31, 2020, management believes that AHFC was in compliance with all covenants contained in the Private MTNs.

Public MTN Program

AHFC is a well-known seasoned issuer under SEC rules and issues Public MTNs pursuant to a registration statement on Form S-3 filed with the SEC. In August 2019, AHFC renewed its Public MTN program by filing a registration statement with the SEC under which it may issue from time to time up to \$30.0 billion aggregate principal amount of Public MTNs, which includes the issuance of foreign currency denominated notes into international markets. The aggregate principal amount of MTNs offered under this program may be increased from time to time.

The Public MTNs may have original maturities of 9 months or more from the date of issue, may be interest bearing with either fixed or floating interest rates, or may be discounted notes. During fiscal year 2020, AHFC issued \$2.7 billion aggregate principal amount of U.S. dollar denominated floating rate MTNs and \$4.7 billion aggregate principal amount of U.S. dollar denominated fixed rate notes, with an original maturity ranging from 12 months to 7.0 years. The weighted average remaining maturities of all Public MTNs was 2.3 years as of March 31, 2020.

The Public MTNs are issued pursuant to an indenture, which requires AHFC to comply with certain covenants, including negative pledge provisions and restrictions on AHFC's ability to merge, consolidate or transfer substantially all of its assets or the assets of its subsidiaries, and includes customary events of default. As of March 31, 2020, management believes that AHFC was in compliance with all covenants under the indenture.

Euro MTN Programme

The Euro MTN Programme was retired in August 2014. AHFC has one note outstanding under this program. The note has a maturity date of February 21, 2023, a fixed interest rate and is not listed on the Luxembourg Stock Exchange. The note was issued pursuant to the terms of an agency agreement which requires AHFC to comply with certain covenants, including negative pledge provisions, and includes customary events of default. As of March 31, 2020, management believes that AHFC was in compliance with all covenants contained in the Euro MTNs.

The table below presents a summary of outstanding debt issued under our MTN Programs by currency:

	March 31,		
	2020	2019	2018
	(U.S. dollars in millions)		
U.S. dollar	\$ 22,309	\$ 21,210	\$ 19,717
Euro	3,076	3,969	3,623
Sterling	744	778	839
Japanese yen	28	27	28
Total	\$ 26,157	\$ 25,984	\$ 24,207

Other Debt

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During fiscal year 2020, HCFI entered into one private placement transaction for C\$500 million (\$356 million). As of March 31, 2020, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 17 days to approximately 5.1 years. The weighted average remaining maturities of these notes was 2.5 years as of March 31, 2020.

The notes are issued pursuant to the terms of an indenture, which requires HCFI to comply with certain covenants, including negative pledge provisions, and includes customary events of default. As of March 31, 2020, management believes that HCFI was in compliance with all covenants contained in the privately placed notes.

Secured Debt

Asset-Backed Securities

We enter into securitization transactions for funding purposes. Our securitization transactions involve transferring pools of retail loans and operating leases to bankruptcy-remote special purpose entities (SPEs). The SPEs are established to accommodate securitization structures, which have the limited purpose of acquiring assets, issuing asset-backed securities, and making payments on the securities. Assets transferred to SPEs are considered legally isolated from us and the claims of our creditors. We continue to service the retail loans and operating leases transferred to the SPEs. Investors in the notes issued by a SPE only have recourse to the assets of such SPE and do not have recourse to the assets of AHFC, HCFI, or our other subsidiaries or to other SPEs. The assets of SPEs are the only source of funds for repayment on the notes.

Our securitizations are structured to provide credit enhancements to investors in the notes issued by the SPEs. Credit enhancements can include the following:

- *Subordinated certificates*— securities issued by SPEs that are retained by us and are subordinated in priority of payment to the notes.
- *Overcollateralization*— securitized asset balances that exceed the balance of securities issued by SPEs.
- *Excess interest*— excess interest collections to be used to cover losses on defaulted loans.
- *Reserve funds*— restricted cash accounts held by the SPEs to cover shortfalls in payments of interest and principal required to be paid on the notes.
- *Yield supplement accounts*—restricted cash accounts held by SPEs to supplement interest payments on notes.

The risk retention regulations in Regulation RR of the Securities Exchange Act of 1934, as amended (Exchange Act), require the sponsor to retain an economic interest in the credit risk of the securitized assets, either directly or through one or more majority-owned affiliates. Standard risk retention options allow the sponsor to retain either an eligible vertical interest, an eligible horizontal residual interest, or a combination of both. AHFC has satisfied this obligation by retaining an eligible vertical interest of an amount equal to at least 5% of the principal amount of each class of note and certificate issued for the securitization transaction that was subject to this rule but may choose to use other structures in the future.

We are required to consolidate the SPEs in our financial statements, which results in the securitizations being accounted for as on-balance sheet secured financings. The securitized assets remain on our consolidated balance sheet along with the notes issued by the SPEs.

During fiscal year 2020, we issued notes through asset-backed securitizations totaling \$6.2 billion, which were secured by assets with an initial balance of \$6.8 billion.

Credit Agreements

Syndicated Bank Credit Facilities

AHFC maintains a \$3.5 billion 364-day credit agreement, which expires on February 26, 2021, a \$2.1 billion credit agreement, which expires on February 28, 2023, and a \$1.4 billion credit agreement, which expires on February 28, 2025. As of March 31, 2020, no amounts were drawn upon under the AHFC credit agreements. AHFC intends to renew or replace these credit agreements prior to or on their respective expiration dates.

HCFI maintains a C\$2.0 billion (\$1.4 billion) credit agreement which provides that HCFI may borrow up to C\$1 billion (\$711 million) on a one-year revolving basis and up to C\$1 billion (\$711 million) on a five-year revolving basis. The one-year tranche of the credit agreement expires on March 25, 2021 and the five-year tranche of the credit agreement expires on March 25, 2025. As of March 31, 2020, no amounts were drawn upon under the HCFI credit agreement. HCFI intends to renew or replace the credit agreement prior to or on the expiration date of each respective tranche.

The credit agreements contain customary conditions to borrowing and customary restrictive covenants, including limitations on liens and limitations on mergers, consolidations and asset sales, and limitations on affiliate transactions. The credit agreements also require AHFC and HCFI to maintain a positive consolidated tangible net worth as defined in their respective credit agreements. The credit agreements, in addition to other customary events of default, include cross-default provisions and provisions for default if HMC does not maintain ownership, whether directly or indirectly, of at least 80% of the outstanding capital stock of AHFC or HCFI, as applicable. In addition, the AHFC and HCFI credit agreements contain provisions for default if HMC's obligations under the HMC-AHFC Keep Well Agreement or the HMC-HCFI Keep Well Agreement, as applicable, become invalid, voidable, or unenforceable. All of these conditions, covenants and events of default are subject to important limitations and exceptions under the agreements governing the credit agreements. As of March 31, 2020, management believes that AHFC and HCFI were in compliance with all covenants contained in the respective credit agreements.

Other Credit Agreements

AHFC maintains other committed lines of credit that allow the Company access to an additional \$1.0 billion in unsecured funding with two banks. The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales and a requirement for AHFC to maintain a positive consolidated tangible net worth. As of March 31, 2020, no amounts were drawn upon under these agreements. These agreements expire in September 2020. The Company intends to renew or replace these credit agreements prior to or on their respective expiration dates.

Keep Well Agreements

HMC has entered into separate Keep Well Agreements with AHFC and HCFI. For additional information, refer to "*Part I, Item 1. Business—Relationships with HMC and Affiliates—HMC and AHFC Keep Well Agreement*" and "*Part I, Item 1. Business—Relationships with HMC and Affiliates—HMC and HCFI Keep Well Agreement*."

As consideration for HMC's obligations under the Keep Well Agreements, we have agreed to pay HMC a quarterly fee based on the amount of outstanding Debt pursuant to Support Compensation Agreements, dated April 1, 2019. We incurred expenses of \$68 million, \$23 million and \$22 million during fiscal years 2020, 2019 and 2018, respectively, pursuant to these Support Compensation Agreements and the predecessor agreements.

Indebtedness of Consolidated Subsidiaries

As of March 31, 2020, AHFC and its consolidated subsidiaries had \$59.7 billion of outstanding indebtedness and other liabilities, including current liabilities, of which \$17.2 billion consisted of indebtedness and liabilities of our consolidated subsidiaries. None of AHFC's consolidated subsidiaries had any outstanding preferred equity.

Derivatives

We utilize derivative instruments to mitigate exposures to fluctuations in interest rates and foreign currency exchange rates. The types of derivative instruments include interest rate swaps, basis swaps, and cross currency swaps. Interest rate and basis swap agreements are used to mitigate the effects of interest rate fluctuations of our floating rate debt relative to our fixed rate finance receivables and operating lease assets. Cross currency swap agreements are used to manage currency and interest rate risk exposure on foreign currency denominated debt. The derivative instruments contain an element of credit risk in the event the counterparties are unable to meet the terms of the agreements.

All derivative financial instruments are recorded on our consolidated balance sheet as assets or liabilities, and carried at fair value. Changes in the fair value of derivatives are recognized in our consolidated statements of income in the period of the change. Since we do not elect to apply hedge accounting, the impact to earnings resulting from these valuation adjustments as reported under GAAP is not representative of our results of operations as evaluated by management. Realized gains and losses on derivative instruments, net of realized gains and losses on foreign currency denominated debt, are included in the measure of net revenues when we evaluate segment performance. Refer to Note 15—Segment Information of *Notes to Consolidated Financial Statements* for additional information about segment information and Note 5—Derivative Instruments of *Notes to Consolidated Financial Statements* for additional information on derivative instruments.

Off-Balance Sheet Arrangements

We are not a party to off-balance sheet arrangements.

Contractual Obligations

The following table summarizes our contractual obligations, excluding lending commitments to dealers and derivative obligations, by fiscal year payment period, as of March 31, 2020:

	Payments due by period						
	Total	2021	2022	2023	2024	2025	Thereafter
	(U.S. dollars in millions)						
Unsecured debt obligations ⁽¹⁾	\$ 40,453	\$ 15,768	\$ 7,767	\$ 8,193	\$ 4,792	\$ 2,077	\$ 1,856
Secured debt obligations ⁽¹⁾	9,762	5,089	2,944	1,463	266	—	—
Interest payments on debt ⁽²⁾	2,116	833	548	354	201	80	100
Operating lease obligations	61	10	9	9	8	7	18
Total	<u>\$ 52,392</u>	<u>\$ 21,700</u>	<u>\$ 11,268</u>	<u>\$ 10,019</u>	<u>\$ 5,267</u>	<u>\$ 2,164</u>	<u>\$ 1,974</u>

(1) Debt obligations reflect the remaining principal obligations of our outstanding debt and do not reflect unamortized debt discounts and fees. Repayment schedule of secured debt reflects payment performance assumptions on underlying receivables. Foreign currency denominated debt principal is based on exchange rates as of March 31, 2020.

(2) Interest payments on floating rate and foreign currency denominated debt based on the applicable floating rates and/or exchange rates as of March 31, 2020.

The obligations in the above table do not include certain lending commitments to dealers since the amount and timing of future payments is uncertain. Refer to Note 9—Commitments and Contingencies of *Notes to Consolidated Financial Statements* for additional information on these commitments.

Our contractual obligations on derivative instruments are also excluded from the table above because our 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 5—Derivative Instruments of *Notes to Consolidated Financial Statements* for additional information on derivative instruments.

New Accounting Standards

Refer to Note 1(o)—Recently Issued Accounting Standards of *Notes to Consolidated Financial Statements*.

Critical Accounting Policies

Critical accounting policies are those accounting policies that require the application of our most difficult, subjective, or complex judgments, often requiring us to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period would have had a material impact on the presentation of our financial condition, cash flows, and results of operations. The impact and any associated risks related to these estimates on our financial condition, cash flows, and results of operations are discussed throughout “*Management’s Discussion and Analysis of Financial Condition and Results of Operation*” where such estimates affect reported and expected financial results. Different assumptions or changes in economic circumstances could result in additional changes to the determination of the allowance for credit losses and the determination of lease residual values.

Credit Losses

We maintain an allowance for credit losses for management’s estimate of probable losses incurred on our finance receivables. We also maintain an estimate for early termination losses on operating lease assets due to lessee defaults and an allowance for credit losses on past due operating lease rental payments. These estimates are evaluated by management, at minimum, on a quarterly basis.

Consumer finance receivables are collectively evaluated for impairment. Delinquencies and losses are monitored on an ongoing basis and this historical experience provides the primary basis for estimating the allowance. Management utilizes various methodologies when estimating the allowance for credit losses including models which incorporate vintage loss and delinquency migration analysis. These models take into consideration attributes of the portfolio, including loan-to-value ratios, internal and external credit scores, collateral types, and loan terms. Market and economic factors such as used vehicle prices, unemployment, and consumer debt service burdens are also incorporated into these models. Estimated losses on operating leases expected to terminate early due to lessee defaults are also determined collectively, consistent with the methodologies used for consumer finance receivables.

Dealer loans are individually evaluated for impairment when specifically identified as impaired. Dealer loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the original terms of the loan. Our determination of whether dealer loans are impaired is based on evaluations of dealership payment history, financial condition, their ability to perform under the terms of the loans, and collateral values as applicable. Dealer loans that have not been specifically identified as impaired are collectively evaluated for impairment.

Refer to Note 1(e)—Finance Receivables, Note 1(f)—Investment in Operating Leases and Note 1(i)—Vehicles Held for Disposition of *Notes to Consolidated Financial Statements* for additional information regarding charge-offs or write-downs of contractual balances of retail and dealer loans and operating leases.

Sensitivity Analysis

Our allowance for credit losses and early termination losses on operating leases requires significant judgment about inherently uncertain factors. The estimates are based on management’s evaluation of many factors, including our historical credit loss experience, the value of the underlying collateral, delinquency trends, and economic conditions. The estimates are based on information available as of each reporting date. Actual losses may differ from the original estimates due to actual results varying from those assumed in our estimates. 10% and 20% increases in estimated incurred losses on our consumer finance receivables would have resulted in increases to the allowance for credit losses as of March 31, 2020 of \$36 million and \$73 million, respectively. Similarly, 10% and 20% increases in estimated incurred losses due to defaults on operating leases would have resulted in increases to estimated early termination losses as of March 31, 2020 of \$32 million and \$63 million, respectively.

Determination of Lease Residual Values

Contractual residual values of lease vehicles are determined at lease inception based on expectations of future used vehicle values, taking into consideration external industry data and our own historical experience. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market based price. Returned lease vehicles that are not purchased by the grounding dealer are sold through online and physical auctions. We are exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values at the end of lease term. We assess our estimates for end of term market values of the leased vehicles, at minimum, on a quarterly basis. The primary factors affecting the estimates are the percentage of leased vehicles that we expect to be returned by the lessee at the end of lease term and expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends and market information on new and used vehicles. Our leasing volumes and those across the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years which could negatively impact used vehicle prices.

For operating leases, adjustments to estimated residual values are made on a straight-line basis over the remaining term of each lease and recognized as depreciation expense.

Sensitivity Analysis

If future estimated auction values for all outstanding operating leases as of March 31, 2020 were to decrease by \$100 per unit from our current estimates, the total impact would be an increase of approximately \$74 million in depreciation expense, which would be recognized over the remaining lease terms. If future return rates for all operating leases were to increase by one percentage point from our current estimates, the total impact would be an increase of approximately \$13 million in depreciation expense, which would be recognized over the remaining lease terms. This sensitivity analysis may be asymmetric and is specific to the conditions in effect as of March 31, 2020. Additionally, any declines in auction values are likely to have a negative effect on return rates which could affect the severity of the impact on our results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks. Our financial condition, cash flows, and results of operations depend on the extent to which we effectively identify and manage these risks. The principal types of risk to our business include:

- Interest rate risk arising from changes in interest rates related to our funding, investing, and cash management activities. Our assets consist primarily of fixed rate receivables and operating lease assets, however, our liabilities consist of both floating and fixed rate debt. We utilize interest rate and basis swaps to mitigate the impact of interest rate movements on our cash flows and net interest margins.
- Exchange rate risk arising from changes in value of our foreign currency denominated debt in response to fluctuations in exchange rates of various currencies. We enter into cross currency swaps concurrently with the issuance of this debt to convert all interest and principal payments to either of our functional currencies, which is United States dollars in the United States segment and Canadian dollars in the Canadian segment, which effectively eliminates our foreign currency exchange rate risks.
- Counterparty risk arising primarily with our derivative contracts. To manage this risk, we limit our exposure to counterparties in accordance with credit rating based guidelines. We also enter into master netting agreements which help to mitigate our exposure to loss in the case of defaults. In Canada, HCFI is a party to credit support agreements that require posting of cash collateral to mitigate credit risk on derivative positions.

To provide a quantitative measure of the sensitivity of interest rate movements on our pre-tax cash flows, we have estimated the effect of a hypothetical 100 basis point increase and decrease to benchmark interest rates on our floating rate financial instruments for the 12-month periods ending March 31, 2021 and 2020 below. Our estimates were based upon our existing receivables, debt, and derivatives as of March 31, 2020 and 2019. We do not include any assumptions for reinvestment of maturing assets and refinancing of maturing debt. The estimates for a 100 basis point decrease assume that rates cannot fall below zero percent.

Hypothetical change in interest rate	Impact on pre-tax cash flows for the 12 months ending March 31,	
	2021	2020
100 basis point increase	\$17 million decrease	\$21 million increase
100 basis point decrease	\$17 million increase	\$21 million decrease

The net impact on pre-tax cash flows of a hypothetical increase or decrease in interest rates was lower for the period ending March 31, 2021 compared to the period ending March 31, 2020 due to the increase in the mix of pay float relative to receive float instruments.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements, the accompanying notes to consolidated financial statements, and the Report of Independent Registered Public Accounting Firm that are filed as part of this Form 10-K are listed under “*Part IV, Item 15. Exhibits, Financial Statement Schedules*” and are set forth beginning on page F-1 immediately following the Signatures page of this Form 10-K.

The required supplementary financial information is disclosed in Note 16—Selected Quarterly Financial Data (Unaudited) of *Notes to Consolidated Financial Statements*.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Principal Executive Officer and Principal Financial Officer have performed an evaluation of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Exchange Act, as of March 31, 2020, and each has concluded that such disclosure controls and procedures are effective, at the reasonable assurance level, to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and such information is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management’s Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) of 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 Principal Executive Officer and Principal Financial Officer, 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, 2020.

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 pursuant to rules of the SEC applicable to non-accelerated filers.

Changes in Internal Control over Financial Reporting

There were no changes in the internal control over financial reporting during the quarter ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

Item 11. Executive Compensation

We have 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

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

Item 13. Certain Relationships and Related Transactions, and Director Independence

We have 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 costs for fees and services provided to us by our independent registered public accounting firm, KPMG LLP.

	Years ended March 31,	
	2020	2019
	(U.S. dollars in thousands)	
Audit fees	\$ 6,653	\$ 6,874
Audit-related fees	428	428
Tax fees	—	—
All other fees	—	—
Total	<u>\$ 7,081</u>	<u>\$ 7,302</u>

Audit fees are for audit services, which are professional services provided by independent auditors for the audit or review of our financial statements or for services that are normally provided by independent auditors with respect to any submissions required under applicable laws and regulations.

Audit-related fees are for audit-related services, which are assurance and related services by independent auditors that are reasonably related to the performance of the audit or review of our financial statements and other related services. This category includes fees for agreed upon procedures and other services related to our securitization transactions.

Auditor Pre-Approval Policy

We comply with pre-approval policies and procedures established by HMC which, among other things, list particular audit services and non-audit services that may be provided without specific pre-approval. None of the services provided were waived from pre-approval requirements pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(1) Our consolidated financial statements, the accompanying notes to consolidated financial statements, and the Report of Independent Registered Public Accounting Firm that are filed as part of this Form 10-K are set forth beginning on page F-1 immediately following the Signatures page of this Form 10-K.

(2) Financial statement schedules have been omitted because they are not applicable, the information required to be contained in them is disclosed in Note 2—Finance Receivables of *Notes to Consolidated Financial Statements* or the amounts involved are not sufficient to require submission.

(3) Exhibits

Exhibit Number	Description
3.1 ⁽¹⁾	Articles of Incorporation of American Honda Finance Corporation, dated February 6, 1980, and Certificates of Amendment to the Articles of Incorporation, dated March 29, 1984, November 13, 1988, December 4, 1989, July 2, 1991, April 3, 1997, November 30, 1999, and December 17, 2003.
3.2 ⁽¹⁾	Amended and Restated Bylaws of American Honda Finance Corporation, dated April 27, 2010.
4.1 ⁽¹⁾	Form of Specimen Common Stock of American Honda Finance Corporation.
4.2	American Honda Finance Corporation agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of American Honda Finance Corporation and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the American Honda Finance Corporation and its subsidiaries.
4.3 ⁽²⁾	Amended and Restated Issuing and Paying Agency Agreement between American Honda Finance Corporation and The Bank of New York Mellon, dated as of August 27, 2012.
4.4	Trust Indenture between Honda Canada Finance Inc., as issuer, and BNY Trust Company of Canada (as successor to CIBC Mellon Trust Company), as trustee, dated as of September 26, 2005⁽³⁾, as supplemented by supplemental indentures from time to time, and the Form of Debenture⁽⁴⁾.
4.5 ⁽⁵⁾	Indenture, dated September 5, 2013, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.6 ⁽⁶⁾	First Supplemental Indenture, dated February 8, 2018, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.7	Form of Fixed Rate Medium-Term Note, Series A⁽⁷⁾ and Form of Floating Rate Medium-Term Note, Series A⁽⁸⁾.
4.8 ⁽⁹⁾	Description of 1.300% Medium-Term Notes, Series A, due March 21, 2022
4.9 ⁽⁹⁾	Description of 2.625% Medium-Term Notes, Series A, due October 14, 2022
4.10 ⁽⁹⁾	Description of 1.375% Medium-Term Notes, Series A, due November 10, 2022
4.11 ⁽⁹⁾	Description of 0.550% Medium-Term Notes, Series A, due March 17, 2023
4.12 ⁽⁹⁾	Description of 0.750% Medium-Term Notes, Series A, due January 17, 2024
4.13 ⁽⁹⁾	Description of 0.350% Medium-Term Notes, Series A, due August 26, 2022
4.14 ⁽²⁴⁾	Description of 1.600% Medium-Term Notes, Series A, due April 20, 2022
4.15 ⁽²⁴⁾	Description of 1.950% Medium-Term Notes, Series A, due October 18, 2024

Exhibit Number	Description
10.1 ⁽¹⁰⁾	<u>\$1,300,000,000 Second Amended and Restated Credit Agreement, dated as of March 24, 2014, among HCFI, as the borrower, the lenders party thereto, and Canadian Imperial Bank of Commerce, as administrative agent, joint bookrunner and co-lead arranger, RBC Capital Markets, as joint bookrunner and co-lead arranger, BMO Capital Markets, as co-lead arranger, The Toronto-Dominion Bank, as co-arranger and co-syndication agent, Bank of Tokyo-Mitsubishi UFJ (Canada), as co-arranger and co-syndication agent, Bank of Montreal, as co-syndication agent, Royal Bank of Canada, as co-syndication agent, and Mizuho Corporate Bank, Ltd., Canada Branch, as documentation agent.</u>
10.2 ⁽¹¹⁾	<u>Amendment, dated as of June 30, 2014, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.</u>
10.3 ⁽¹²⁾	<u>Second Amendment, dated as of March 13, 2015, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.</u>
10.4 ⁽¹³⁾	<u>Third Amendment, dated as of March 23, 2016, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.</u>
10.5 ⁽¹⁴⁾	<u>Fourth Amendment dated as of March 23, 2017 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.</u>
10.6 ⁽¹⁵⁾	<u>Fifth Amendment dated as of March 13, 2018 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.</u>
10.7 ⁽⁹⁾	<u>Sixth Amendment, dated as of March 12, 2019 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.</u>
10.8 ⁽¹⁶⁾	<u>Seventh Amendment, dated as of March 19, 2020 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.</u>
10.9 ⁽¹⁷⁾	<u>\$3,500,000,000 364-Day Credit Agreement, dated February 28, 2020, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and MUFG Bank, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citigroup Global Markets Inc. and Mizuho Bank, Ltd., as joint lead arrangers and joint bookrunners.</u>
10.10 ⁽¹⁸⁾	<u>\$2,100,000,000 Three-Year Credit Agreement, dated February 28, 2020, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank, Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and MUFG Bank, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citigroup Global Markets Inc. and Mizuho Bank, Ltd., as joint lead arrangers and joint bookrunners.</u>
10.11 ⁽¹⁹⁾	<u>\$1,400,000,000 Five-Year Credit Agreement, dated February 28, 2020, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank, Inc., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and MUFG Bank, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citigroup Global Markets Inc. and Mizuho Bank, Ltd., as joint lead arrangers and joint bookrunners.</u>
10.12 ⁽²⁰⁾	<u>Keep Well Agreement between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated September 9, 2005.</u>
10.13 ⁽²¹⁾	<u>Support Compensation Agreement, between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated as of April 1, 2019.</u>
10.14 ⁽²²⁾	<u>Keep Well Agreement between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated September 26, 2005.</u>
10.15 ⁽²³⁾	<u>Support Compensation Agreement, between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated as of April 1, 2019.</u>
23.1 ⁽²⁴⁾	<u>Consent of KPMG LLP</u>
31.1 ⁽²⁴⁾	<u>Certification of Principal Executive Officer</u>
31.2 ⁽²⁴⁾	<u>Certification of Principal Financial Officer</u>

Exhibit Number	Description
32.1 ⁽²⁵⁾	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2 ⁽²⁵⁾	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS ⁽²⁴⁾	XBRL Instance Document
101.SCH ⁽²⁴⁾	XBRL Taxonomy Extension Schema Document
101.CAL ⁽²⁴⁾	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB ⁽²⁴⁾	XBRL Taxonomy Extension Label Linkbase Document
101.PRE ⁽²⁴⁾	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF ⁽²⁴⁾	XBRL Taxonomy Extension Definition Linkbase Document

- (1) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, dated June 28, 2013.
- (2) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
- (3) Incorporated herein by reference to Exhibit number 4.5 filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
- (4) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 12, 2015.
- (5) Incorporated herein by reference to Exhibit number 4.1 filed with our registration statement on Form S-3, dated September 5, 2013.
- (6) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 8, 2018.
- (7) Incorporated herein by reference to Exhibit number 4.1 filed with our current report on Form 8-K, dated August 8, 2019.
- (8) Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 8, 2019.
- (9) Incorporated herein by reference to the same numbered Exhibit filed with our annual report on Form 10-K, dated June 21, 2019.
- (10) Incorporated herein by reference to the same numbered Exhibit filed with our current report on Form 8-K, dated March 24, 2014.
- (11) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated June 30, 2014.
- (12) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 13, 2015.
- (13) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2016.
- (14) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2017.
- (15) Incorporated herein by reference to the same numbered Exhibit filed with our annual report on Form 10-K, dated June 21, 2018.
- (16) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2020.
- (17) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 4, 2020.
- (18) Incorporated herein by reference to Exhibit number 10.2 filed with our current report on Form 8-K, dated March 4, 2020.
- (19) Incorporated herein by reference to Exhibit number 10.3 filed with our current report on Form 8-K, dated March 4, 2020.
- (20) Incorporated herein by reference to Exhibit 10.1 filed with our registration statement on Form 10, dated June 28, 2013.
- (21) Incorporated herein by reference to Exhibit 10.15 filed with our annual report on Form 10-K, dated June 21, 2019.
- (22) Incorporated herein by reference to Exhibit 10.3 filed with our registration statement on Form 10, dated June 28, 2013.
- (23) Incorporated herein by reference to Exhibit 10.17 filed with our annual report on Form 10-K, dated June 21, 2019.
- (24) Filed herewith.
- (25) Furnished herewith.

Item 16. Form 10-K Summary

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: June 22, 2020

AMERICAN HONDA FINANCE CORPORATION

By: /s/ Paul C. Honda

Paul C. Honda
Vice President and Assistant Secretary
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Hideo Moroe</u> Hideo Moroe	President and Director (Principal Executive Officer)	June 22, 2020
<u>/s/ Masahiro Nakamura</u> Masahiro Nakamura	Vice President, Treasurer and Director (Principal Financial Officer)	June 22, 2020
<u>/s/ Paul C. Honda</u> Paul C. Honda	Vice President and Assistant Secretary (Principal Accounting Officer)	June 22, 2020
<u>/s/ Ferrell Kemp</u> Ferrell Kemp	Vice President and Director	June 22, 2020
<u>Shinji Aoyama</u>	Director	
<u>Jiro Morisawa</u>	Director	

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

INDEX TO FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2020

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Consolidated Balance Sheets</u>	<u>F-3</u>
<u>Consolidated Statements of Income</u>	<u>F-4</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>F-4</u>
<u>Consolidated Statements of Changes in Equity</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-8</u>
<u>Note 1 – Summary of Business and Significant Accounting Policies</u>	<u>F-8</u>
<u>Note 2 – Finance Receivables</u>	<u>F-15</u>
<u>Note 3 – Investment in Operating Leases</u>	<u>F-20</u>
<u>Note 4 – Debt</u>	<u>F-21</u>
<u>Note 5 – Derivative Instruments</u>	<u>F-24</u>
<u>Note 6 – Transactions Involving Related Parties</u>	<u>F-25</u>
<u>Note 7 – Income Taxes</u>	<u>F-27</u>
<u>Note 8 – Benefit Plans</u>	<u>F-31</u>
<u>Note 9 – Commitment and Contingencies</u>	<u>F-31</u>
<u>Note 10 – Securitizations and Variable Interest Entities</u>	<u>F-32</u>
<u>Note 11 – Other Assets</u>	<u>F-34</u>
<u>Note 12 – Other Liabilities</u>	<u>F-34</u>
<u>Note 13 – Other Income</u>	<u>F-35</u>
<u>Note 14 – Fair Value Measurements</u>	<u>F-35</u>
<u>Note 15 – Segment Information</u>	<u>F-38</u>
<u>Note 16 – Selected Quarterly Financial Data (Unaudited)</u>	<u>F-41</u>

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of
American Honda Finance Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of American Honda Finance Corporation, a wholly-owned subsidiary of American Honda Motor Co., Inc., and subsidiaries (the Company) as of March 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2020, and the related notes (collectively, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2020, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit 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.

/s/ KPMG LLP

We have served as the Company's auditor since 1989.

Los Angeles, California
June 22, 2020

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS
(U.S. dollars in millions, except share data)

	March 31,	
	2020	2019
Assets		
Cash and cash equivalents	\$ 1,503	\$ 795
Finance receivables, net	39,554	40,424
Investment in operating leases, net	33,843	32,606
Due from Parent and affiliated companies	93	162
Income taxes receivable	137	228
Other assets	1,378	1,369
Derivative instruments	748	380
Total assets	<u>\$ 77,256</u>	<u>\$ 75,964</u>
Liabilities and Equity		
Debt	\$ 50,132	\$ 49,754
Due to Parent and affiliated companies	72	106
Income taxes payable	239	152
Deferred income taxes	6,589	6,399
Other liabilities	1,689	1,717
Derivative instruments	972	568
Total liabilities	<u>\$ 59,693</u>	<u>\$ 58,696</u>
Commitments and contingencies (Note 9)		
Shareholder's equity:		
Common stock, \$100 par value. Authorized 15,000,000 shares; issued and outstanding 13,660,000 shares as of March 31, 2020 and 2019	\$ 1,366	\$ 1,366
Retained earnings	15,395	15,088
Accumulated other comprehensive loss	(175)	(118)
Total shareholder's equity	<u>16,586</u>	<u>16,336</u>
Noncontrolling interest in subsidiary	977	932
Total equity	<u>17,563</u>	<u>17,268</u>
Total liabilities and equity	<u>\$ 77,256</u>	<u>\$ 75,964</u>

The following table presents the assets and liabilities of consolidated variable interest entities. These assets and liabilities are included in the consolidated balance sheets presented above. Refer to Note 10 for additional information.

	March 31,	
	2020	2019
Finance receivables, net	\$ 9,645	\$ 9,073
Investment in operating leases, net	493	—
Other assets	598	600
Total assets	<u>\$ 10,736</u>	<u>\$ 9,673</u>
Secured debt	\$ 9,748	\$ 8,790
Other liabilities	9	8
Total liabilities	<u>\$ 9,757</u>	<u>\$ 8,798</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME
(U.S. dollars in millions)

	Years ended March 31,		
	2020	2019	2018
Revenues:			
Retail	\$ 1,737	\$ 1,614	\$ 1,382
Dealer	222	232	175
Operating leases	7,749	7,253	6,890
Total revenues	9,708	9,099	8,447
Leased vehicle expenses	5,693	5,389	5,391
Interest expense	1,241	1,190	897
Net revenues	2,774	2,520	2,159
Other income	88	71	56
Total net revenues	2,862	2,591	2,215
Expenses:			
General and administrative expenses	498	456	439
Provision for credit losses	402	249	244
Impairment loss on operating leases	—	14	—
Early termination loss on operating leases	331	101	108
(Gain)/Loss on derivative instruments	305	509	(550)
(Gain)/Loss on foreign currency revaluation of debt	(107)	(407)	494
Total expenses	1,429	922	735
Income before income taxes	1,433	1,669	1,480
Income tax expense/(benefit)	424	428	(2,629)
Net income	1,009	1,241	4,109
Less: Net income attributable to noncontrolling interest	97	96	100
Net income attributable to American Honda Finance Corporation	\$ 912	\$ 1,145	\$ 4,009

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(U.S. dollars in millions)

	Years ended March 31,		
	2020	2019	2018
Net income	\$ 1,009	\$ 1,241	\$ 4,109
Other comprehensive income/(loss):			
Foreign currency translation adjustment	(109)	(63)	48
Comprehensive income	900	1,178	4,157
Less: Comprehensive income attributable to noncontrolling interest	45	66	123
Comprehensive income attributable to American Honda Finance Corporation	\$ 855	\$ 1,112	\$ 4,034

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(U.S. dollars in millions)

	Total	Retained earnings	Accumulated other comprehensive income/(loss)	Common stock	Noncontrolling interest
Balance at March 31, 2017	\$ 12,786	\$ 10,787	\$ (110)	\$ 1,366	\$ 743
Net income	4,109	4,009	—	—	100
Other comprehensive loss	48	—	25	—	23
Dividends paid	(347)	(347)	—	—	—
Balance at March 31, 2018	\$ 16,596	\$ 14,449	\$ (85)	\$ 1,366	\$ 866
Net income	1,241	1,145	—	—	96
Other comprehensive loss	(63)	—	(33)	—	(30)
Dividends paid	\$ (506)	\$ (506)	\$ —	\$ —	\$ —
Balance at March 31, 2019	\$ 17,268	\$ 15,088	\$ (118)	\$ 1,366	\$ 932
Net income	1,009	912	—	—	97
Other comprehensive income	(109)	—	(57)	—	(52)
Dividends paid	(605)	(605)	—	—	—
Balance at March 31, 2020	<u>\$ 17,563</u>	<u>\$ 15,395</u>	<u>\$ (175)</u>	<u>\$ 1,366</u>	<u>\$ 977</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in millions)

	Years ended March 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 1,009	\$ 1,241	\$ 4,109
Adjustments to reconcile net income to net cash provided by operating activities:			
Debt and derivative instrument valuation adjustments	97	104	(42)
Provision for credit losses	402	249	244
Early termination loss on operating leases and impairment on operating leases	331	115	108
Depreciation on leased vehicles	5,705	5,520	5,481
Accretion of unearned subsidy income	(1,648)	(1,642)	(1,451)
Amortization of deferred dealer participation and other deferred costs	367	339	318
Gain on disposition of lease vehicles	(153)	(131)	(90)
Deferred income taxes	209	374	(2,768)
Changes in operating assets and liabilities:			
Income taxes receivable/payable	178	(166)	349
Other assets	(36)	(51)	(56)
Accrued interest/discounts on debt	32	64	69
Other liabilities	(31)	218	96
Due to/from Parent and affiliated companies	34	(4)	88
Net cash provided by operating activities	<u>6,496</u>	<u>6,230</u>	<u>6,455</u>
Cash flows from investing activities:			
Finance receivables acquired	(17,221)	(19,058)	(17,971)
Principal collected on finance receivables	17,386	16,140	15,732
Net change in wholesale loans	112	(252)	(337)
Purchase of operating lease vehicles	(17,775)	(16,389)	(14,268)
Disposal of operating lease vehicles	10,548	9,534	8,304
Cash received for unearned subsidy income	1,134	1,966	1,676
Other investing activities, net	(6)	(7)	(46)
Net cash used in investing activities	<u>(5,822)</u>	<u>(8,066)</u>	<u>(6,910)</u>
Cash flows from financing activities:			
Proceeds from issuance of commercial paper	37,084	33,697	36,190
Paydown of commercial paper	(37,282)	(33,083)	(35,520)
Proceeds from issuance of short-term debt	629	1,099	381
Paydown of short-term debt	(1,100)	(300)	(325)
Proceeds from issuance of related party debt	3,004	3,812	4,135
Paydown of related party debt	(3,193)	(4,121)	(4,294)
Proceeds from issuance of medium term notes and other debt	8,633	9,278	7,238
Paydown of medium term notes and other debt	(8,144)	(7,949)	(7,174)
Proceeds from issuance of secured debt	6,188	4,764	5,149
Paydown of secured debt	(5,187)	(4,689)	(4,901)
Dividends paid	(605)	(506)	(347)
Net cash provided by financing activities	<u>27</u>	<u>2,002</u>	<u>532</u>
Effect of exchange rate changes on cash and cash equivalents	<u>1</u>	<u>(9)</u>	<u>7</u>
Net increase in cash and cash equivalents	<u>702</u>	<u>157</u>	<u>84</u>
Cash and cash equivalents at beginning of year	1,383	1,226	1,142
Cash and cash equivalents at end of year	<u>\$ 2,085</u>	<u>\$ 1,383</u>	<u>\$ 1,226</u>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 1,080	\$ 985	\$ 826
Income taxes paid/(received)	(69)	141	(206)

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

The following table provides a reconciliation of cash and cash equivalents and restricted cash from the Consolidated Balance Sheets to the Consolidated Statements of Cash Flows.

	March 31,		
	2020	2019	2018
Cash and cash equivalents	\$ 1,503	\$ 795	\$ 783
Restricted cash included in other assets ⁽¹⁾	582	588	443
	<u>\$ 2,085</u>	<u>\$ 1,383</u>	<u>1,226</u>

(1) Restricted cash balances relate primarily to securitization arrangements (Note 10).

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(1) Summary of Business and Significant Accounting Policies

American Honda Finance Corporation (AHFC) is a wholly-owned subsidiary of American Honda Motor Co., Inc. (AHM or the Parent). Honda Canada Finance Inc. (HCFI) is a majority-owned subsidiary of AHFC. Noncontrolling interest in HCFI is held by Honda Canada Inc. (HCI), an affiliate of AHFC. AHM is a wholly-owned subsidiary and HCI is an indirect wholly-owned subsidiary of Honda Motor Co., Ltd. (HMC). AHM and HCI are the sole authorized distributors of Honda and Acura products, including motor vehicles, parts, and accessories in the United States and Canada.

Unless otherwise indicated by the context, all references to the “Company”, “we”, “us”, and “our” in this report include AHFC and its consolidated subsidiaries (refer Note 1(b) *Principles of Consolidation* below), and references to “AHFC” refer solely to American Honda Finance Corporation (excluding AHFC’s subsidiaries).

The Company provides various forms of financing to authorized independent dealers of Honda and Acura products and their customers in the United States and Canada. The Company also finances a limited number of vehicles other than Honda and Acura products. The Company’s financing products include the following categories:

Retail Loans – The Company acquires retail installment contracts from dealers who originate the contracts with consumers. Retail loans are collateralized by liens on the related vehicles or equipment. Retail loan terms range primarily from two to six years.

Retail Leases – The Company acquires closed-end vehicle lease contracts between dealers and their customers. The dealer assigns all of its rights, title, and interest in the lease and motor vehicle to the Company upon acquisition. Lease terms range primarily from two to five years.

Dealer Loans – The Company provides wholesale and commercial loans to dealers. Wholesale loans are used by dealers to finance the purchase of inventory. The Company retains purchase money security interest in all inventory financed; however, the Company has no right to recover a product sold to consumers in the ordinary course of business. The Company has agreements with AHM and HCI, which provide for their repurchase of new, unused, and unregistered vehicles or equipment that have been repossessed from a dealer who defaults on a wholesale loan. Commercial loans are used primarily for financing dealership property and working capital purposes. Commercial loans are generally secured by the associated properties, as well as corporate or personal guarantees from, or on behalf of, the related dealer’s principals.

The Company’s finance receivables and investment in operating leases are geographically diversified throughout the United States and Canada.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated balance sheets and revenues and expenses for the applicable periods. Those estimates include, among other things, the residual value estimates of lease vehicles and estimates for the allowances for credit losses and early termination losses on operating leases. Actual results could differ significantly from these estimates.

(a) Business Risks

The Company’s business is substantially dependent upon the sale of Honda and Acura products. The financing business is also highly competitive. The Company’s competitors and potential competitors include national, regional, and local finance companies and other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, and credit unions. The Company’s future profitability will be largely dependent upon its ability to provide cost-competitive, quality financial products and services to its customers and to the availability and cost of its capital in relation to that of its competitors. The Company’s liquidity is largely dependent on access to credit markets. The Company has been able to meet funding needs through diversified funding sources.

Higher than expected credit losses and lower than anticipated lease residual values due to prolonged periods of negative economic and market conditions can adversely affect the Company's financial position, results of operations, and related cash flows. The Company manages these risks with purchasing and residual value setting standards, collection efforts, and lease remarketing programs. Refer to Note 1(g) for additional discussion on the allowance for credit losses and Note 1(h) for additional discussion on the determination of lease residual values.

The Company is exposed to market risks, principally interest rate and foreign currency risks, and utilizes derivative instruments to manage those risks. Although the use of derivative instruments mitigates a substantial portion of these risks, not all risk is eliminated. Refer to Note 1(n) for additional discussion on derivative instruments.

(b) *Principles of Consolidation*

The consolidated financial statements include the accounts of AHFC and its subsidiaries. All subsidiaries are wholly-owned, except for HCFI, which is majority-owned (52.33% as of March 31, 2020 and 2019).

The Company also consolidates variable interest entities (VIEs) where the Company is the primary beneficiary. All consolidated VIEs are statutory special purpose entities (SPEs) formed by the Company to accommodate securitization structures.

All significant intercompany balances and transactions have been eliminated upon consolidation.

(c) *Comprehensive Income*

Comprehensive income consists of net income and the effect of foreign currency translation adjustments and is presented in the consolidated statements of comprehensive income.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand and short-term, highly liquid investments with original maturities of three months or less.

(e) *Finance Receivables*

Finance receivables include retail loan and dealer loan portfolio segments. The retail loan portfolio segment consists of retail installment contracts with consumers. The dealer loan portfolio segment consists of wholesale and commercial loans with dealers.

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, 2020 and 2019, all finance receivables were classified as held-for-investment and reported at amortized cost.

Retail and dealer loans include the outstanding principal balance, allowance for credit losses, unearned origination fees, and deferred origination costs. Origination fees include payments received from AHM and HCI for incentive programs (refer to Note 6 regarding these related party transactions). For a limited number of contracts, origination fees include payments received from dealers to buy down the interest rates charged to their customers. Origination costs include initial direct origination costs (IDC) and payments made to dealers for rate participation.

Revenue on finance receivables includes contractual interest income, accretion of origination fees, and amortization of origination costs. Interest income on retail and dealer loans is accrued as earned using the simple interest method. Origination fees and costs are recognized as revenue using the interest method over the contractual life of the finance receivables. The recognition of finance revenue on retail loans and leases is discontinued when the underlying collateral is repossessed or accounts are charged off. The recognition of finance revenue on dealer loans is discontinued when it has been determined the Company will be unable to collect all principal and interest payments.

Retail loans and leases are considered delinquent if more than 10% of a scheduled payment is contractually past due on a cumulative basis. Dealer loans are considered delinquent when any payment is contractually past due. The contractual balance of retail loans and leases, including accrued interest and fees, are automatically charged off when they become 120 days past due or earlier if they have been specifically identified as uncollectible. Dealer loans are charged off when they have been individually identified as uncollectible. Charge-offs of loan and lease balances, including uncollected interest and fees, are recognized as a reduction to the allowance for credit losses. Subsequent recoveries of amounts previously charged off are credited to the allowance.

(f) *Investment in Operating Leases*

The investment in operating leases is reported at cost, less accumulated depreciation and net of unearned origination fees and deferred origination costs. Origination fees include payments received from AHM for incentive programs (refer to Note 6 regarding these related party transactions). For a limited number of contracts, origination fees include payments received from dealers to buy down the rental charges. Origination costs include payments made for dealer participation. Operating lease revenue is recognized on a straight-line basis over the lease term. Operating lease revenue includes accretion of origination fees and is net of amortization of origination costs, which are also recognized on a straight-line basis over the lease term. Operating lease vehicles are depreciated on a straight-line basis over the lease term to the estimated residual value. Refer to Note 1(h) regarding the determination of lease residual values.

A portion of the Company's operating leases is expected to terminate prior to their scheduled maturities when lessees default on their contractual obligations. Losses are generally realized upon the disposition of the repossessed operating lease vehicles. The methodologies used to determine the estimated losses are similar to the methodologies used to determine the allowance for credit losses on consumer finance receivables. Operating leases are collectively evaluated to determine the estimated losses incurred. Estimated early termination losses are recognized as a reduction to the carrying value of operating lease assets.

A review for impairment of the Company's operating lease assets is performed whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Generally, an impairment condition is determined to exist if estimated undiscounted cash flows from the use and eventual disposition of the asset is lower than the carrying value. For the purposes of testing for impairment, operating lease assets are grouped at the lowest level the Company can reasonably estimate cash flows. When impairment conditions are met, impairment losses are measured by the amount carrying values exceed their fair values.

(g) *Allowance for Credit Losses*

The allowance for credit losses is management's estimate of probable losses incurred on finance receivables and is evaluated, at minimum, on a quarterly basis. The retail loan portfolio segment consists primarily of pools of homogeneous loans with relatively small balances, which are collectively evaluated for impairment. Dealer loans are individually evaluated for impairment when specifically identified as impaired. Dealer loans that have not been specifically identified as impaired are collectively evaluated. An allowance for credit losses is also maintained for estimated probable losses incurred on past due operating lease rental payments.

(h) ***Determination of Lease Residual Values***

Contractual residual values of lease vehicles are determined at lease inception based on expectations of end of term used vehicle values, taking into consideration external industry data and the Company's own historical experience. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market based price. Returned lease vehicles that are not purchased by the grounding dealers are sold through online and physical auctions. The Company is exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values at the end of lease term. The Company assesses the estimated end of term market values of the lease vehicles, at minimum, on a quarterly basis. The primary factors affecting the estimates are the percentage of leased vehicles the Company expects to be returned by the lessee at the end of lease term and expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends, and market information on new and used vehicles.

For operating leases, adjustments to the estimated residual values are made on a straight-line basis over the remaining term of the lease and recognized as depreciation expense.

(i) ***Vehicles Held for Disposition***

Vehicles held for disposition consist of returned and repossessed vehicles. The vehicles are either sold at used vehicle auctions or purchased by dealers, usually within two months of return or repossession. The vehicles are valued at the lower of their carrying value or estimated fair value, less estimated disposition costs. For returned vehicles, valuation adjustments are recorded as a charge against the gain/loss on disposition of lease vehicles. Valuation adjustments made for repossessed collateral of finance receivables and operating leases are recognized as charges to the allowance for credit loss and estimated early termination losses on operating leases, respectively.

(j) ***Vehicle Service Contract Administration***

AHFC performs administrative services for vehicle service contracts (VSC) issued by AHM and its subsidiary, American Honda Protection Products Corporation. AHFC receives fees for performing the services when the contracts are acquired, which is recognized in other income over the lives of the underlying contracts, proportionate to the anticipated amount of service to be performed. HCFI performs marketing services for vehicle service contracts issued by HCI. HCFI receives fees as the services are performed, which is recognized in other income.

(k) ***Securitizations and Variable Interest Entities***

The Company enters into securitization transactions for funding purposes. Securitization transactions involve transferring pools of retail loans and operating leases to bankruptcy-remote SPEs. The SPEs are established to accommodate securitization structures, which have the limited purpose of acquiring assets, issuing asset-backed securities, and making payments on the securities. Assets transferred to SPEs are considered legally isolated from the Company and the claims of the Company's creditors. The Company continues to service the retail loans and operating leases transferred to the SPEs. Investors in the notes issued by a SPE only have recourse to the assets of such SPE and do not have recourse to the assets of AHFC, HCFI, or our other subsidiaries or to other SPEs. The assets of SPEs are the only source for repayment on the notes.

The Company's securitizations are structured to provide credit enhancements to investors in notes issued by the SPEs. Credit enhancements can include the following:

Subordinated certificates – securities issued by the SPEs that are retained by the Company and are subordinated in priority of payment to the notes.

Overcollateralization – securitized asset balances that exceed the balance of securities issued by SPEs.

Excess interest – excess interest collections to be used to cover losses on defaulted loans.

Reserve funds – restricted cash accounts held by SPEs to cover shortfalls in payments of interest and principal required to be paid on the notes.

Yield supplement accounts – restricted cash accounts held by SPEs to supplement interest payments on notes.

The risk retention regulations in Regulation RR of the Securities Exchange Act of 1934, as amended, require the sponsor to retain an economic interest in the credit risk of the securitized assets, either directly or through one or more majority-owned affiliates. Standard risk retention options allow the sponsor to retain either an eligible vertical interest, an eligible horizontal residual interest, or a combination of both. The Company has satisfied this obligation by retaining an eligible vertical interest of an amount equal to at least 5% of the principal amount of each class of note and certificate issued for the securitization transaction that was subject to this rule but may choose to use other structures in the future.

The securitization SPEs formed by the Company are VIEs, which are required to be consolidated by their primary beneficiary. The Company is considered to be the primary beneficiary of these SPEs due to (i) the power to direct the activities of the SPEs that most significantly impact the SPEs economic performance through its role as servicer, and (ii) the obligation to absorb losses or the right to receive residual returns that could potentially be significant to the SPEs through the subordinated certificates and residual interest retained.

Consolidation of these SPEs results in the securitization transactions being accounted for as on-balance sheet secured financings. The securitized retail loans and operating leases remain on the consolidated balance sheet of the Company along with the notes issued by the SPEs. The notes are secured solely by the assets of the SPEs and not by any other assets of the Company. The assets of the SPEs are the only source of funds for repayment on the notes. Restricted cash accounts held by the SPEs can only be used to support payments on the notes. The restricted cash accounts are included in the Company's consolidated balance sheet in other assets. The Company recognizes revenue from retail loans and operating leases and provisions for credit losses and uncollectible operating leases on the securitized assets and interest expense on the related secured debt.

(l) *Income Taxes*

The Company's U.S. entities are included in the consolidated U.S. federal and many consolidated or combined state and local income tax returns of the Parent, though in some cases the Company files separately as required by certain state and local jurisdictions. The Company provides its share of the consolidated or combined income tax on a modified separate return basis pursuant to an intercompany income tax allocation agreement that it has entered into with the Parent. The Company files a separate California return based on California's worldwide income and apportionment rules. To the extent the Company's U.S. entities have taxable losses in its consolidated federal, and consolidated or combined state and local tax returns, a benefit will be recognized to the extent that it is more likely than not that these losses will be utilized by the consolidated or combined return group in the current or future year and thus would be subject to current or future reimbursement by the Parent under the terms of the intercompany income tax allocation agreement. To the extent such losses are attributable to a state where the Company files a separate return, a benefit for such losses would be recognized to the extent such losses are more likely than not to be utilized in the future. All but an insignificant amount of the federal and state taxes payable or receivable shown on the consolidated balance sheets are due to or from the Parent, pursuant to the intercompany income tax allocation agreement.

The Company's Canadian subsidiary, HCFI, files Canadian federal and provincial income tax returns based on the separate legal entity financial statements. HCFI does not file U.S. federal, state, or local income tax returns. Consequently, HCFI does not participate in the intercompany income tax allocation agreement that the Company has with the Parent.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under this method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income during the period in which the enactment date occurs. A valuation allowance is provided to offset deferred tax assets if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In addition, tax benefits related to positions considered uncertain are recognized only if, based on the technical merits of the issue, the Company believes that it is more likely than not to sustain the position and then at the largest amount that is greater than 50% likely to be realized upon settlement.

(m) *Foreign Currency Translation*

Upon consolidation, the assets and liabilities of HCFI are translated at year-end exchange rates, and the revenues and expenses are translated at the average rates of exchange during the respective years. The resulting translation adjustment is included in other comprehensive income and the cumulative translation adjustment is reported as a separate component of equity in accumulated other comprehensive income and noncontrolling interest.

Foreign currency denominated debt is translated at year-end exchange rates, and the foreign currency transaction gains and losses are recognized through earnings.

(n) *Derivative Instruments*

The Company utilizes derivative instruments to manage exposures to interest rate and foreign currency risks. The Company's assets consist primarily of fixed rate receivables and operating lease assets. The Company's liabilities consist of both floating and fixed rate debt, denominated in various currencies. Interest rate and basis swaps are used to match the interest rate characteristics of the Company's assets and debt. Currency swaps are used to manage currency risk exposure on foreign currency denominated debt. Derivative instruments are not used for trading or any other speculative purposes.

All derivative financial instruments are recorded on the consolidated balance sheets at fair value. The Company elects to present derivative instruments in the Company's consolidated balance sheets on a gross basis rather than on a net basis by counterparty. Refer to Note 5 for additional information. Except in very limited circumstances involving counterparties with consolidated securitization SPEs, AHFC generally has not entered into credit support (collateral) agreements with its counterparties. Changes in the fair value of derivatives are recognized in earnings in the period of the change. In Canada, HCFI is a party to credit support agreements that require posting of cash collateral to mitigate credit risk on derivative positions.

(o) *Recently Adopted Accounting Standards*

Effective April 1, 2019, the Company adopted Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*, and the related amendments using the modified retrospective approach. Prior period comparative information has not been restated and will continue to be reported under previous accounting policies. The Company also elected the package of practical expedients which allows the Company to not reassess prior conclusions about lease identification, classification, and initial direct costs. The adoption of the new lease standard did not have a cumulative-effect adjustment to the opening balance of retained earnings.

Upon adoption, the Company recognized right-of-use assets of \$56 million, lease liabilities of \$62 million, and a reduction in other liabilities of \$6 million for accrued rent and unamortized tenant improvement allowances for existing operating leases as a lessee. The new lease standard is not expected to have a significant impact on the Company's net income on an ongoing basis.

Lessor accounting remains largely unchanged except for limited amendments impacting the Company's income statement classification of the following: (i) the Company has elected to record the general allowance for uncollectible operating lease receivables through a reduction to revenue rather than a provision for credit loss, (ii) lessor costs, such as property taxes, paid directly to third parties and reimbursed by lessee which were presented net are now recognized gross as revenue and expense, and (iii) the amortization of initial direct costs which was previously recognized as a reduction of lease revenue is now presented as an expense. The Company has elected to exclude from lease revenue and expenses, sales taxes and other similar taxes collected from lessees on behalf of governmental agencies, which is consistent with previous accounting policies.

Effective April 1, 2019, the Company adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The adoption of this standard did not impact the Company's consolidated financial statements since there were no designated hedge accounting relationships.

(p) Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses. The Company adopted the new standard and related amendments effective April 1, 2020 on a modified retrospective basis. The allowance for credit losses will increase by approximately \$100 million, primarily for retail loans. The after-tax cumulative-effect reduction to opening retained earnings and noncontrolling interest will be approximately \$75 million. In general, the provision for credit losses in future periods is expected to have greater volatility under the new standard given the longer forecast period of lifetime expected credit losses.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments modify the disclosure requirements on fair value measurements in Topic 820, based on FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. Certain disclosure requirements were removed, modified and added in Topic 820. This standard is not expected to have an impact on the consolidated financial statements. The Company adopted the new guidance effective April 1, 2020.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The Company is currently assessing the impact of this standard on the consolidated financial statements. The Company plans to adopt the new guidance effective April 1, 2021.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The guidance provides optional expedients and exceptions for applying GAAP to contracts or other transactions affected by reference rate reform if certain criteria are met. The guidance is effective immediately and may be applied prospectively through December 31, 2022. The Company is evaluating applicable contracts and transactions to determine whether to elect the optional guidance.

(2) **Finance Receivables**

Finance receivables consisted of the following:

	March 31, 2020		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Finance receivables	\$ 34,623	\$ 5,606	\$ 40,229
Allowance for credit losses	(364)	(6)	(370)
Deferred dealer participation and other deferred costs	441	—	441
Unearned subsidy income	(746)	—	(746)
Finance receivables, net	<u>\$ 33,954</u>	<u>\$ 5,600</u>	<u>\$ 39,554</u>

	March 31, 2019		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Finance receivables	\$ 35,457	\$ 5,835	\$ 41,292
Allowance for credit losses	(193)	(8)	(201)
Deferred dealer participation and other deferred costs	431	—	431
Unearned subsidy income	(1,098)	—	(1,098)
Finance receivables, net	<u>\$ 34,597</u>	<u>\$ 5,827</u>	<u>\$ 40,424</u>

Finance receivables include retail loans with a net carrying amount of \$9.6 billion and \$9.1 billion as of March 31, 2020 and 2019, respectively, which have been transferred to bankruptcy-remote SPEs and are considered to be legally isolated but do not qualify for sale accounting treatment. These retail loans are restricted as collateral for the payment of the related secured debt obligations. Refer to Note 10 for additional information.

Contractual maturities of retail loans at March 31, 2020 were as follows:

<u>Year ending March 31,</u>	(U.S. dollars in millions)
2021	\$ 10,034
2022	8,980
2023	7,234
2024	4,956
2025	2,538
Thereafter	881
Total	<u>\$ 34,623</u>

It is the Company's experience that a portion of the finance receivable portfolio generally is repaid before contractual maturity dates. Aggregate contractual maturities, as shown above for retail finance receivables, should not be regarded as a forecast of future cash collections.

Credit Quality of Finance Receivables

Credit losses are an expected cost of extending credit. The majority of our credit risk is with consumer financing and to a lesser extent with dealer financing. Credit risk on consumer finance receivables can be affected by general economic conditions. Adverse changes such as a rise in unemployment can increase the likelihood of defaults. Declines in used vehicle prices can reduce the amount of recoveries on repossessed collateral. Credit risk on dealer loans is affected primarily by the financial strength of the dealers within the portfolio, the value of collateral securing the financings, and economic and market factors that could affect the creditworthiness of dealers. Exposure to credit risk is managed through regular monitoring and adjusting of underwriting standards, pricing of contracts for expected losses, focusing collection efforts to minimize losses, and ongoing reviews of the financial condition of dealers.

Allowance for Credit Losses

The allowance for credit losses is management's estimate of probable losses incurred on finance receivables, which requires significant judgment and assumptions that are inherently uncertain. The allowance is based on management's evaluation of many factors, including the Company's historical credit loss experience, the value of the underlying collateral, delinquency trends, and economic conditions.

Consumer finance receivables in the retail loan segment are collectively evaluated for impairment. Delinquencies and losses are monitored on an ongoing basis and the Company's historical experience provides the primary basis for estimating the allowance. Management utilizes various methodologies when estimating the allowance for credit losses, including models which incorporate vintage loss and delinquency migration analysis. These models take into consideration attributes of the portfolio including loan-to-value ratios, internal and external credit scores at loan inception, collateral types, and loan terms. Market and economic factors such as used vehicle prices, unemployment, and consumer debt service burdens are also incorporated into these models.

Dealer loans are individually evaluated for impairment when specifically identified as impaired. Dealer loans are considered impaired when it is probable that the Company will be unable to collect the amounts due according to the terms of the applicable contract. The Company's determination of whether dealer loans are impaired is based on evaluations of the dealership's payment history, financial condition, ability to perform under the terms of the loan agreements, and collateral values as applicable. Dealer loans that have not been specifically identified as impaired are collectively evaluated for impairment.

There were no modifications to the terms of dealer loan contracts that constituted troubled debt restructurings during the fiscal years ended March 31, 2020, 2019 and 2018.

The Company generally does not grant concessions on consumer finance receivables that are considered troubled debt restructurings other than modifications of retail loans in reorganization proceedings pursuant to the U.S. Bankruptcy Code. Retail loans modified under bankruptcy protection were not material to the Company's consolidated financial statements during the fiscal years ended March 31, 2020, 2019 and 2018. The Company does allow limited payment deferrals on consumer finance receivables. Payment deferrals were also granted to customers impacted by COVID-19. These payment deferrals are not treated as troubled debt restructurings since the deferrals are deemed insignificant and interest continues to accrue during the deferral period.

The following is a summary of the activity in the allowance for credit losses of finance receivables:

	Year ended March 31, 2020		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Beginning balance	\$ 193	\$ 8	\$ 201
Provision	388	14	402
Charge-offs	(317)	(17)	(334)
Recoveries	100	1	101
Effect of translation adjustment	—	—	—
Ending balance	<u>\$ 364</u>	<u>\$ 6</u>	<u>\$ 370</u>
Allowance for credit losses – ending balance:			
Individually evaluated for impairment	\$ —	\$ 1	\$ 1
Collectively evaluated for impairment	364	5	369
Finance receivables – ending balance:			
Individually evaluated for impairment	\$ —	\$ 10	\$ 10
Collectively evaluated for impairment	34,318	5,596	39,914

	Year ended March 31, 2019		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Beginning balance	\$ 179	\$ —	\$ 179
Provision	202	7	209
Charge-offs	(279)	(1)	(280)
Recoveries	91	2	93
Effect of translation adjustment	—	—	—
Ending balance	<u>\$ 193</u>	<u>\$ 8</u>	<u>\$ 201</u>
Allowance for credit losses – ending balance:			
Individually evaluated for impairment	\$ —	\$ 8	\$ 8
Collectively evaluated for impairment	193	—	193
Finance receivables – ending balance:			
Individually evaluated for impairment	\$ —	\$ 150	\$ 150
Collectively evaluated for impairment	34,790	5,685	40,475

	Year ended March 31, 2018		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Beginning balance	\$ 133	\$ —	\$ 133
Provision	211	2	213
Charge-offs	(244)	(2)	(246)
Recoveries	79	—	79
Effect of translation adjustment	—	—	—
Ending balance	<u>\$ 179</u>	<u>\$ —</u>	<u>\$ 179</u>
Allowance for credit losses – ending balance:			
Individually evaluated for impairment	\$ —	\$ —	\$ —
Collectively evaluated for impairment	179	—	179
Finance receivables – ending balance:			
Individually evaluated for impairment	\$ —	\$ 128	\$ 128
Collectively evaluated for impairment	32,649	5,367	38,016

Delinquencies

The following is an aging analysis of past due finance receivables:

	30 – 59 days past due	60 – 89 days past due	90 days or greater past due	Total past due	Current or less than 30 days past due	Total finance receivables
	(U.S. dollars in millions)					
March 31, 2020						
Retail loans:						
New auto	\$ 222	\$ 50	\$ 13	\$ 285	\$ 27,495	\$ 27,780
Used and certified auto	84	20	5	109	5,174	5,283
Motorcycle and other	12	4	2	18	1,237	1,255
Total retail	<u>318</u>	<u>74</u>	<u>20</u>	<u>412</u>	<u>33,906</u>	<u>34,318</u>
Dealer loans:						
Wholesale flooring	1	—	—	1	4,529	4,530
Commercial loans	—	—	—	—	1,076	1,076
Total dealer loans	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>5,605</u>	<u>5,606</u>
Total finance receivables	<u>\$ 319</u>	<u>\$ 74</u>	<u>\$ 20</u>	<u>\$ 413</u>	<u>\$ 39,511</u>	<u>\$ 39,924</u>
March 31, 2019						
Retail loans:						
New auto	\$ 214	\$ 41	\$ 10	\$ 265	\$ 28,521	\$ 28,786
Used and certified auto	70	14	4	88	4,712	4,800
Motorcycle and other	12	3	2	17	1,187	1,204
Total retail	<u>296</u>	<u>58</u>	<u>16</u>	<u>370</u>	<u>34,420</u>	<u>34,790</u>
Dealer loans:						
Wholesale flooring	1	—	17	18	4,668	4,686
Commercial loans	51	—	17	68	1,081	1,149
Total dealer loans	<u>52</u>	<u>—</u>	<u>34</u>	<u>86</u>	<u>5,749</u>	<u>5,835</u>
Total finance receivables	<u>\$ 348</u>	<u>\$ 58</u>	<u>\$ 50</u>	<u>\$ 456</u>	<u>\$ 40,169</u>	<u>\$ 40,625</u>

Credit Quality Indicators

Retail Loan Segment

The Company utilizes proprietary credit scoring systems to evaluate the credit risk of applicants for retail loans. These systems assign internal credit scores based on various factors, including the applicant's credit bureau information and contract terms. The internal credit score provides the primary basis for credit decisions when acquiring retail loan contracts. Internal credit scores are determined only at the time of origination and are not reassessed during the life of the contract.

Subsequent to origination, collection experience provides an indication of the credit quality of consumer finance receivables. The likelihood of accounts charging off is significantly higher once an account becomes 60 days delinquent. Accounts that are current or less than 60 days past due are considered to be performing. Accounts that are 60 days or more past due are considered to be nonperforming. In addition, principal balances of finance receivables for which payments were deferred due to COVID-19 are still considered to be performing. The table below presents the Company's portfolio of retail loans by this credit quality indicator:

	Retail new auto loans	Retail used and certified auto loans	Retail motorcycle and other loans	Total consumer finance receivables
(U.S. dollars in millions)				
March 31, 2020				
Performing	\$ 27,717	\$ 5,258	\$ 1,249	\$ 34,224
Nonperforming	63	25	6	94
Total	<u>\$ 27,780</u>	<u>\$ 5,283</u>	<u>\$ 1,255</u>	<u>\$ 34,318</u>
March 31, 2019				
Performing	\$ 28,735	\$ 4,782	\$ 1,199	\$ 34,716
Nonperforming	51	18	5	74
Total	<u>\$ 28,786</u>	<u>\$ 4,800</u>	<u>\$ 1,204</u>	<u>\$ 34,790</u>

Dealer Loan Portfolio Segment

The Company utilizes an internal risk rating system to evaluate dealer credit risk. Dealerships are assigned an internal risk rating based on an assessment of their financial condition and other factors. Factors including liquidity, financial strength, management effectiveness, and operating efficiency are evaluated when assessing their financial condition. Financing limits and interest rates are based upon these risk ratings. Monitoring activities including financial reviews and inventory inspections are performed more frequently for dealerships with weaker risk ratings. The financial conditions of dealerships are reviewed and their risk ratings are updated at least annually.

The Company's outstanding portfolio of dealer loans has been divided into two groups in the table below. Group A includes the loans of dealerships with the strongest internal risk rating. Group B includes the loans of all remaining dealers.

	March 31,					
	2020			2019		
	Wholesale flooring	Commercial loans	Total	Wholesale flooring	Commercial loans	Total
(U.S. dollars in millions)						
Group A	\$ 2,857	\$ 856	\$ 3,713	\$ 3,121	\$ 823	\$ 3,944
Group B	1,672	221	1,893	1,565	326	1,891
Total	<u>\$ 4,529</u>	<u>\$ 1,077</u>	<u>\$ 5,606</u>	<u>\$ 4,686</u>	<u>\$ 1,149</u>	<u>\$ 5,835</u>

(3) Investment in Operating Leases

Investment in operating leases consisted of the following:

	March 31,	
	2020	2019
	(U.S. dollars in millions)	
Operating lease vehicles	\$ 43,624	\$ 42,427
Accumulated depreciation	(8,219)	(8,262)
Deferred dealer participation and initial direct costs	131	119
Unearned subsidy income	(1,376)	(1,563)
Estimated early termination losses	(317)	(115)
Investment in operating leases, net	<u>\$ 33,843</u>	<u>\$ 32,606</u>

Operating lease revenue consisted of the following:

	Years ended March 31,		
	2020	2019	2018
	(U.S. dollars in millions)		
Lease payments	\$ 6,713	\$ 6,395	\$ 6,127
Subsidy income and dealer rate participation, net ⁽¹⁾	968	858	763
Reimbursed lessor costs ⁽²⁾	68	—	—
Total operating lease revenue, net	<u>\$ 7,749</u>	<u>\$ 7,253</u>	<u>\$ 6,890</u>

(1) Includes amortization of initial direct costs during the fiscal years ended March 31, 2019 and 2018.

(2) Reimbursed lessor costs were presented net during the fiscal years ended March 31, 2019 and 2018.

Leased vehicle expenses consisted of the following:

	Years ended March 31,		
	2020	2019	2018
	(U.S. dollars in millions)		
Depreciation expense	\$ 5,705	\$ 5,520	\$ 5,481
Initial direct costs and other lessor costs ⁽¹⁾	141	—	—
Gain on disposition of leased vehicles ⁽²⁾	(153)	(131)	(90)
Total leased vehicle expenses, net	<u>\$ 5,693</u>	<u>\$ 5,389</u>	<u>\$ 5,391</u>

(1) Amortization of initial direct costs was presented as a reduction to lease revenue and reimbursed lessor costs were presented net during the fiscal years ended March 31, 2019 and 2018.

(2) Included in the gain on disposition of leased vehicles are end of term charges of \$73 million, \$70 million and \$63 million for the fiscal years ended March 31, 2020, 2019 and 2018, respectively.

Investment in operating leases includes lease assets with a net carrying amount of \$493 million as of March 31, 2020, which have been transferred to SPEs and are considered to be legally isolated but do not qualify for sale accounting treatment. These investments in operating leases are restricted as collateral for the payment of the related secured debt obligations. Refer to Note 9 for additional information.

Contractual operating lease payments due as of March 31, 2020 are summarized below. Based on the Company's experience, it is expected that a portion of the Company's operating leases will terminate prior to the scheduled lease term. The summary below should not be regarded as a forecast of future cash collections.

Year ending March 31,	(U.S. dollars in millions)	
2021	\$	5,854
2022		4,042
2023		1,561
2024		250
2025		52
Total	\$	<u>11,759</u>

The Company recognized \$331 million, \$101 million and \$108 million early termination losses due to lessee defaults for the fiscal years ended March 31, 2020, 2019 and 2018, respectively. Actual net losses realized for the fiscal years ended March 31, 2020, 2019 and 2018 totaled \$129 million, \$85 million and \$80 million, respectively.

The general allowance for uncollectible operating lease receivables was recorded through a reduction to revenue of \$28 million for the fiscal year ended March 31, 2020. The general allowance for uncollectible operating lease receivables was recorded through a provision for credit losses of \$40 million and \$31 million for the fiscal years ended March 31, 2019 and 2018, respectively.

During the fiscal year ended March 31, 2020, the Company considered the impact of COVID-19 on estimated residual values and determined that impairment conditions were not met. No impairment losses on operating leases were recognized during the fiscal year ended March 31, 2020. The Company recognized \$14 million of impairment losses on operating leases due to lower estimated residual values of certain models of leased vehicles for the fiscal year ended March 31, 2019. No impairment losses on operating leases were recognized during the fiscal year ended March 31, 2018.

(4) Debt

The Company issues debt in various currencies with both floating and fixed interest rates. Outstanding debt net of discounts and fees, weighted average contractual interest rates and range of contractual interest rates were as follows:

	March 31,		Weighted average contractual interest rate		Contractual interest rate ranges	
			March 31,		March 31,	
	2020	2019	2020	2019	2020	2019
(U.S. dollars in millions)						
Unsecured debt:						
Commercial paper	\$ 5,490	\$ 5,755	1.81%	2.60%	1.01 - 2.31%	1.79 - 2.71%
Related party debt	533	749	1.76%	2.18%	1.45 - 2.06%	2.02 - 2.31%
Bank loans	4,938	4,962	2.16%	3.16%	1.44 - 2.55%	2.35 - 3.50%
Private MTN program	999	999	3.84%	3.84%	3.80 - 3.88%	3.80 - 3.88%
Public MTN program	25,130	24,117	2.07%	2.35%	0.35 - 3.63%	0.35 - 3.63%
Euro MTN programme	28	868	2.23%	1.89%	2.23 - 2.23%	1.88 - 2.23%
Other debt	3,266	3,514	2.47%	2.50%	1.73 - 3.44%	1.63 - 3.44%
Total unsecured debt	40,384	40,964				
Secured debt	9,748	8,790	2.25%	2.42%	1.36 - 3.30%	1.16 - 3.30%
Total debt	\$ 50,132	\$ 49,754				

As of March 31, 2020, the outstanding principal balance of long-term debt with floating interest rates totaled \$13.0 billion, long-term debt with fixed interest rates totaled \$30.0 billion, and short-term debt with floating and fixed interest rates totaled \$7.3 billion. As of March 31, 2019, the outstanding principal balance of long-term debt with floating interest rates totaled \$12.5 billion, long-term debt with fixed interest rates totaled \$29.2 billion, and short-term debt with floating and fixed interest rates totaled \$8.1 billion.

The Company's secured debt is amortizing and unsecured debt is non-amortizing. Scheduled and projected maturities of the Company's debt at March 31, 2020 are summarized below:

	2021	2022	2023	2024	2025	Thereafter	Total
(U.S. dollars in millions)							
Unsecured debt:							
Commercial paper	\$ 5,498	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,498
Related party debt	533	—	—	—	—	—	533
Bank loans	1,719	1,484	1,067	200	471	—	4,941
Private MTN program	500	500	—	—	—	—	1,000
Public MTN program	6,700	5,285	6,245	4,201	1,250	1,500	25,181
Euro MTN programme	—	—	28	—	—	—	28
Other debt	818	498	853	391	356	356	3,272
Total unsecured debt	15,768	7,767	8,193	4,792	2,077	1,856	40,453
Secured debt ⁽¹⁾	5,089	2,944	1,463	266	—	—	9,762
Total debt ⁽²⁾	\$ 20,857	\$ 10,711	\$ 9,656	\$ 5,058	\$ 2,077	\$ 1,856	\$ 50,215
Unamortized discounts/fees							(83)
Total debt, net							\$ 50,132

(1) Projected repayment schedule of secured debt. Reflects payment performance assumptions on underlying assets.

(2) Principal amounts.

Commercial Paper

As of March 31, 2020 and 2019, the Company had commercial paper programs that provide the Company with available funds of up to \$8.8 billion and \$8.5 billion, respectively, at prevailing market interest rates for terms up to one year. The commercial paper programs are supported by the Keep Well Agreements with HMC described in Note 6.

Outstanding commercial paper averaged \$5.5 billion during fiscal year 2020 and \$5.6 billion during fiscal year 2019. The maximum balance outstanding at any month-end during both fiscal years 2020 and 2019 was \$6.2 billion.

Related Party Debt

HCFI issues fixed rate short-term notes to HCI to help fund HCFI's general corporate operations. HCFI incurred interest expense on these notes totaling \$14 million, \$16 million and \$14 million for the fiscal years ended March 31, 2020, 2019 and 2018, respectively.

Bank Loans

Outstanding bank loans at March 31, 2020 and 2019 were either short-term or long-term, with floating or fixed interest rates, and denominated in U.S. dollars or Canadian dollars. Outstanding bank loans have prepayment options. No outstanding bank loans as of March 31, 2020 and 2019 were supported by the Keep Well Agreements with HMC described in Note 6. Outstanding bank loans contain certain covenants, including limitations on liens, mergers, consolidations and asset sales.

Medium Term Note (MTN) Programs

Private MTN Program

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. Notes outstanding under the Private MTN Program as of March 31, 2020 were long-term, with fixed interest rates, and denominated in U.S. dollars. Notes under this program were issued pursuant to the terms of an issuing and paying agency agreement which contains certain covenants, including negative pledge provisions.

Public MTN Program

In August 2019, AHFC renewed its Public MTN program by filing a registration statement with the SEC under which it may issue from time to time up to \$30.0 billion aggregate principal amount of Public MTNs pursuant to the Public MTN program. The aggregate principal amount of MTNs offered under this program may be increased from time to time. Notes outstanding under the Public MTN program as of March 31, 2020 were either long-term or short-term, with either fixed or floating interest rates, and denominated in U.S. dollars, Euro or Sterling. Notes under this program are issued pursuant to an indenture which contains certain covenants, including negative pledge provisions and limitations on mergers, consolidations and asset sales.

Euro MTN Programme

The Euro MTN Programme was retired in August 2014. AHFC has one note outstanding under this program as of March 31, 2020. The note has a maturity date of February 21, 2023, a fixed interest rate and is not listed on the Luxembourg Stock Exchange. The note was issued pursuant to the terms of an agency agreement which contains certain covenants, including negative pledge provisions.

The MTN programs are supported by the Keep Well Agreement with HMC described in Note 6.

Other Debt

The outstanding balances as of March 31, 2020 and 2019 consisted of private placement debt issued by HCFI which are long-term, with either fixed or floating interest rates, and denominated in Canadian dollars. Private placement debt is supported by the Keep Well Agreement with HMC described in Note 6. The notes are issued pursuant to the terms of an indenture which contains certain covenants, including negative pledge provisions.

Secured Debt

The Company issues notes through financing transactions that are secured by assets held by issuing SPEs. Notes outstanding as of March 31, 2020 and 2019 were long-term and short-term, with either fixed or floating interest rates, and denominated in U.S. dollars or Canadian dollars. Repayment of the notes is dependent on the performance of the underlying retail loans and operating leases. Refer to Note 10 for additional information on the Company's secured financing transactions.

Credit Agreements

Syndicated Bank Credit Facilities

AHFC maintains a \$7.0 billion syndicated bank credit facility that includes a \$3.5 billion credit agreement, which expires on February 26, 2021, a \$2.1 billion credit agreement, which expires on February 28, 2023, and a \$1.4 billion credit agreement, which expires on February 28, 2025. As of March 31, 2020, no amounts were drawn upon under the AHFC credit agreements. AHFC intends to renew or replace these credit agreements prior to or on their respective expiration dates.

HCFI maintains a \$1.4 billion syndicated bank credit facility which provides that HCFI may borrow up to \$711 million on a one-year revolving basis and up to \$711 million on a five-year revolving basis. The one-year tranche of the credit agreement expires on March 25, 2021 and the five-year tranche of the credit agreement expires on March 25, 2025. As of March 31, 2020, no amounts were drawn upon under the HCFI credit agreement. HCFI intends to renew or replace the credit agreement prior to or on the expiration date of each respective tranche.

The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales and affiliate transactions. Loans, if any, under the credit agreements will be supported by the Keep Well Agreement described in Note 6.

Other Credit Agreements

AHFC maintains other committed lines of credit that allow the Company access to an additional \$1.0 billion in unsecured funding with two banks. The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales. As of March 31, 2020, no amounts were drawn upon under these agreements. These agreements expire in September 2020. The Company intends to renew or replace these credit agreements prior to or on their respective expiration dates.

(5) Derivative Instruments

The fair value of derivative instruments is subject to the fluctuations in market interest rates and foreign currency exchange rates. Since the Company has elected not to apply hedge accounting, the volatility in the changes in fair value of these derivative instruments is recognized in earnings. All settlements of derivative instruments are presented within cash flows from operating activities in the consolidated statements of cash flows.

These derivative instruments also contain an element of credit risk in the event the counterparties are unable to meet the terms of the agreements. However, the Company minimizes the risk exposure by limiting the counterparties to major financial institutions that meet established credit guidelines. In the event of default, all counterparties are subject to legally enforceable master netting agreements. In Canada, HCFI is a party to reciprocal credit support agreements that require posting of cash collateral to mitigate counterparty credit risk on derivative positions. Posted collateral is recognized in other assets and held collateral is recognized in other liabilities.

The notional balances and fair values of the Company's derivatives are presented below. The derivative instruments are presented on a gross basis in the Company's consolidated balance sheets. Refer to Note 14 regarding the valuation of derivative instruments.

	March 31,					
	2020			2019		
	Notional balances	Assets	Liabilities	Notional balances	Assets	Liabilities
	(U.S. dollars in millions)					
Interest rate swaps	\$ 57,379	\$ 704	\$ 830	\$ 58,132	\$ 308	\$ 307
Cross currency swaps	4,001	44	142	5,002	72	261
Gross derivative assets/liabilities		748	972		380	568
Collateral posted/held		45	9		8	3
Counterparty netting adjustment		(764)	(764)		(321)	(321)
Net derivative assets/liabilities		<u>\$ 29</u>	<u>\$ 217</u>		<u>\$ 67</u>	<u>\$ 250</u>

The income statement impact of derivative instruments is presented below. There were no derivative instruments designated as part of a hedge accounting relationship during the periods presented.

	Years ended March 31,		
	2020	2019	2018
	(U.S. dollars in millions)		
Interest rate swaps	\$ (127)	\$ (23)	\$ 126
Cross currency swaps	(178)	(486)	424
Total gain/(loss) on derivative instruments	<u>\$ (305)</u>	<u>\$ (509)</u>	<u>\$ 550</u>

(6) **Transactions Involving Related Parties**

The following tables summarize the income statement and balance sheet impact of transactions with the Parent and affiliated companies:

Income Statement	Years ended March 31,		
	2020	2019	2018
	(U.S. dollars in millions)		
Revenue:			
Subsidy income	\$ 1,639	\$ 1,633	\$ 1,441
Interest expense:			
Related party debt	14	16	14
Other income, net:			
VSC administration fees	109	109	107
Support Service Fee	(36)	(34)	(28)
General and administrative expenses:			
Support Compensation Agreement fees	68	23	22
Benefit plan expenses	10	11	11
Shared services	70	67	62
	March 31,		
Balance Sheet	2020	2019	
	(U.S. dollars in millions)		
Assets:			
Finance receivables, net:			
Unearned subsidy income	\$ (738)	\$ (1,091)	
Investment in operating leases, net:			
Unearned subsidy income	(1,372)	(1,559)	
Due from Parent and affiliated companies	93	162	
Liabilities:			
Debt:			
Related party debt	\$ 533	\$ 749	
Due to Parent and affiliated companies	72	106	
Accrued interest expense:			
Related party debt	1	3	
Other liabilities:			
VSC unearned administrative fees	363	387	
Accrued benefit expenses	69	65	

Support Agreements

HMC and AHFC are parties to a Keep Well Agreement, effective as of September 9, 2005. This Keep Well Agreement provides that HMC will (1) maintain (directly or indirectly) at least 80% ownership in AHFC's voting stock and not pledge (directly or indirectly), or in any way encumber or otherwise dispose of, any such stock of AHFC that it is required to hold (or permit any of HMC's subsidiaries to do so), (2) cause AHFC to have a positive consolidated tangible net worth with tangible net worth defined as (a) stockholder's equity less (b) any intangible assets, determined on a consolidated basis in accordance with GAAP, and (3) ensure that AHFC has sufficient liquidity to meet its payment obligations for debt HMC has confirmed in writing is covered by this Keep Well Agreement, in accordance with its terms, or where necessary make available to AHFC, or HMC shall procure for AHFC, sufficient funds to enable AHFC to meet such obligations in accordance with such terms. This Keep Well Agreement is not a guarantee by HMC.

HMC and HCFI are parties to a Keep Well Agreement effective as of September 26, 2005. This Keep Well Agreement provides that HMC will (1) maintain (directly or indirectly) at least 80% ownership in HCFI's voting stock and not pledge (directly or indirectly), or in any way encumber or otherwise dispose of, any such stock of HCFI that it is required to hold (or permit any of HMC's subsidiaries to do so), (2) cause HCFI to have a positive consolidated tangible net worth with tangible net worth defined as (a) stockholder's equity less (b) any intangible assets, determined on a consolidated basis in accordance with generally accepted accounting principles in Canada, and (3) ensure that HCFI has sufficient liquidity to meet its payment obligations for debt HMC has confirmed in writing is covered by this Keep Well Agreement, in accordance with its terms, or where necessary make available to HCFI, or HMC shall procure for HCFI, sufficient funds to enable HCFI to meet such obligations in accordance with such terms. This Keep Well Agreement is not a guarantee by HMC.

Debt programs supported by the Keep Well Agreements consist of the Company's commercial paper programs, Private MTN Program, Public MTN Program, Euro MTN Programme, and HCFI's private placement debt and loans, if any, under AHFC's syndicated bank credit facilities. In connection with the above agreements, AHFC and HCFI have entered into separate Support Compensation Agreements, where each has agreed to pay HMC a quarterly fee based on the amount of outstanding debt that benefit from the Keep Well Agreements. Support Compensation Agreement fees are recognized in general and administrative expenses.

Incentive Financing Programs

The Company receives subsidy payments from AHM and HCI, which supplement the revenues on financing products offered under incentive programs. Subsidy payments received on retail loans and leases are deferred and recognized as revenue over the term of the related contracts. The unearned balance is recognized as reductions to the carrying value of finance receivables and investment in operating leases. Subsidy payments on dealer loans are received as earned. Refer to Notes 1(e) and 1(f) for additional information.

Related Party Debt

HCFI issues short-term notes to HCI to fund HCFI's general corporate operations. Interest rates are based on prevailing rates of debt with comparable terms. Refer to Note 4 for additional information.

Vehicle Service Contract (VSC) Administration

AHFC performs administrative services for VSCs issued by certain subsidiaries of AHM. AHFC's performance obligations for the services are satisfied over the term of the underlying contracts and revenue is recognized proportionate to the anticipated amount of services to be performed. Contract terms range between two to nine years with the majority of contracts having original terms between four and eight years. The majority of the administrative service revenue is recognized during the latter years of the underlying contracts as this is the period in which the majority of VSC claims are processed. AHFC receives fees for performing the administrative services when the contracts are acquired.

Unearned VSC administration fees represent AHFC's contract liabilities and are included in other liabilities (Note 12). VSC administration income is recognized in other income, net (Note 13). HCFI receives fees for marketing VSCs issued by HCI. These fees are also recognized in other income, net. Refer to Note 1(j) for additional information.

AHFC pays fees to AHM for services provided in support of AHFC's performance of VSC administrative services. The support fees are recognized as an expense within other income, net (Note 13).

Shared Services

The Company shares certain common expenditures with AHM, HCI, and other related parties including information technology services and facilities. The allocated costs for shared services are included in general and administrative expenses.

Benefit Plans

The Company participates in various employee benefit plans that are sponsored by AHM and HCI. The allocated benefit plan expenses are included in general and administrative expenses. Refer to Note 8 for additional information.

Income taxes

The Company's U.S. income taxes are recognized on a modified separate return basis pursuant to an intercompany income tax allocation agreement with AHM. Income tax related items are not included in the tables above. Refer to Notes 1(I) and 7 for additional information.

Other

AHM periodically sponsors programs that allow lessees to terminate their lease contracts prior to the contractual maturity date. AHM compensates the Company for rental payments that were waived under these programs. During the fiscal years ended March 31, 2020 and 2019, the Company recognized \$13 million and \$17 million, respectively, under these programs which were reflected as proceeds on the disposition of the returned lease vehicles.

The majority of the amounts due from the Parent and affiliated companies at March 31, 2020 and 2019 related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at March 31, 2020 and 2019 related to wholesale flooring payable to the Parent. These receivable and payable accounts are non-interest-bearing and short-term in nature and are expected to be settled in the normal course of business.

AHFC declared and paid semi-annual cash dividends to its parent, AHM, \$292 million and \$313 million during the fiscal year ended March 31, 2020, \$235 million and \$271 million during the fiscal year ended March 31, 2019, and \$141 million and \$206 million during the fiscal year ended March 31, 2018.

(7) Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The primary impact on the effective tax rate is the reduction of the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018.

The Company adopted Staff Accounting Bulletin No. 118 (SAB 118) which provided guidance on accounting for the tax effects of the Tax Act in the Company's interim quarter ended December 31, 2017 to record re-measurement of deferred taxes and a one-time deemed repatriation transition tax (Transition Tax). As of March 31, 2018, the Company completed the accounting for the effect of re-measurement of deferred taxes at the new 21% tax rate. At March 31, 2018, the Company provisionally accrued a total of \$52 million for the Transition Tax. Upon further analysis, the Company completed its accounting for the Transition Tax, and reduced the provisional estimate by \$19 million in the quarter ended December 31, 2018, for a final amount of \$33 million, inclusive of associated unrecognized tax benefits. The adjustment was attributed primarily to the availability of new information, which led to further analysis on key inputs to the Transition Tax calculation. The measurement period adjustment decreased the Company's effective tax rate by approximately 1.2% for the fiscal year ended March 31, 2019. The Company has elected not to record deferred taxes for a Global Intangible Low-Taxed Income (GILTI) related book-tax differences, and will treat taxes due on further U.S. inclusions in taxable income related to GILTI as a current period expense when incurred.

During fiscal year 2020, reflecting additional guidance issued by the IRS related to the Tax Act, the Company re-measured unrecognized tax benefits attributable to positions previously claimed. Other domestic and international effects of the Tax Act to the total tax expense are immaterial as of March 31, 2020.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which provides economic relief in response to the coronavirus pandemic. The CARES Act, among other things, includes provisions to allow certain net operating losses to be carried-back up to five years, to increase interest deduction limitations, and to make technical corrections to tax depreciation methods for qualified improvement property. The CARES Act may affect the corporate income taxes imposed by state governments and may result in future responses by state legislatures, some of which could have retroactive effect. The Company evaluated and properly accounted for the provisions of the CARES Act and there was no material impact on the Company's March 31, 2020 income tax accounts.

The Company's consolidated income tax expense/(benefit) was computed on a modified separate return basis pursuant to the intercompany tax allocation agreement with the Parent and consisted of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	(U.S. dollars in millions)		
<u>Year ended March 31, 2020</u>			
Federal	\$ (46)	\$ 333	\$ 287
State and local	231	(166)	65
Foreign	30	42	72
Total	<u>\$ 215</u>	<u>\$ 209</u>	<u>\$ 424</u>
<u>Year ended March 31, 2019</u>			
Federal	\$ (216)	\$ 432	\$ 216
State and local	246	(107)	139
Foreign	24	49	73
Total	<u>\$ 54</u>	<u>\$ 374</u>	<u>\$ 428</u>
<u>Year ended March 31, 2018</u>			
Federal	\$ 45	\$ (2,838)	\$ (2,793)
State and local	45	43	88
Foreign	49	27	76
Total	<u>\$ 139</u>	<u>\$ (2,768)</u>	<u>\$ (2,629)</u>

The allocation of federal tax expense between current and deferred tax expense reflects primarily the impact of 100% federal bonus depreciation offset by the elimination of like-kind exchange for personal property due to the Tax Act for the fiscal years ended March 31, 2020, 2019, and 2018. In addition, the re-measurement of deferred taxes due to the federal income tax rate reduction was reflected in the deferred tax expense in the fiscal year ended March 31, 2018.

Income tax expense differs from the expected income taxes by applying the statutory federal corporate rates of 21.00% for fiscal years ended March 31, 2020 and 2019, and 31.55% for fiscal year 2018, to income before income taxes as follows:

	<u>Years ended March 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(U.S. dollars in millions)		
Computed "expected" income taxes	\$ 301	\$ 351	\$ 467
Foreign tax rate differential	14	15	(14)
Effect of foreign dividends and foreign tax credit	—	3	(10)
State and local income taxes, net of federal income tax benefit	62	68	49
Change in valuation allowance	(2)	2	—
Change in estimated state tax rate, net of federal income tax benefit	(16)	39	8
Change in unrecognized tax benefit	64	48	(1)
Income tax credits	(6)	(52)	(3)
Effect of Tax Act	—	(49)	(3,127)
Other	7	3	2
Income tax expense/(benefit)	<u>\$ 424</u>	<u>\$ 428</u>	<u>\$ (2,629)</u>

The effect of the Tax Act includes benefits of \$11 million and \$3,179 million related to re-measurement of deferred tax assets and liabilities, a benefit of \$38 million and an expense of \$52 million related to the Transition Tax for fiscal years ended March 31, 2019 and 2018, respectively. The income tax credits are primarily from the Qualified Plug-in Electric Drive Motor Vehicle Credit on the Company's lease vehicles. The Company recognizes the benefit of these credits in the period the credits arise. Any unused credits arising in the current year that are available to offset taxable income in future years are recognized in the deferred tax assets.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	March 31,	
	2020	2019
(U.S. dollars in millions)		
Deferred tax assets:		
State income tax	\$ 177	\$ 197
Receivable valuation allowance	135	104
Accrued postretirement	16	16
State loss carryforwards	48	47
Income tax credits	76	64
Derivatives	19	3
Other assets	65	43
Total gross deferred tax assets	536	474
Less valuation allowance	—	(2)
Net deferred tax assets	536	472
Deferred tax liabilities:		
HCFI leases	369	349
AHFC leases	6,679	6,456
Securitizations	10	18
Other	67	48
Total gross deferred tax liabilities	7,125	6,871
Net deferred tax liabilities	\$ 6,589	\$ 6,399

The increase in the net deferred tax liability is primarily attributable to accelerated depreciation benefits derived from the Tax Act.

The effect of translating HCFI's net deferred tax liabilities to U.S. dollars upon consolidation resulted in a decrease of \$19 million, a decrease of \$10 million, and an increase of \$8 million during the fiscal years ended March 31, 2020, 2019, and 2018, respectively. The translation adjustments have been recognized as a component of other comprehensive income.

Exception to Recognition of Deferred Tax Liabilities

The Company does not provide for income taxes on its share of the undistributed earnings of HCFI, which are intended to be indefinitely reinvested outside the United States. At March 31, 2020, \$843 million of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of March 31, 2020 were to be distributed, the tax liability associated with these indefinitely reinvested earnings would be \$27 million, inclusive of currency translation adjustments.

Tax Attributes

Included in the Company's deferred tax assets are net operating loss (NOL) carryforwards with tax benefits resulting from operating losses incurred in various states in which the Company files tax returns in the amounts of \$48 million at March 31, 2020, and \$47 million at both March 31, 2019 and 2018. The expiration, if applicable, of these NOL carryforwards varies based on the statutes of each of the applicable states through March 31, 2040. The deferred tax asset related to a federal income tax credit in the amount of \$76 million at March 31, 2020 will expire in the fiscal years ending March 31, 2038 through 2040, if unused.

Valuation Allowance

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during those periods in which those temporary differences and carryforward deferred tax assets become deductible or utilized. The Company considers sources of income, including the reversal of deferred tax liabilities, projected future taxable income, and tax planning considerations in making this assessment. The Company believes it is more likely than not the deferred tax assets of \$536 million recognized as of March 31, 2020 will be realized.

Uncertain Tax Positions

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Years ended March 31,		
	2020	2019	2018
	(U.S. dollars in millions)		
Balance, beginning of year	\$ 86	\$ 22	\$ 21
Additions for current year tax positions	—	—	—
Additions for prior year tax positions	98	64	1
Reductions for prior year tax positions	(15)	—	—
Settlements	—	—	—
Reductions related to a lapse in the statute of limitations	—	—	—
Foreign currency translation	—	—	—
Balance, end of year	<u>\$ 169</u>	<u>\$ 86</u>	<u>\$ 22</u>

Included in the balance of unrecognized tax benefits at March 31, 2020, 2019 and 2018 are \$166 million, \$84 million and \$21 million, net of the federal benefit of state taxes, respectively, the recognition of which would affect the Company's effective tax rate in future periods. Although it is reasonably possible that the total amounts of unrecognized tax benefits could change within the next twelve months, the Company does not believe such change would be significant. As a result of the above unrecognized tax benefits and various favorable uncertain positions, the Company has recorded a net liability for uncertain tax positions, inclusive of interest and penalties of \$195 million and \$89 million as of March 31, 2020 and 2019, respectively (Note 12).

The Company recognizes income tax-related interest income, interest expense and penalties as a component of income tax expense. The Company recognized interest expense of \$25 million and \$9 million, during the fiscal years ended March 31, 2020 and 2019, respectively, and interest income in an amount less than \$1 million during the fiscal year ended March 31, 2018, as a component of income tax expense. There were no settlements during the fiscal year ended March 31, 2020 and 2019. As of March 31, 2020, 2019 and 2018, the Company's consolidated balance sheets reflect accrued interest payable of \$36 million, \$11 million and \$2 million, respectively.

As of March 31, 2020, the Company is subject to examination in various U.S. tax jurisdictions for returns filed for the taxable years ended March 31, 2008 through 2019. The Company's Canadian subsidiary, HCFI, is subject to examination for returns filed for the taxable years ended March 31, 2013 through 2019 federally, and returns filed for the taxable years ended March 31, 2009 through 2019, except for 2011, provincially. The Company believes appropriate provision has been made for all outstanding issues for all open years.

(8) Benefit Plans

The Company participates in certain retirement and other postretirement benefit plans sponsored by AHM and HCI (collectively referred to as the Sponsors).

The Company participates in defined benefit retirement plans (the Pension Plans) maintained by the Sponsors. The names of the Pension Plans maintained by AHM are the Honda Retirement Plan and the Honda Pension Equalization Plan. The name of the Pension Plan maintained by HCI is the Pension Plan for Associates of Honda Canada Inc. Employees who commenced service after September 3, 2013 are not eligible to participate in the Pension Plans maintained by AHM. Under the amendments to the Pension Plan maintained by HCI, employees who commenced service after January 1, 2014 are not eligible to participate in their Pension Plan. The Company pays for its share of the Pension Plan costs allocated by the Sponsors. The Pension Plans' expense, included in general and administrative expenses, was \$6 million for the fiscal year ended March 31, 2020, \$7 million for the fiscal year ended March 31, 2019 and \$6 million for the fiscal year ended March 31, 2018.

The Company participates in defined contribution savings plans (the Savings Plans) maintained by the Sponsors. Participants in these plans make contributions subject to Internal Revenue Service or Canada Revenue Agency limits. General and administrative expenses includes the Company's portion of contributions to the Savings Plans of \$8 million for the fiscal years ended March 31, 2020, 2019 and 2018.

The Company participates in other postretirement plans maintained by the Sponsors primarily to provide certain healthcare benefits for retired employees. Substantially all employees become eligible for these benefits if they have met certain age and service requirements at retirement. The Company's expense for the postretirement plans, included in general and administrative expenses, was \$4 million for both the fiscal years ended March 31, 2020, and 2019 and \$5 million for the fiscal year ended March 31, 2018.

(9) Commitments and Contingencies

Operating Leases

The Company leases certain premises and equipment through operating leases. AHFC leases its premises and equipment from third parties and HCFI leases its premises from HCI. Many of the Company's leases contain renewal options, and generally have no residual value guarantees or material covenants. When it is reasonably certain that the Company will exercise the option to renew a lease, the Company will include the renewal option in the evaluation of the lease term. The Company has elected not to recognize right-of-use assets or lease liabilities for leases with a lease term of less than one year. As most of the Company's leases do not provide an implicit rate, the incremental borrowing rate is used in determining the present value of lease payments. The right-of-use assets in operating lease arrangements are reported in other assets on the Company's consolidated balance sheets.

Operating lease liabilities are reported in other liabilities on the Company's consolidated balance sheets. At March 31, 2020, maturities of operating lease liabilities were as follows (U.S. dollars in millions):

<u>Year ending March 31:</u>	(U.S. dollars in millions)
2021	\$ 10
2022	9
2023	9
2024	8
2025	7
Thereafter	18
Total undiscounted future lease obligations	61
Less: imputed interest	(6)
Operating lease liabilities	<u>\$ 55</u>

Rent expense under operating leases was \$10 million for the fiscal years ended March 31, 2020 and March 31, 2019 and \$9 million for fiscal year ended March 31, 2018. Rent expense is included within general and administrative expenses.

As of March 31, 2020, the weighted average remaining lease term for operating leases was 7 years and the weighted average remaining discount rate for operating leases was 3.05%.

Revolving Lines of Credit to Dealerships

The Company extends commercial revolving lines of credit to dealerships to support their business activities including facilities refurbishment and general working capital requirements. The amounts borrowed are generally secured by the assets of the borrowing entity. The unused balance of commercial revolving lines of credit was \$358 million as of March 31, 2020. The Company also has commitments to finance the construction of auto dealership facilities. The remaining unfunded balance for these construction loans was \$6 million as of March 31, 2020.

Legal Proceedings and Regulatory Matters

The Company establishes accruals for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. When able, the Company will determine estimates of reasonably possible 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.

The Company is involved, in the ordinary course of business, in various legal proceedings including claims of individual customers and purported class action lawsuits. Certain of these actions are similar to suits filed against other financial institutions and captive finance companies. Most of these proceedings concern customer allegations of wrongful repossession or defamation of credit. The Company is also subject to governmental reviews and inquiries from time to time. The Company has received two Civil Investigative Demands from the U.S. Department of Justice (DOJ) relating to financing of motor vehicles by servicemembers under the Servicemembers Civil Relief Act. The Company is cooperating with the DOJ and is responding to their information requests. Based on available information and established accruals, management does not believe it is reasonably possible that the results of these proceedings, in the aggregate, will have a material adverse effect on the Company's consolidated financial statements.

(10) Securitizations and Variable Interest Entities (VIE)

The Company utilizes SPEs for its asset-backed securitizations and these SPEs are considered VIEs, which are required to be consolidated by their primary beneficiary. The Company is considered to be the primary beneficiary of these SPEs due to (i) the power to direct the activities of the SPEs that most significantly impact the SPEs' economic performance through the Company's role as servicer, and (ii) the obligation to absorb losses or the right to receive residual returns that could potentially be significant to the SPEs through the subordinated certificates and residual interest retained. The debt securities issued by the SPEs to third-party investors along with the assets of the SPEs are included in the Company's consolidated financial statements.

During the fiscal years ended March 31, 2020 and 2019, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling \$6.2 billion and \$4.8 billion, respectively. The notes were secured by assets with an initial balance of \$6.8 billion and \$5.7 billion, for the fiscal years ended March 31, 2020 and 2019, respectively.

The table below presents the carrying amounts of assets and liabilities of consolidated SPEs as they are reported in the Company's consolidated balance sheets. All amounts exclude intercompany balances, which have been eliminated upon consolidation. Investors in notes issued by a SPE only have recourse to the assets of such SPE and do not have recourse to the assets of AHFC, HCFI, or its other subsidiaries or to other SPEs. The assets of SPEs are the only source of funds for repayment on the notes.

March 31, 2020					
Assets			Liabilities		
(U.S. dollars in millions)					
	Securitized assets	Restricted cash ⁽¹⁾	Other	Secured debt	Other
Retail loan securitizations	\$ 9,645	\$ 581	\$ 16	\$ 9,345	\$ 7
Operating lease securitizations	493	1	—	403	2
Total	\$ 10,138	\$ 582	\$ 16	\$ 9,748	\$ 9

March 31, 2019					
Assets			Liabilities		
(U.S. dollars in millions)					
	Securitized assets	Restricted cash ⁽¹⁾	Other	Secured debt	Other
Retail loan securitizations	\$ 9,073	\$ 588	\$ 12	\$ 8,790	\$ 8
Operating lease securitizations	—	—	—	—	—
Total	\$ 9,073	\$ 588	\$ 12	\$ 8,790	\$ 8

(1) Included with other assets in the Company's consolidated balance sheets (Note 11).

In their role as servicers, AHFC and HCFI collect payments on the underlying securitized assets on behalf of the SPEs. Cash collected during a calendar month is required to be remitted to the SPEs in the following month. AHFC and HCFI are not restricted from using the cash collected for their general purposes prior to the remittance to the SPEs. As of March 31, 2020 and 2019, AHFC and HCFI had combined cash collections of \$468 million and \$496 million, respectively, which were required to be remitted to the SPEs.

(11) Other Assets

Other assets consisted of the following:

	March 31,	
	2020	2019
	(U.S. dollars in millions)	
Interest receivable and other assets	\$ 107	\$ 106
Vehicles held for disposition	228	252
Other receivables	172	175
Deferred expense	105	115
Software, net of accumulated amortization of \$156 and \$154 as of March 31, 2020 and 2019, respectively	23	29
Property and equipment, net of accumulated depreciation of \$23 and \$21 as of March 31, 2020 and 2019, respectively	4	6
Restricted cash	582	588
Operating lease assets	48	—
Like-kind exchange assets	91	73
Other miscellaneous assets	18	25
Total	<u>\$ 1,378</u>	<u>\$ 1,369</u>

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to five years. General and administrative expenses include depreciation and amortization expense of \$11 million for both the fiscal years ended March 31, 2020 and 2019, and \$10 million for the fiscal year ended March 31, 2018.

(12) Other Liabilities

Other liabilities consisted of the following:

	March 31,	
	2020	2019
	(U.S. dollars in millions)	
Dealer payables	\$ 68	\$ 241
Accrued interest expense	138	150
Accounts payable and accrued expenses	408	399
Lease security deposits	84	85
VSC unearned administrative fees (Note 6)	363	387
Unearned income, operating leases	358	352
Operating lease liabilities	55	—
Uncertain tax positions	195	89
Other liabilities	20	14
Total	<u>\$ 1,689</u>	<u>\$ 1,717</u>

(13) **Other Income, net**

Other income consisted of the following:

	Years ended March 31,		
	2020	2019	2018
	(U.S. dollars in millions)		
VSC administration (Note 6)	\$ 109	\$ 109	\$ 107
Other, net	(21)	(38)	(51)
Total	<u>\$ 88</u>	<u>\$ 71</u>	<u>\$ 56</u>

(14) **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. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Nonperformance risk is also required to be reflected in the fair value measurement, including an entity's own credit standing when measuring the fair value of a liability.

Recurring Fair Value Measurements

The following tables summarize the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis:

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)			
Assets:				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 704	\$ —	\$ 704
Cross currency swaps	—	44	—	44
Total assets	<u>\$ —</u>	<u>\$ 748</u>	<u>\$ —</u>	<u>\$ 748</u>
Liabilities:				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 830	\$ —	\$ 830
Cross currency swaps	—	142	—	142
Total liabilities	<u>\$ —</u>	<u>\$ 972</u>	<u>\$ —</u>	<u>\$ 972</u>

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)			
Assets:				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 308	\$ —	\$ 308
Cross currency swaps	—	72	—	72
Total assets	<u>\$ —</u>	<u>\$ 380</u>	<u>\$ —</u>	<u>\$ 380</u>
Liabilities:				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 307	\$ —	307
Cross currency swaps	—	261	—	261
Total liabilities	<u>\$ —</u>	<u>\$ 568</u>	<u>\$ —</u>	<u>\$ 568</u>

The valuation techniques used in measuring assets and liabilities at fair value on a recurring basis are described below:

Derivative Instruments

The Company's derivatives are transacted in over-the-counter markets and quoted market prices are not readily available. The Company uses third-party developed valuation models to value derivative instruments. These models estimate fair values using discounted cash flow modeling techniques, which utilize the contractual terms of the derivative instruments and market-based inputs, including interest rates and foreign exchange rates. Discount rates incorporate counterparty and HMC specific credit default spreads to reflect nonperformance risk.

The Company's derivative instruments are classified as Level 2 since all significant inputs are observable and do not require management judgment. There were no transfers between fair value hierarchy levels during the fiscal years ended March 31, 2020 and 2019. Refer to notes 1(n) and 5 for additional information on derivative instruments.

Nonrecurring Fair Value Measurements

The following tables summarize nonrecurring fair value measurements recognized for assets still held at the end of the reporting periods presented:

	Level 1	Level 2	Level 3	Total	Lower-of-cost or fair value adjustment
	(U.S. dollars in millions)				
<u>March 31, 2020</u>					
Vehicles held for disposition	\$ —	\$ —	\$ 145	\$ 145	\$ 31
<u>March 31, 2019</u>					
Vehicles held for disposition	\$ —	\$ —	\$ 171	\$ 171	\$ 33

The following describes the methodologies and assumptions used in nonrecurring fair value measurements, which relate to the application of lower of cost or fair value accounting on long-lived assets.

Vehicles Held for Disposition

Vehicles held for disposition consist of returned and repossessed vehicles. They are valued at the lower of their carrying value or estimated fair value, less estimated disposition costs. The fair value is based on current average selling prices of like vehicles at wholesale used vehicle auctions.

Fair Value of Financial Instruments

The following tables summarize the carrying values and fair values of the Company's financial instruments except for those measured at fair value on a recurring basis. Certain financial instruments and all nonfinancial assets and liabilities are excluded from fair value disclosure requirements including the Company's investment in operating leases.

March 31, 2020						
Carrying value	Fair value				Total	
	Level 1	Level 2	Level 3			
(U.S. dollars in millions)						
Assets:						
Cash and cash equivalents	\$ 1,503	\$ 1,503	\$ —	\$ —	\$ 1,503	
Dealer loans, net	5,600	—	—	5,136	5,136	
Retail loans, net	33,954	—	—	34,441	34,441	
Restricted cash	582	582	—	—	582	
Liabilities:						
Commercial paper	\$ 5,490	\$ —	\$ 5,488	\$ —	\$ 5,488	
Related party debt	533	—	533	—	533	
Bank loans	4,938	—	4,780	—	4,780	
Medium term note programs	26,157	—	25,740	—	25,740	
Other debt	3,266	—	3,232	—	3,232	
Secured debt	9,748	—	9,794	—	9,794	
March 31, 2019						
Carrying value	Fair value				Total	
	Level 1	Level 2	Level 3			
(U.S. dollars in millions)						
Assets:						
Cash and cash equivalents	\$ 795	\$ 795	\$ —	\$ —	\$ 795	
Dealer loans, net	5,827	—	—	5,611	5,611	
Retail loans, net	34,569	—	—	34,857	34,857	
Restricted cash	588	588	—	—	588	
Liabilities:						
Commercial paper	\$ 5,755	\$ —	\$ 5,755	\$ —	\$ 5,755	
Related party debt	749	—	749	—	749	
Bank loans	4,962	—	5,000	—	5,000	
Medium term note programs	25,984	—	26,130	—	26,130	
Other debt	3,514	—	3,535	—	3,535	
Secured debt	8,790	—	8,799	—	8,799	

Fair value information presented in the tables above is based on information available at March 31, 2020 and 2019. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been updated since those dates, and therefore, the current estimates of fair value at dates subsequent to those dates may differ significantly from the amounts presented herein.

(15) **Segment Information**

The Company's reportable segments are based on the two geographic regions where operating results are measured and evaluated by management: the United States and Canada.

Segment performance is evaluated using an internal measurement basis, which differs from the Company's consolidated results prepared in accordance with GAAP. Segment performance is evaluated on a pre-tax basis before the effect of valuation adjustments on derivative instruments and revaluations of foreign currency denominated debt. Since the Company does not elect to apply hedge accounting, the impact to earnings resulting from these valuation adjustments as reported under GAAP is not representative of segment performance as evaluated by management. Realized gains and losses on derivative instruments, net of realized gains and losses on foreign currency denominated debt, are included in the measure of net revenues when evaluating segment performance.

No adjustments are made to segment performance to allocate any revenues or expenses. Financing products offered throughout the United States and Canada are substantially similar. Segment revenues from the various financing products are reported on the same basis as GAAP consolidated results.

Financial information for the Company's reportable segments for the fiscal years ended or at March 31 is summarized in the following tables:

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
(U.S. dollars in millions)				
<u>Year ended March 31, 2020</u>				
Revenues:				
Retail	\$ 1,533	\$ 204	\$ —	\$ 1,737
Dealer	198	24	—	222
Operating leases	6,402	1,347	—	7,749
Total revenues	8,133	1,575	—	9,708
Leased vehicle expenses	4,667	1,026	—	5,693
Interest expense	1,063	178	—	1,241
Realized (gains)/losses on derivatives and foreign currency denominated debt	106	(4)	(102)	—
Net revenues	2,297	375	102	2,774
Other income	77	11	—	88
Total net revenues	2,374	386	102	2,862
Expenses:				
General and administrative expenses	439	59	—	498
Provision for credit losses	393	9	—	402
Impairment loss on operating lease	—	—	—	—
Early termination loss on operating leases	327	4	—	331
(Gain)/Loss on derivative instruments	—	—	305	305
(Gain)/Loss on foreign currency revaluation of debt	—	—	(107)	(107)
Income before income taxes	\$ 1,215	\$ 314	\$ (96)	\$ 1,433
<u>March 31, 2020</u>				
Finance receivables, net	\$ 35,381	\$ 4,173	\$ —	\$ 39,554
Investment in operating leases, net	28,809	5,034	—	33,843
Total assets	67,566	9,690	—	77,256

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
Year ended March 31, 2019				
Revenues:				
Retail	\$ 1,406	\$ 208	\$ —	\$ 1,614
Dealer	211	21	—	232
Operating leases	6,001	1,252	—	7,253
Total revenues	7,618	1,481	—	9,099
Leased vehicle expenses	4,420	969	—	5,389
Interest expense	1,015	175	—	1,190
Realized (gains)/losses on derivatives and foreign currency denominated debt	15	(17)	2	—
Net revenues	2,168	354	(2)	2,520
Other income	63	8	—	71
Total net revenues	2,231	362	(2)	2,591
Expenses:				
General and administrative expenses	403	53	—	456
Provision for credit losses	242	7	—	249
Impairment loss on operating leases	14	—	—	14
Early termination loss on operating leases	98	3	—	101
(Gain)/Loss on derivative instruments	—	—	509	509
(Gain)/Loss on foreign currency revaluation of debt	—	—	(407)	(407)
Income before income taxes	\$ 1,474	\$ 299	\$ (104)	\$ 1,669
March 31, 2019				
Finance receivables, net	\$ 36,028	\$ 4,396	\$ —	\$ 40,424
Investment in operating leases, net	27,493	5,113	—	32,606
Total assets	66,264	9,700	—	75,964

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
Year ended March 31, 2018				
Revenues:				
Retail	\$ 1,181	\$ 201	\$ —	\$ 1,382
Dealer	158	17	—	175
Operating leases	5,815	1,075	—	6,890
Total revenues	7,154	1,293	—	8,447
Leased vehicle expenses	4,532	859	—	5,391
Interest expense	770	127	—	897
Realized (gains)/losses on derivatives and foreign currency denominated debt	(13)	(1)	14	—
Net revenues	1,865	308	(14)	2,159
Other income	50	6	—	56
Total net revenues	1,915	314	(14)	2,215
Expenses:				
General and administrative expenses	384	55	—	439
Provision for credit losses	239	5	—	244
Early termination loss on operating leases	105	3	—	108
(Gain)/Loss on derivative instruments	—	—	(550)	(550)
(Gain)/Loss on foreign currency revaluation of debt	—	—	494	494
Income before income taxes	\$ 1,187	\$ 251	\$ 42	\$ 1,480
March 31, 2018				
Finance receivables, net	\$ 33,311	\$ 4,645	\$ —	\$ 37,956
Investment in operating leases, net	27,040	4,777	—	31,817
Total assets	62,976	9,650	—	72,626

(16) Selected Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
(U.S. dollars in millions)					
<u>Year ended March 31, 2020</u>					
Total revenues	\$ 2,393	\$ 2,435	\$ 2,442	\$ 2,438	\$ 9,708
Leased vehicle expenses	1,392	1,409	1,463	1,429	5,693
Interest expense	322	318	307	294	1,241
Other income	20	23	24	21	88
Total net revenues	699	731	696	736	2,862
Provision for credit losses ⁽¹⁾	48	58	65	231	402
Early termination loss on operating leases ⁽¹⁾	24	36	37	234	331
Net income	299	388	295	27	1,009
Net income attributable to American Honda Finance Corporation	272	355	268	17	912
<u>Year ended March 31, 2019</u>					
Total revenues	\$ 2,200	\$ 2,252	\$ 2,300	\$ 2,347	\$ 9,099
Leased vehicle expenses	1,328	1,314	1,352	1,395	5,389
Interest expense	274	293	303	320	1,190
Other income	15	17	19	20	71
Total net revenues	613	662	664	652	2,591
Provision for credit losses	44	62	75	68	249
Early termination loss on operating leases	17	39	22	23	101
Net income	310	285	348	298	1,241
Net income attributable to American Honda Finance Corporation	284	259	326	276	1,145

(1) During the fourth quarter of fiscal year ended March 31, 2020, the increase in provision for credit losses and early termination losses on operating leases as a result of the COVID-19 pandemic has resulted in a lower net income.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Hideo Moroe, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended March 31, 2020 of American Honda Finance 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(s) 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(s) 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.

Dated: June 22, 2020

By: /s/ Hideo Moroe
Hideo Moroe
President
(Principal Executive Officer)

**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 American Honda Finance Corporation (the “Company”) on Form 10-K for the year ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Masahiro Nakamura, Vice President, Treasurer and Principal Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, 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.

Dated: June 22, 2020

By: /s/ Masahiro Nakamura
Masahiro Nakamura
Vice President and Treasurer
(Principal Financial Officer)

*A signed original of this written statement required by Section 906 has been provided to American Honda Finance Corporation and will be retained by American Honda Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Masahiro Nakamura, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended March 31, 2020 of American Honda Finance 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(s) 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(s) 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.

Dated: June 22, 2020

By: /s/ Masahiro Nakamura
Masahiro Nakamura
Vice President and Treasurer
(Principal Financial Officer)

Consent of Independent Registered Public Accounting Firm

To the Board of Directors
American Honda Finance Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-233119) on Form S-3 of American Honda Finance Corporation (the Company) of our report dated June 22, 2020, with respect to the consolidated balance sheets of the Company as of March 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2020, and the related notes, which report appears in the March 31, 2020 annual report on Form 10-K of the Company.

/s/ KPMG LLP

Los Angeles, California
June 22, 2020

**DESCRIPTION OF AHFC'S
€1,000,000,000 1.950% MEDIUM-TERM NOTES, SERIES A, DUE OCTOBER 18, 2024**

The following is a description of American Honda Finance Corporation's €1,000,000,000 1.950% Medium-Term Notes, Series A, due October 18, 2024 (the "Notes") as provided in our pricing supplement, dated April 15, 2020, and filed with the Securities and Exchange Commission (the "SEC") on April 16, 2020. This description is subject to, and qualified in its entirety by reference to, the description of the general terms and provisions of the debt securities found in our [prospectus](#), dated August 8, 2019 and filed with the SEC on August 8, 2019, and our Medium-Term Notes, Series A, described in the [prospectus supplement](#), dated August 8, 2019 and filed with the SEC on August 8, 2019. The following summary of specified provisions of the Indenture (defined below) and the Notes is subject to, and qualified in its entirety by reference to, the actual provisions of the Indenture, including the definitions contained in the Indenture of some of the terms used below, and the Notes. A copy of the Indenture has been filed as an exhibit to our Registration Statement on Form S-3 filed with the SEC on August 8, 2019 and of which the pricing supplement, prospectus supplement and prospectus are a part.

Unless otherwise indicated by the context, as used herein, "AHFC," "we," "us" and "our" refer solely to American Honda Finance Corporation (excluding its subsidiaries).

General

The Notes are a tranche of our Medium-Term Notes, Series A. The Notes were issued under the Indenture dated as of September 5, 2013, between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of February 8, 2018, between AHFC and the Trustee (as so supplemented, the "Indenture"). The terms of the Notes include those provisions contained in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The Notes were initially limited to an aggregate principal amount of €1,000,000,000. See "—Further Issuances" below. The Notes were issued in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes are our general unsecured and unsubordinated obligations, rank equally with all of our existing and future unsecured and unsubordinated indebtedness from time to time outstanding and are considered part of the same series of notes as any of our other Medium-Term Notes, Series A, previously issued or issued in the future. The Indenture does not limit the amount of Notes, debentures or other evidence of indebtedness that we may issue under the Indenture or otherwise and provides that debt securities under the Indenture may be issued from time to time in one or more series.

We have initially designated Deutsche Bank Trust Company Americas as our paying agent (the "Paying Agent"), registrar and transfer agent where Notes may be presented for payment.

The entire principal amount of the Notes will mature and become payable, together with unpaid interest, if any, accrued thereon on October 18, 2024 (the "Stated Maturity Date") unless redeemed earlier as described below under "—Optional Redemption" and "—Redemption for Tax Reasons." The Notes are not subject to any sinking fund provisions and are not convertible into or exchangeable for any of our equity interests.

The principal of each Note payable at maturity or earlier redemption will be paid in euro against presentation and surrender at the office or agency maintained for such purpose.

Under the Indenture, holders of the Notes will vote with holders of all other tranches of our Medium-Term Notes, Series A, as a single class.

The Indenture contains provisions that require the consent of or action by a specified percentage of the aggregate principal amount of our Medium-Term Notes, Series A, acting as a single class. For example, holders of a majority in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may consent to

certain modifications or amendments to the Indenture and waiver of certain continuing defaults under the Indenture, as described under “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus, and holders of at least 25% in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may declare the principal amount of our Medium-Term Notes, Series A, to be due and payable immediately upon the occurrence of certain events of default, as described under “Description of Debt Securities—Events of Default” in the prospectus. Therefore, because the Medium-Term Notes, Series A, vote as a single class, a greater percentage of the principal amount of the Notes may be required to take action under the Indenture and the aggregate principal amount of the Notes may not be sufficient to take action under the Indenture in the future. In addition, under the prospectus supplement, we may issue up to \$30,000,000,000 aggregate principal amount of Medium-Term Notes, Series A, under the Indenture. As of May 31, 2020, we had \$20.75 billion aggregate principal amount, £600 million aggregate principal amount, and €4.3 billion aggregate principal amount of Medium-Term Notes, Series A, outstanding under the Indenture.

The Notes bear interest at 1.950% per year, accruing from April 20, 2020 (the “Settlement Date”) or from the immediately preceding interest payment date to which interest has been paid. Interest on the Notes is payable annually in arrears on October 18 (each, an “Interest Payment Date”). Interest payable on an Interest Payment Date will be paid to the persons in whose names the Notes are registered at the close of business on the regular record date; provided, however, that interest payable at the Stated Maturity Date or earlier redemption date will be payable to the person to whom principal shall be payable. The regular record date for the Notes will be the fifteenth calendar day, whether or not a Business Day (as defined below), immediately preceding the related Interest Payment Date. Interest payable on an Interest Payment Date will be computed on the basis of an Actual/Actual (ICMA) (as defined in the rulebook of the International Capital Market Association) day count convention.

If any Interest Payment Date, the Stated Maturity Date or earlier redemption date falls on a day that is not a Business Day, the related payment of principal, premium, if any, or interest and additional amounts (“Additional Amounts”), if any, will be made on the next succeeding Business Day as if made on the date the applicable payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, the Stated Maturity Date or such redemption date, as the case may be, to the date of such payment on the next succeeding Business Day. For purposes of the Notes, “Business Day” means any day, other than a Saturday or Sunday, (i) which is not a day on which banking institutions in The City of New York or London are authorized or required by law, regulation or executive order to close and (ii) on which the Trans-European Automated Real-Time Gross Settlement Express Transfer system (the TARGET2 system) or any successor thereto, is open.

Issuance of the Notes in Euro

Initial holders were required to pay for the Notes in euro, and principal, premium, if any, and interest payments in respect of the Notes, including any payments made upon any redemption of the Notes, will be payable in euro.

If the euro is not available in our good faith judgment for the payment of principal, premium, if any, or interest with respect to the Notes, including payments of redemption on the Notes, due to the imposition of exchange controls or other circumstances beyond the control of AHFC, or is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, AHFC will be entitled to satisfy its obligations to holders of the Notes by making that payment in U.S. dollars on the basis of the Market Exchange Rate (as defined below) as computed by the exchange rate agent on the second Business Day before that payment is due, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date that payment is due or as otherwise determined by AHFC in good faith, if the foregoing is impracticable. Any payment in respect of the Notes so made in U.S. dollars will not constitute a default under the Indenture. Neither the Trustee nor the Paying Agent shall be responsible for obtaining exchange rates, effecting conversions or otherwise handling redenominations.

The “Market Exchange Rate” means the noon buying rate in The City of New York for cable transfers of euros as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

In the event that the euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or an official redenomination of the euro, AHFC’s obligations with respect to payments on the Notes shall, in each case, be regarded immediately following such redenomination as providing for the payment of that amount of euros representing the amount of such obligations immediately before such redenomination. The Notes do not provide for any adjustment to any amount payable under the Notes as a result of any change in the value of euros relative to any other currency due solely to fluctuations in exchange rates.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and will, in the absence of clear error, be conclusive for all purposes and binding on the holders of the Notes.

Further Issuances

We may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional notes, having the same ranking, interest rate, Stated Maturity Date, redemption provisions and other terms as the Notes, except for (1) the original issue date, (2) the issue price and (3) in some cases, the first interest payment date; provided, however, such additional notes must be fungible with the previously issued notes for U.S. federal income tax purposes. Additional notes will be considered part of the same series of notes as the Notes and any of our other Medium-Term Notes, Series A previously issued or issued in the future. We also may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional debt securities, under the Indenture or otherwise, ranking equally with the Notes and our other Medium-Term Notes, Series A.

Optional Redemption

The Notes will be redeemable before their maturity, in whole or in part, at our option, at any time, at a “make-whole” redemption price in cash equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed (exclusive of interest accrued to but excluding the relevant redemption date) discounted to the relevant redemption date on an annual basis (based on an Actual/Actual (ICMA) (as defined in the rulebook of International Capital Market Association) day count convention) at the applicable Comparable Government Bond Rate plus 40 basis points, plus, in each of clause (i) and (ii), unpaid interest, if any, thereon accrued to but excluding the relevant redemption date. The following definitions will apply with respect to the foregoing:

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of an Independent Investment Banker, a German government bond whose maturity is closest to the maturity of the Notes to be redeemed, or if the Independent Investment Banker in its discretion determines that such similar bond is not in issue, such other European government bond as such Independent Investment Banker may, with the advice of three brokers of, and/or market makers in, European government bonds selected by such Independent Investment Banker, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond Rate” means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes to be redeemed, if they were to be purchased at such price on the third Business Day prior to the date fixed for redemption, would be equal to the gross redemption yield on such Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such Business Day as determined by an Independent Investment Banker.

“Independent Investment Banker” means each of Barclays Bank PLC, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, and MUFG Securities EMEA plc and their respective successors, or, if such

firm is unwilling or unable to select the Comparable Government Bond, an independent investment banking institution of international standing appointed by AHFC.

Notice of any redemption will be given in writing not more than 60 nor less than 30 days before the redemption date to each holder of the Notes to be redeemed. Such notice of redemption shall specify the principal amount of Notes to be redeemed, ISIN and Common Code numbers of the Notes to be redeemed, the redemption date, the redemption price, the place or places of payment and that payment will be made upon presentation and surrender of such Notes. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes to be redeemed, which, in the case of Notes in book-entry form, will be in accordance with the procedures of the applicable depository. The Trustee may select Notes and portions of Notes in amounts of €100,000 and integral multiples of €1,000 in excess thereof.

Payment of Additional Amounts

We will, subject to the exceptions and limitations set forth below, pay as additional interest such Additional Amounts as are necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable. However, the foregoing obligation to pay Additional Amounts shall not apply:

- (a) to any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:

The term “United States” means the United States of America, the States thereof (including the District of Columbia) and any other political subdivision or taxing authority thereof or therein affecting taxation, and the term “United States Alien” means any corporation, partnership, individual or fiduciary that, as to the United States, is for United States federal income tax purposes (A) a foreign corporation, (B) a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust, (C) a non-resident alien individual, or (D) a non-resident alien fiduciary of a foreign estate or trust.

- (i) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment therein;
 - (ii) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof; or
 - (iii) being or having been, for United States federal income tax purposes, a personal holding company, a “controlled foreign corporation”, a “passive foreign investment company” (including a qualified electing fund), a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization;
- (b) to any tax, assessment or other governmental charge imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of AHFC entitled to vote, (ii) receiving interest described in Section 881(c)(3)(A) of the United States Internal Revenue Code of 1986, as amended (the “Code”) or (iii) being a controlled foreign corporation with respect to the United States that is related to AHFC by actual or constructive stock ownership;

- (c) to any holder that is a fiduciary or partnership or other than the sole beneficial owner of the Note, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Note would not have been entitled to the payment of such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;
- (d) to any tax, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder or any other person to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Note, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (e) to any tax, assessment or governmental charge that is imposed otherwise than by withholding by us or a paying agent from the payment;
- (f) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of such Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (g) to any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge;
- (h) to any withholding or deduction that is imposed on a payment to an individual and that is required to be made pursuant to any law implementing or complying with, or introduced to conform to, any European Union Directive on the taxation of savings;
- (i) to any tax, assessment or governmental charge that is payable otherwise than by withholding by AHFC or the Paying Agent from the payment of the principal of or interest on such Note;
- (j) to any tax, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Note, if such payment can be made without such withholding by any other Paying Agent;
- (k) to any withholding or deduction on or in respect of any Note pursuant to sections 1471 through 1474 of the Code, and the regulations, administrative guidance and official interpretations promulgated thereunder (“FATCA”), any agreement entered into pursuant to Section 1471(b)(1) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA; or
- (l) to any tax imposed as a result of any combination of the above.

Redemption for Tax Reasons

If we have or will become obliged to pay Additional Amounts (as described above under the heading “— Payment of Additional Amounts”) as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the Settlement Date, and we determine that such obligation cannot be avoided by the use of reasonable measures then available to us, we may, at our option, at any time, having given not less than 30 nor more than 60 days’ prior written notice to Holders, redeem, in whole, but not in part, the Notes at a redemption price equal to 100% of their principal amount, together with unpaid interest, if any, on the Notes accrued to but excluding the redemption date, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which we would be obliged to pay such Additional Amounts if a payment in respect to the Notes were due on such date. Prior to the transmission or publication of any notice of redemption pursuant to

this paragraph, we shall deliver to the Trustee a certificate signed by two directors of AHFC stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem the Notes has occurred.

Modification of the Indenture

See “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus.

Events of Default, Notice and Waiver

See “Description of Debt Securities—Events of Default” in the prospectus.

Discharge, Defeasance and Covenant Defeasance

The defeasance provisions described in the prospectus under “Description of Debt Securities—Discharge, Legal Defeasance and Covenant Defeasance” are applicable to the Notes.

Governing Law

The Indenture and the Notes are governed by, and construed in accordance with, the laws of the State of New York.

Benefit of the HMC-AHFC Keep Well Agreement

The Notes will have the benefit of the Keep Well Agreement (as defined below) described under “Description of Debt Securities—Keep Well Agreement” in the prospectus.

Certain Covenants

Merger, Consolidation and Transfer of Assets

The Indenture provides that AHFC may not, in any transaction or series of related transactions, (i) consolidate or amalgamate with or merge into any other person; or (ii) sell, lease, assign, transfer or otherwise convey all or substantially all of the assets of AHFC and its subsidiaries, taken as a whole, to any other person, in each case, unless:

- in such transaction or transactions, either (1) AHFC shall be the continuing person (in the case of a merger) or (2) the successor person (if other than AHFC) formed by or resulting from the consolidation, amalgamation or merger or to which such assets shall have been sold, leased, assigned, transferred or otherwise conveyed (i) is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof or under the laws of Japan or any member country in the Organization for Economic Co-operation and Development or any political subdivision or governmental authority thereof, and (ii) shall, by a supplemental indenture, (a) if organized and existing other than under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof (A) expressly agree to make all payments in respect of the debt securities outstanding under the Indenture free and clear of, and without withholding or deduction for, or on account of, present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the jurisdiction of organization or residence (for tax purposes) of such successor person or any political subdivision or governmental authority thereof or therein having the power to tax, unless required by law, in which case such successor person shall have expressly agreed to pay such additional amounts as may be necessary in order that the net amount received by each holder of outstanding debt securities after such withholding or deduction is equal to the amount that would have been receivable in respect of each such debt security in the absence of such withholding or deduction, and (B) irrevocably and unconditionally (I) consent and submit to the jurisdiction of any United States federal court or New York state court, in each case located in the Borough of Manhattan, The City of New York, in respect of any action, suit or proceeding against it arising out of, or in connection with, the Indenture or the debt securities outstanding thereunder, (II) waive, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (III) appoint an agent in the Borough of Manhattan, The City of New York for service of process in any such action, suit or proceeding, and (b) expressly assume the due and punctual performance of all of AHFC's payment and other obligations under the Indenture and all of the debt securities outstanding thereunder;
- immediately after giving effect to such transaction or transactions, no Event of Default (as defined in the Indenture) under the Indenture, and no event which, after notice or lapse of time or both would become an Event of Default under the Indenture, shall have occurred and be continuing; and
- the Trustee shall have received an officer's certificate and opinion of counsel from AHFC to the effect that all conditions precedent to such transaction or transactions have been satisfied.

Upon any consolidation or amalgamation by AHFC with, or AHFC's merger into, any other person or any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of AHFC to any person, in each case in accordance with the provisions of the Indenture described above, the successor person formed by the consolidation or amalgamation or into which AHFC is merged or to which such sale, lease, assignment, transfer or other conveyance is made, as applicable, shall succeed to, and be substituted for, AHFC and may exercise every right and power of AHFC under the Indenture with the same effect as if such successor person had been named as AHFC in the Indenture; and thereafter, except in the case of a lease, the predecessor person shall be released from all obligations and covenants under the Indenture and the outstanding debt securities and any coupons appertaining thereto.

Termination, Modification or Amendment of the Keep Well Agreement

AHFC shall not effect any termination, modification or amendment of the Keep Well Agreement (as defined below) and the Keep Well Agreement may not be otherwise terminated without the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series issued under the Indenture that has the benefit of the Keep Well Agreement and is affected by such termination, modification or amendment (voting as separate classes) unless:

- with respect to any series of outstanding debt securities affected by such termination, modification or amendment that is rated by one or more Rating Agencies (as defined below), each such Rating Agency confirms in writing that the rating assigned to such series of outstanding debt securities will not be withdrawn or reduced by reason of such termination, modification or amendment; or
- the termination, modification or amendment is to: (i) replace, at the discretion of Honda Motor Co., Ltd. (“HMC”), AHFC as a party to the Keep Well Agreement with any successor person that assumes the obligations of AHFC under the Indenture and the outstanding debt securities pursuant to a transaction permitted under “—Merger, Consolidation and Transfer of Assets” discussed above, (ii) terminate, modify or amend the Keep Well Agreement between AHFC and HMC after AHFC has been released of its obligations under the Indenture and the outstanding debt securities in accordance with “—Merger, Consolidation and Transfer of Assets” discussed above, or (iii) terminate, modify or amend the Keep Well Agreement if such termination, modification or amendment affects only debt securities that have not yet been issued under the Indenture.

Any termination, modification or amendment of the Keep Well Agreement that is not in compliance with these provisions shall not be effective with respect to the outstanding debt securities of the applicable series.

Negative Pledge

AHFC shall not create or permit to be outstanding any Lien (as defined below) upon any of its present or future properties or assets, unless all the debt securities outstanding under the Indenture are secured by such Lien equally and ratably with all the other obligations and indebtedness for money borrowed secured by such Lien for so long as such other obligations and indebtedness for money borrowed are so secured, *provided, however*, that this covenant shall not apply to (1) Liens securing obligations (or securing any refunding or extensions of such obligations not exceeding the principal amount of the obligations so refunded or extended at the time of the refunding or extension thereof and covering only the same property theretofore securing the same) which, after giving effect to the initial incurrence of such obligations, do not in the aggregate exceed 30% of Consolidated Net Tangible Assets (as defined below) or (2) any Permitted Lien (as defined below).

Definitions

“ABS Obligation” means any security or other obligation that is (i) issued by a trust or entity created for the special purpose of issuing such security or obligation (regardless of whether it may also issue others of the same or another series or class), (ii) secured by specific assets transferred to such trust or entity by AHFC in connection with the issuance of such security or obligation, and (iii) payable by its terms solely from specified assets (including such security) of such trust or entity and, if applicable, specified third party credit support.

“Consolidated Net Tangible Assets” means the aggregate amount of assets (less applicable reserves and other items deductible from the gross book value of specific asset amounts), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles of AHFC and its consolidated subsidiaries calculated as of the date of the most recently prepared quarterly consolidated financial statements of AHFC prepared in accordance with GAAP.

“GAAP” means, unless otherwise specified with respect to any series of debt securities in the applicable prospectus supplement, generally accepted accounting principles in the United States as in effect on the date of any calculation or determination required under the Indenture.

“Keep Well Agreement” means either (i) if clause (ii) of this definition does not apply, the Keep Well Agreement, dated as of September 9, 2005, between the Company and HMC, or (ii) if HMC has elected to enter into a keep well agreement (substantially in the form of the keep well agreement described in clause (i) of this definition) with a successor person as permitted under “—Termination, Modification or Amendment of the Keep Well Agreement” above as a result of a transaction permitted under “—Merger, Consolidation and Transfer of Assets”

above, such keep well agreement between HMC and the successor person, in each case as the same may be amended or supplemented from time to time.

“Lien” means, with respect to any asset or property, any mortgage, lien (statutory or otherwise), pledge, hypothecation, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset or property, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof or sale/leaseback, any option or other agreement to sell or give a security interest in, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction, *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Nonrecourse,” with respect to AHFC and any ABS Obligation, means that AHFC has no obligation in respect of any payment due on such ABS Obligation and the holders thereof have so agreed (or are deemed to have so agreed by acquiring such ABS Obligation).

“Permitted Lien” means:

- (a) any deposit of AHFC’s assets with any surety company or clerk of any court, or in escrow as collateral in connection with, or in lieu of, any bond on appeal by AHFC from any judgment or decree against it, or in connection with other proceedings in actions at law or in equity by or against AHFC or to exercise any privilege or license, performance of bids, contracts or leases or to secure other public or statutory obligations of AHFC or other similar deposits or pledges made in the ordinary course of business;
- (b) any Lien on any property, tangible or intangible, real or personal, existing at the time of acquisition thereof (whether through purchase or through merger or consolidation) or given to secure the payment of all or any part of the purchase price thereof or to secure any indebtedness incurred prior to, at the time of, or within one year after, the acquisition thereof for the purpose of financing all or any part of the purchase price thereof;
- (c) mechanic’s, workmen’s, repairmen’s, materialmen’s or carriers’ Liens or other similar Liens arising in the ordinary course of business or deposits or pledges to obtain the release of any such Liens;
- (d) any Lien arising out of a judgment or award against AHFC with respect to which AHFC shall in good faith be prosecuting an appeal or proceedings for review or Liens incurred by AHFC for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which AHFC is a party;
- (e) any Lien for taxes not yet subject to penalties for nonpayment or contest, or minor survey exceptions, or minor encumbrances, assessments or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, assessments, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of AHFC’s business;
- (f) any Lien on any property, tangible or intangible, which may arise as a result of a transaction involving a transfer of assets by AHFC if such transfer of assets is treated as a sale in accordance with GAAP or if such transfer of assets is to an entity that issues ABS Obligations backed by such assets and such ABS Obligations are Nonrecourse to AHFC;

- (g) any pledge of assets to secure any financing by AHFC of the exporting of goods to or between, or the marketing thereof in, countries other than the United States in connection with which AHFC reserves the right, in accordance with customary and established banking practice, to deposit, or otherwise subject to a Lien, cash, securities or receivables for the purpose of securing banking accommodations or as the basis for the issuance of bankers' acceptances or in aid of other similar borrowing arrangements;
- (h) any pledge of receivables payable in currencies other than the United States dollar to secure borrowings in countries other than the United States;
- (i) any Lien in favor of the United States or any state thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- (j) any Lien securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining of advances or credit or the securing of debt, if made and continuing in the ordinary course of business;
- (k) any Lien to secure non-recourse obligations in connection with AHFC engaging in leveraged or single-investor lease transactions;
- (l) any Lien on property acquired or sold by AHFC resulting from the exercise of any rights arising out of defaults on receivables;
- (m) any Lien to secure obligations with respect to any interest rate, foreign currency exchange, swap, collar, cap or similar agreements entered into in the ordinary course of business to hedge or mitigate risks to which AHFC or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;
- (n) bankers' Liens or bankers' rights of offset, in each case arising in the ordinary course of banking business with respect to any bank accounts or bank deposits; and
- (o) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) to (n) inclusive; provided, however, that the amount of any and all obligations and indebtedness secured thereby does not exceed the amount thereof so secured immediately prior to the time of such extension, renewal or replacement and that such extension, renewal or replacement is limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property), and provided further, that AHFC is free to substitute collateral of equal value for the existing collateral in any transaction covered by clauses (a) through (n) above.

“Rating Agency” with respect to any security, means any rating agency that (i) has been requested by HMC or AHFC to issue a rating with respect to such security and (ii) has issued such a rating and such rating remains in effect at the time the termination, modification or amendment of the Keep Well Agreement referred to under “— Termination, Modification or Amendment of the Keep Well Agreement” above is to be effected.

“Subsidiary” means (1) any corporation a majority of the total voting power of whose outstanding Voting Stock is owned or controlled, directly or indirectly, at the date of determination by AHFC, and (2) any other person in which AHFC and/or one or more other Subsidiaries, directly or indirectly, at the date of determination, (x) own a majority of the outstanding equity interests or (y) have the power to elect or direct the election of, or to appoint or approve the appointment of, a majority of the directors, trustees or managing members of, or other persons holding similar positions with, such Person.

“Voting Stock” means, with respect to any person, any class or series of capital stock of, or other equity interests in, such person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of, or to appoint or to approve the appointment of, the directors, trustees or managing members of, or other persons holding similar positions with, such person.

Book-Entry Delivery and Settlement

We have obtained the information in this section concerning Clearstream and Euroclear and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of Clearstream and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

Global Clearance and Settlement

The Notes were issued in the form of one or more global notes in fully registered form, without coupons, and deposited with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to the common depositary, its successors or their respective nominees.

Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and, except as described herein, will not receive or be entitled to receive physical delivery of Notes in definitive form. So long as the common depositary for Euroclear and Clearstream or such common depositary's nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole holder of the Notes represented by the global notes for all purposes under the Indenture and the global notes. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the Indenture, including for purposes of receiving any reports delivered by us or the Trustee pursuant to the Indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the Indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

Clearstream

Clearstream has advised that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance

and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator (as defined below) to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream participant, either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

Euroclear

Euroclear has advised that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV (the “Euroclear Operator”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no records of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

Euroclear and Clearstream Arrangements

So long as the common depositary for Euroclear or Clearstream or such common depositary’s nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Indenture and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of the global notes will be made to the common depositary or such common depositary’s nominee, as the case may be, as registered holder thereof. None of us, the Trustee, any agent and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act of 1933, as amended) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium, if any, and interest with respect to the global notes, including any payments made upon any redemption of the global notes, will be credited in euro to the extent received by Euroclear or Clearstream from the Paying Agent to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Initial Settlement

We understand that investors that hold their Notes through Clearstream or Euroclear accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form. Subject to applicable procedures of Clearstream and Euroclear, Notes will be credited to the securities custody accounts of Clearstream and Euroclear participants on the business day following the Settlement Date, for value on the Settlement Date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand that secondary market trading between Clearstream and/or Euroclear participants will occur in the ordinary way following the applicable rules and operating procedures of Clearstream and Euroclear. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Clearstream and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to make or receive a payment or delivery of the Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

Clearstream or Euroclear will credit payments to the cash accounts of Clearstream customers or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depository. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures.

Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Notes among participants of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

Exchange of Global Notes for Certificated Notes

Subject to certain conditions, the Notes represented by the global notes are exchangeable for notes in definitive form of like tenor in minimum denominations of €100,000 principal amount and multiples of €1,000 in excess thereof if:

(1) Clearstream, Euroclear or any successor thereto notifies us that it is unwilling or unable to act as a clearing system for the Notes;

(2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes; or

In all cases, definitive notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the common depository (in accordance with its customary procedures).

(3) there has occurred and is continuing an Event of Default with respect to the Notes.

Payments (including principal, premium, if any, and interest) and transfers with respect to notes in definitive form may be executed at the office or agency maintained for such purpose, at our option, by check mailed to the holders thereof at the respective addresses set forth in the register of holders of the Notes, provided that all payments (including principal, premium, if any, and interest) with respect to notes in definitive form, for which the holders thereof have given wire transfer instructions, will be required to be made by wire transfer of immediately available funds to the accounts specified by the holders thereof. No service charge will be made for any registration of transfer, but payment of a sum sufficient to cover any tax or governmental charge payable in connection with that registration may be required.

**DESCRIPTION OF AHFC'S
€500,000,000 1.600% MEDIUM-TERM NOTES, SERIES A, DUE APRIL 20, 2022**

The following is a description of American Honda Finance Corporation's €500,000,000 1.600% Medium-Term Notes, Series A, due April 20, 2022 (the "Notes") as provided in our pricing supplement, dated April 15, 2020, and filed with the Securities and Exchange Commission (the "SEC") on April 16, 2020. This description is subject to, and qualified in its entirety by reference to, the description of the general terms and provisions of the debt securities found in our [prospectus](#), dated August 8, 2019 and filed with the SEC on August 8, 2019, and our Medium-Term Notes, Series A, described in the [prospectus supplement](#), dated August 8, 2019 and filed with the SEC on August 8, 2019. The following summary of specified provisions of the Indenture (defined below) and the Notes is subject to, and qualified in its entirety by reference to, the actual provisions of the Indenture, including the definitions contained in the Indenture of some of the terms used below, and the Notes. A copy of the Indenture has been filed as an exhibit to our Registration Statement on Form S-3 filed with the SEC on August 8, 2019 and of which the pricing supplement, prospectus supplement and prospectus are a part.

Unless otherwise indicated by the context, as used herein, "AHFC," "we," "us" and "our" refer solely to American Honda Finance Corporation (excluding its subsidiaries).

General

The Notes are a tranche of our Medium-Term Notes, Series A. The Notes were issued under the Indenture dated as of September 5, 2013, between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of February 8, 2018, between AHFC and the Trustee (as so supplemented, the "Indenture"). The terms of the Notes include those provisions contained in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The Notes were initially limited to an aggregate principal amount of €500,000,000. See "—Further Issuances" below. The Notes were issued in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes are our general unsecured and unsubordinated obligations, rank equally with all of our existing and future unsecured and unsubordinated indebtedness from time to time outstanding and are considered part of the same series of notes as any of our other Medium-Term Notes, Series A, previously issued or issued in the future. The Indenture does not limit the amount of Notes, debentures or other evidence of indebtedness that we may issue under the Indenture or otherwise and provides that debt securities under the Indenture may be issued from time to time in one or more series.

We have initially designated Deutsche Bank Trust Company Americas as our paying agent (the "Paying Agent"), registrar and transfer agent where Notes may be presented for payment.

The entire principal amount of the Notes will mature and become payable, together with unpaid interest, if any, accrued thereon on April 20, 2022 (the "Stated Maturity Date") unless redeemed earlier as described below under "—Optional Redemption" and "—Redemption for Tax Reasons." The Notes are not subject to any sinking fund provisions and are not convertible into or exchangeable for any of our equity interests.

The principal of each Note payable at maturity or earlier redemption will be paid in euro against presentation and surrender at the office or agency maintained for such purpose.

Under the Indenture, holders of the Notes will vote with holders of all other tranches of our Medium-Term Notes, Series A, as a single class.

The Indenture contains provisions that require the consent of or action by a specified percentage of the aggregate principal amount of our Medium-Term Notes, Series A, acting as a single class. For example, holders of a majority in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may consent to

certain modifications or amendments to the Indenture and waiver of certain continuing defaults under the Indenture, as described under “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus, and holders of at least 25% in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may declare the principal amount of our Medium-Term Notes, Series A, to be due and payable immediately upon the occurrence of certain events of default, as described under “Description of Debt Securities—Events of Default” in the prospectus. Therefore, because the Medium-Term Notes, Series A, vote as a single class, a greater percentage of the principal amount of the Notes may be required to take action under the Indenture and the aggregate principal amount of the Notes may not be sufficient to take action under the Indenture in the future. In addition, under the prospectus supplement, we may issue up to \$30,000,000,000 aggregate principal amount of Medium-Term Notes, Series A, under the Indenture. As of May 31, 2020, we had \$20.75 billion aggregate principal amount, £600 million aggregate principal amount, and €4.3 billion aggregate principal amount of Medium-Term Notes, Series A, outstanding under the Indenture.

The Notes bear interest at 1.600% per year, accruing from April 20, 2020 (the “Settlement Date”) or from the immediately preceding interest payment date to which interest has been paid. Interest on the Notes is payable annually in arrears on April 20 (each, an “Interest Payment Date”). Interest payable on an Interest Payment Date will be paid to the persons in whose names the Notes are registered at the close of business on the regular record date; provided, however, that interest payable at the Stated Maturity Date or earlier redemption date will be payable to the person to whom principal shall be payable. The regular record date for the Notes will be the fifteenth calendar day, whether or not a Business Day (as defined below), immediately preceding the related Interest Payment Date. Interest payable on an Interest Payment Date will be computed on the basis of an Actual/Actual (ICMA) (as defined in the rulebook of the International Capital Market Association) day count convention.

If any Interest Payment Date, the Stated Maturity Date or earlier redemption date falls on a day that is not a Business Day, the related payment of principal, premium, if any, or interest and additional amounts (“Additional Amounts”), if any, will be made on the next succeeding Business Day as if made on the date the applicable payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, the Stated Maturity Date or such redemption date, as the case may be, to the date of such payment on the next succeeding Business Day. For purposes of the Notes, “Business Day” means any day, other than a Saturday or Sunday, (i) which is not a day on which banking institutions in The City of New York or London are authorized or required by law, regulation or executive order to close and (ii) on which the Trans-European Automated Real-Time Gross Settlement Express Transfer system (the TARGET2 system) or any successor thereto, is open.

Issuance of the Notes in Euro

Initial holders were required to pay for the Notes in euro, and principal, premium, if any, and interest payments in respect of the Notes, including any payments made upon any redemption of the Notes, will be payable in euro.

If the euro is not available in our good faith judgment for the payment of principal, premium, if any, or interest with respect to the Notes, including payments of redemption on the Notes, due to the imposition of exchange controls or other circumstances beyond the control of AHFC, or is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, AHFC will be entitled to satisfy its obligations to holders of the Notes by making that payment in U.S. dollars on the basis of the Market Exchange Rate (as defined below) as computed by the exchange rate agent on the second Business Day before that payment is due, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date that payment is due or as otherwise determined by AHFC in good faith, if the foregoing is impracticable. Any payment in respect of the Notes so made in U.S. dollars will not constitute a default under the Indenture. Neither the Trustee nor the Paying Agent shall be responsible for obtaining exchange rates, effecting conversions or otherwise handling redenominations.

The “Market Exchange Rate” means the noon buying rate in The City of New York for cable transfers of euros as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

In the event that the euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or an official redenomination of the euro, AHFC’s obligations with respect to payments on the Notes shall, in each case, be regarded immediately following such redenomination as providing for the payment of that amount of euros representing the amount of such obligations immediately before such redenomination. The Notes do not provide for any adjustment to any amount payable under the Notes as a result of any change in the value of euros relative to any other currency due solely to fluctuations in exchange rates.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and will, in the absence of clear error, be conclusive for all purposes and binding on the holders of the Notes.

Further Issuances

We may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional notes, having the same ranking, interest rate, Stated Maturity Date, redemption provisions and other terms as the Notes, except for (1) the original issue date, (2) the issue price and (3) in some cases, the first interest payment date; provided, however, such additional notes must be fungible with the previously issued notes for U.S. federal income tax purposes. Additional notes will be considered part of the same series of notes as the Notes and any of our other Medium-Term Notes, Series A previously issued or issued in the future. We also may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional debt securities, under the Indenture or otherwise, ranking equally with the Notes and our other Medium-Term Notes, Series A.

Optional Redemption

The Notes will be redeemable before their maturity, in whole or in part, at our option, at any time, at a “make-whole” redemption price in cash equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed (exclusive of interest accrued to but excluding the relevant redemption date) discounted to the relevant redemption date on an annual basis (based on an Actual/Actual (ICMA) (as defined in the rulebook of International Capital Market Association) day count convention) at the applicable Comparable Government Bond Rate plus 35 basis points, plus, in each of clause (i) and (ii), unpaid interest, if any, thereon accrued to but excluding the relevant redemption date. The following definitions will apply with respect to the foregoing:

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of an Independent Investment Banker, a German government bond whose maturity is closest to the maturity of the Notes to be redeemed, or if the Independent Investment Banker in its discretion determines that such similar bond is not in issue, such other European government bond as such Independent Investment Banker may, with the advice of three brokers of, and/or market makers in, European government bonds selected by such Independent Investment Banker, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond Rate” means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes to be redeemed, if they were to be purchased at such price on the third Business Day prior to the date fixed for redemption, would be equal to the gross redemption yield on such Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such Business Day as determined by an Independent Investment Banker.

“Independent Investment Banker” means each of Barclays Bank PLC, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, and MUFG Securities EMEA plc and their respective successors, or, if such

firm is unwilling or unable to select the Comparable Government Bond, an independent investment banking institution of international standing appointed by AHFC.

Notice of any redemption will be given in writing not more than 60 nor less than 30 days before the redemption date to each holder of the Notes to be redeemed. Such notice of redemption shall specify the principal amount of Notes to be redeemed, ISIN and Common Code numbers of the Notes to be redeemed, the redemption date, the redemption price, the place or places of payment and that payment will be made upon presentation and surrender of such Notes. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes to be redeemed, which, in the case of Notes in book-entry form, will be in accordance with the procedures of the applicable depository. The Trustee may select Notes and portions of Notes in amounts of €100,000 and integral multiples of €1,000 in excess thereof.

Payment of Additional Amounts

We will, subject to the exceptions and limitations set forth below, pay as additional interest such Additional Amounts as are necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable. However, the foregoing obligation to pay Additional Amounts shall not apply:

- (a) to any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:

The term “United States” means the United States of America, the States thereof (including the District of Columbia) and any other political subdivision or taxing authority thereof or therein affecting taxation, and the term “United States Alien” means any corporation, partnership, individual or fiduciary that, as to the United States, is for United States federal income tax purposes (A) a foreign corporation, (B) a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust, (C) a non-resident alien individual, or (D) a non-resident alien fiduciary of a foreign estate or trust.

- (i) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment therein;
 - (ii) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof; or
 - (iii) being or having been, for United States federal income tax purposes, a personal holding company, a “controlled foreign corporation”, a “passive foreign investment company” (including a qualified electing fund), a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization;
- (b) to any tax, assessment or other governmental charge imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of AHFC entitled to vote, (ii) receiving interest described in Section 881(c)(3)(A) of the United States Internal Revenue Code of 1986, as amended (the “Code”) or (iii) being a controlled foreign corporation with respect to the United States that is related to AHFC by actual or constructive stock ownership;

- (c) to any holder that is a fiduciary or partnership or other than the sole beneficial owner of the Note, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Note would not have been entitled to the payment of such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;
- (d) to any tax, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder or any other person to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Note, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (e) to any tax, assessment or governmental charge that is imposed otherwise than by withholding by us or a paying agent from the payment;
- (f) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of such Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (g) to any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge;
- (h) to any withholding or deduction that is imposed on a payment to an individual and that is required to be made pursuant to any law implementing or complying with, or introduced to conform to, any European Union Directive on the taxation of savings;
- (i) to any tax, assessment or governmental charge that is payable otherwise than by withholding by AHFC or the Paying Agent from the payment of the principal of or interest on such Note;
- (j) to any tax, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Note, if such payment can be made without such withholding by any other Paying Agent;
- (k) to any withholding or deduction on or in respect of any Note pursuant to sections 1471 through 1474 of the Code, and the regulations, administrative guidance and official interpretations promulgated thereunder (“FATCA”), any agreement entered into pursuant to Section 1471(b)(1) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA; or
- (l) to any tax imposed as a result of any combination of the above.

Redemption for Tax Reasons

If we have or will become obliged to pay Additional Amounts (as described above under the heading “— Payment of Additional Amounts”) as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the Settlement Date, and we determine that such obligation cannot be avoided by the use of reasonable measures then available to us, we may, at our option, at any time, having given not less than 30 nor more than 60 days’ prior written notice to Holders, redeem, in whole, but not in part, the Notes at a redemption price equal to 100% of their principal amount, together with unpaid interest, if any, on the Notes accrued to but excluding the redemption date, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which we would be obliged to pay such Additional Amounts if a payment in respect to the Notes were due on such date. Prior to the transmission or publication of any notice of redemption pursuant to

this paragraph, we shall deliver to the Trustee a certificate signed by two directors of AHFC stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem the Notes has occurred.

Modification of the Indenture

See “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus.

Events of Default, Notice and Waiver

See “Description of Debt Securities—Events of Default” in the prospectus.

Discharge, Defeasance and Covenant Defeasance

The defeasance provisions described in the prospectus under “Description of Debt Securities—Discharge, Legal Defeasance and Covenant Defeasance” are applicable to the Notes.

Governing Law

The Indenture and the Notes are governed by, and construed in accordance with, the laws of the State of New York.

Benefit of the HMC-AHFC Keep Well Agreement

The Notes will have the benefit of the Keep Well Agreement (as defined below) described under “Description of Debt Securities—Keep Well Agreement” in the prospectus.

Certain Covenants

Merger, Consolidation and Transfer of Assets

The Indenture provides that AHFC may not, in any transaction or series of related transactions, (i) consolidate or amalgamate with or merge into any other person; or (ii) sell, lease, assign, transfer or otherwise convey all or substantially all of the assets of AHFC and its subsidiaries, taken as a whole, to any other person, in each case, unless:

- in such transaction or transactions, either (1) AHFC shall be the continuing person (in the case of a merger) or (2) the successor person (if other than AHFC) formed by or resulting from the consolidation, amalgamation or merger or to which such assets shall have been sold, leased, assigned, transferred or otherwise conveyed (i) is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof or under the laws of Japan or any member country in the Organization for Economic Co-operation and Development or any political subdivision or governmental authority thereof, and (ii) shall, by a supplemental indenture, (a) if organized and existing other than under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof (A) expressly agree to make all payments in respect of the debt securities outstanding under the Indenture free and clear of, and without withholding or deduction for, or on account of, present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the jurisdiction of organization or residence (for tax purposes) of such successor person or any political subdivision or governmental authority thereof or therein having the power to tax, unless required by law, in which case such successor person shall have expressly agreed to pay such additional amounts as may be necessary in order that the net amount received by each holder of outstanding debt securities after such withholding or deduction is equal to the amount that would have been receivable in respect of each such debt security in the absence of such withholding or deduction, and (B) irrevocably and unconditionally (I) consent and submit to the jurisdiction of any United States federal court or New York state court, in each case located in the Borough of Manhattan, The City of New York, in respect of any action, suit or proceeding against it arising out of, or in connection with, the Indenture or the debt securities outstanding thereunder, (II) waive, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (III) appoint an agent in the Borough of Manhattan, The City of New York for service of process in any such action, suit or proceeding, and (b) expressly assume the due and punctual performance of all of AHFC's payment and other obligations under the Indenture and all of the debt securities outstanding thereunder;
- immediately after giving effect to such transaction or transactions, no Event of Default (as defined in the Indenture) under the Indenture, and no event which, after notice or lapse of time or both would become an Event of Default under the Indenture, shall have occurred and be continuing; and
- the Trustee shall have received an officer's certificate and opinion of counsel from AHFC to the effect that all conditions precedent to such transaction or transactions have been satisfied.

Upon any consolidation or amalgamation by AHFC with, or AHFC's merger into, any other person or any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of AHFC to any person, in each case in accordance with the provisions of the Indenture described above, the successor person formed by the consolidation or amalgamation or into which AHFC is merged or to which such sale, lease, assignment, transfer or other conveyance is made, as applicable, shall succeed to, and be substituted for, AHFC and may exercise every right and power of AHFC under the Indenture with the same effect as if such successor person had been named as AHFC in the Indenture; and thereafter, except in the case of a lease, the predecessor person shall be released from all obligations and covenants under the Indenture and the outstanding debt securities and any coupons appertaining thereto.

Termination, Modification or Amendment of the Keep Well Agreement

AHFC shall not effect any termination, modification or amendment of the Keep Well Agreement (as defined below) and the Keep Well Agreement may not be otherwise terminated without the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series issued under the Indenture that has the benefit of the Keep Well Agreement and is affected by such termination, modification or amendment (voting as separate classes) unless:

- with respect to any series of outstanding debt securities affected by such termination, modification or amendment that is rated by one or more Rating Agencies (as defined below), each such Rating Agency confirms in writing that the rating assigned to such series of outstanding debt securities will not be withdrawn or reduced by reason of such termination, modification or amendment; or
- the termination, modification or amendment is to: (i) replace, at the discretion of Honda Motor Co., Ltd. (“HMC”), AHFC as a party to the Keep Well Agreement with any successor person that assumes the obligations of AHFC under the Indenture and the outstanding debt securities pursuant to a transaction permitted under “—Merger, Consolidation and Transfer of Assets” discussed above, (ii) terminate, modify or amend the Keep Well Agreement between AHFC and HMC after AHFC has been released of its obligations under the Indenture and the outstanding debt securities in accordance with “—Merger, Consolidation and Transfer of Assets” discussed above, or (iii) terminate, modify or amend the Keep Well Agreement if such termination, modification or amendment affects only debt securities that have not yet been issued under the Indenture.

Any termination, modification or amendment of the Keep Well Agreement that is not in compliance with these provisions shall not be effective with respect to the outstanding debt securities of the applicable series.

Negative Pledge

AHFC shall not create or permit to be outstanding any Lien (as defined below) upon any of its present or future properties or assets, unless all the debt securities outstanding under the Indenture are secured by such Lien equally and ratably with all the other obligations and indebtedness for money borrowed secured by such Lien for so long as such other obligations and indebtedness for money borrowed are so secured, *provided, however*, that this covenant shall not apply to (1) Liens securing obligations (or securing any refunding or extensions of such obligations not exceeding the principal amount of the obligations so refunded or extended at the time of the refunding or extension thereof and covering only the same property theretofore securing the same) which, after giving effect to the initial incurrence of such obligations, do not in the aggregate exceed 30% of Consolidated Net Tangible Assets (as defined below) or (2) any Permitted Lien (as defined below).

Definitions

“ABS Obligation” means any security or other obligation that is (i) issued by a trust or entity created for the special purpose of issuing such security or obligation (regardless of whether it may also issue others of the same or another series or class), (ii) secured by specific assets transferred to such trust or entity by AHFC in connection with the issuance of such security or obligation, and (iii) payable by its terms solely from specified assets (including such security) of such trust or entity and, if applicable, specified third party credit support.

“Consolidated Net Tangible Assets” means the aggregate amount of assets (less applicable reserves and other items deductible from the gross book value of specific asset amounts), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles of AHFC and its consolidated subsidiaries calculated as of the date of the most recently prepared quarterly consolidated financial statements of AHFC prepared in accordance with GAAP.

“GAAP” means, unless otherwise specified with respect to any series of debt securities in the applicable prospectus supplement, generally accepted accounting principles in the United States as in effect on the date of any calculation or determination required under the Indenture.

“Keep Well Agreement” means either (i) if clause (ii) of this definition does not apply, the Keep Well Agreement, dated as of September 9, 2005, between the Company and HMC, or (ii) if HMC has elected to enter into a keep well agreement (substantially in the form of the keep well agreement described in clause (i) of this definition) with a successor person as permitted under “—Termination, Modification or Amendment of the Keep Well Agreement” above as a result of a transaction permitted under “—Merger, Consolidation and Transfer of Assets”

above, such keep well agreement between HMC and the successor person, in each case as the same may be amended or supplemented from time to time.

“Lien” means, with respect to any asset or property, any mortgage, lien (statutory or otherwise), pledge, hypothecation, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset or property, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof or sale/leaseback, any option or other agreement to sell or give a security interest in, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction, *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Nonrecourse,” with respect to AHFC and any ABS Obligation, means that AHFC has no obligation in respect of any payment due on such ABS Obligation and the holders thereof have so agreed (or are deemed to have so agreed by acquiring such ABS Obligation).

“Permitted Lien” means:

- (a) any deposit of AHFC’s assets with any surety company or clerk of any court, or in escrow as collateral in connection with, or in lieu of, any bond on appeal by AHFC from any judgment or decree against it, or in connection with other proceedings in actions at law or in equity by or against AHFC or to exercise any privilege or license, performance of bids, contracts or leases or to secure other public or statutory obligations of AHFC or other similar deposits or pledges made in the ordinary course of business;
- (b) any Lien on any property, tangible or intangible, real or personal, existing at the time of acquisition thereof (whether through purchase or through merger or consolidation) or given to secure the payment of all or any part of the purchase price thereof or to secure any indebtedness incurred prior to, at the time of, or within one year after, the acquisition thereof for the purpose of financing all or any part of the purchase price thereof;
- (c) mechanic’s, workmen’s, repairmen’s, materialmen’s or carriers’ Liens or other similar Liens arising in the ordinary course of business or deposits or pledges to obtain the release of any such Liens;
- (d) any Lien arising out of a judgment or award against AHFC with respect to which AHFC shall in good faith be prosecuting an appeal or proceedings for review or Liens incurred by AHFC for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which AHFC is a party;
- (e) any Lien for taxes not yet subject to penalties for nonpayment or contest, or minor survey exceptions, or minor encumbrances, assessments or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, assessments, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of AHFC’s business;
- (f) any Lien on any property, tangible or intangible, which may arise as a result of a transaction involving a transfer of assets by AHFC if such transfer of assets is treated as a sale in accordance with GAAP or if such transfer of assets is to an entity that issues ABS Obligations backed by such assets and such ABS Obligations are Nonrecourse to AHFC;

- (g) any pledge of assets to secure any financing by AHFC of the exporting of goods to or between, or the marketing thereof in, countries other than the United States in connection with which AHFC reserves the right, in accordance with customary and established banking practice, to deposit, or otherwise subject to a Lien, cash, securities or receivables for the purpose of securing banking accommodations or as the basis for the issuance of bankers' acceptances or in aid of other similar borrowing arrangements;
- (h) any pledge of receivables payable in currencies other than the United States dollar to secure borrowings in countries other than the United States;
- (i) any Lien in favor of the United States or any state thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- (j) any Lien securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining of advances or credit or the securing of debt, if made and continuing in the ordinary course of business;
- (k) any Lien to secure non-recourse obligations in connection with AHFC engaging in leveraged or single-investor lease transactions;
- (l) any Lien on property acquired or sold by AHFC resulting from the exercise of any rights arising out of defaults on receivables;
- (m) any Lien to secure obligations with respect to any interest rate, foreign currency exchange, swap, collar, cap or similar agreements entered into in the ordinary course of business to hedge or mitigate risks to which AHFC or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;
- (n) bankers' Liens or bankers' rights of offset, in each case arising in the ordinary course of banking business with respect to any bank accounts or bank deposits; and
- (o) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) to (n) inclusive; provided, however, that the amount of any and all obligations and indebtedness secured thereby does not exceed the amount thereof so secured immediately prior to the time of such extension, renewal or replacement and that such extension, renewal or replacement is limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property), and provided further, that AHFC is free to substitute collateral of equal value for the existing collateral in any transaction covered by clauses (a) through (n) above.

“Rating Agency” with respect to any security, means any rating agency that (i) has been requested by HMC or AHFC to issue a rating with respect to such security and (ii) has issued such a rating and such rating remains in effect at the time the termination, modification or amendment of the Keep Well Agreement referred to under “— Termination, Modification or Amendment of the Keep Well Agreement” above is to be effected.

“Subsidiary” means (1) any corporation a majority of the total voting power of whose outstanding Voting Stock is owned or controlled, directly or indirectly, at the date of determination by AHFC, and (2) any other person in which AHFC and/or one or more other Subsidiaries, directly or indirectly, at the date of determination, (x) own a majority of the outstanding equity interests or (y) have the power to elect or direct the election of, or to appoint or approve the appointment of, a majority of the directors, trustees or managing members of, or other persons holding similar positions with, such Person.

“Voting Stock” means, with respect to any person, any class or series of capital stock of, or other equity interests in, such person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of, or to appoint or to approve the appointment of, the directors, trustees or managing members of, or other persons holding similar positions with, such person.

Book-Entry Delivery and Settlement

We have obtained the information in this section concerning Clearstream and Euroclear and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of Clearstream and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

Global Clearance and Settlement

The Notes were issued in the form of one or more global notes in fully registered form, without coupons, and deposited with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to the common depositary, its successors or their respective nominees.

Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and, except as described herein, will not receive or be entitled to receive physical delivery of Notes in definitive form. So long as the common depositary for Euroclear and Clearstream or such common depositary's nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole holder of the Notes represented by the global notes for all purposes under the Indenture and the global notes. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the Indenture, including for purposes of receiving any reports delivered by us or the Trustee pursuant to the Indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the Indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

Clearstream

Clearstream has advised that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance

and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator (as defined below) to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream participant, either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

Euroclear

Euroclear has advised that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV (the “Euroclear Operator”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no records of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

Euroclear and Clearstream Arrangements

So long as the common depositary for Euroclear or Clearstream or such common depositary’s nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Indenture and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of the global notes will be made to the common depositary or such common depositary’s nominee, as the case may be, as registered holder thereof. None of us, the Trustee, any agent and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act of 1933, as amended) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium, if any, and interest with respect to the global notes, including any payments made upon any redemption of the global notes, will be credited in euro to the extent received by Euroclear or Clearstream from the Paying Agent to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Initial Settlement

We understand that investors that hold their Notes through Clearstream or Euroclear accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form. Subject to applicable procedures of Clearstream and Euroclear, Notes will be credited to the securities custody accounts of Clearstream and Euroclear participants on the business day following the Settlement Date, for value on the Settlement Date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand that secondary market trading between Clearstream and/or Euroclear participants will occur in the ordinary way following the applicable rules and operating procedures of Clearstream and Euroclear. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Clearstream and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to make or receive a payment or delivery of the Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

Clearstream or Euroclear will credit payments to the cash accounts of Clearstream customers or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depository. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures.

Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Notes among participants of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

Exchange of Global Notes for Certificated Notes

Subject to certain conditions, the Notes represented by the global notes are exchangeable for notes in definitive form of like tenor in minimum denominations of €100,000 principal amount and multiples of €1,000 in excess thereof if:

(1) Clearstream, Euroclear or any successor thereto notifies us that it is unwilling or unable to act as a clearing system for the Notes;

(2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes; or

In all cases, definitive notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the common depositary (in accordance with its customary procedures).

(3) there has occurred and is continuing an Event of Default with respect to the Notes.

Payments (including principal, premium, if any, and interest) and transfers with respect to notes in definitive form may be executed at the office or agency maintained for such purpose, at our option, by check mailed to the holders thereof at the respective addresses set forth in the register of holders of the Notes, provided that all payments (including principal, premium, if any, and interest) with respect to notes in definitive form, for which the holders thereof have given wire transfer instructions, will be required to be made by wire transfer of immediately available funds to the accounts specified by the holders thereof. No service charge will be made for any registration of transfer, but payment of a sum sufficient to cover any tax or governmental charge payable in connection with that registration may be required.