# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**
# FORM 10-Q

(Mark One)

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

**For the quarterly period ended June 30, 2023**

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** | **95-3472715** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| **1919 Torrance Blvd., Torrance, California** | **90501** |
| (Address of principal executive offices) | (Zip Code) |

**(310) 972-2288**
(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 exchange on which registered |
|---|---|---|
| **0.750% Medium-Term Notes, Series A Due January 17, 2024** | **HMC/26A** | **New York Stock Exchange** |
| **1.950% Medium-Term Notes, Series A Due October 18, 2024** | **HMC/24D** | **New York Stock Exchange** |
| **0.750% Medium-Term Notes, Series A Due November 25, 2026** | **HMC/26A** | **New York Stock Exchange** |
| **0.300% Medium-Term Notes, Series A Due July 7, 2028** | **HMC/28A** | **New York Stock Exchange** |
| **1.500% Medium-Term Notes, Series A Due October 19, 2027** | **HMC/27A** | **New York Stock Exchange** |
| **3.750% Medium-Term Notes, Series A Due October 25, 2027** | **HMC/27B** | **New York Stock Exchange** |

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 | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

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

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

As of July 31, 2023, 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.

**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 H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

**AMERICAN HONDA FINANCE CORPORATION**
**QUARTERLY REPORT ON FORM 10-Q**
For the quarter ended June 30, 2023

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**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:

- the duration and severity of supply chain disruptions on the production of new vehicles and dealer inventory levels;
- 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 inflationary pressures, increases in interest rates and 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;
- the impact of pandemics, epidemics, and other public health crises, such as COVID-19 and efforts to contain them on our operations, liquidity and financial condition;
- 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 to is contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2023 filed with the Securities and Exchange Commission on June 23, 2023. Readers of this Quarterly Report should review the information contained in that report, and in any subsequent reports that we file with the Securities and Exchange Commission as such risks and uncertainties may be amended, supplemented or superseded from time to time. 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 – FINANCIAL INFORMATION

**Item1. Financial Statements**

## AMERICAN HONDA FINANCE CORPORATION
## AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(U.S. dollars in millions, except share amounts)

| | June 30, 2023 | March 31, 2023 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 1,226 | $ 1,544 |
| Finance receivables, net of allowance for credit losses of $308 and $253 | 40,124 | 37,585 |
| Investment in operating leases, net | 27,632 | 27,778 |
| Due from Parent and affiliated companies | 97 | 66 |
| Income taxes receivable | 28 | 28 |
| Other assets | 853 | 757 |
| Derivative instruments | 1,269 | 1,133 |
| Total assets | $ 71,229 | $ 68,891 |
| **Liabilities and Equity** | | |
| Debt | $ 42,042 | $ 40,334 |
| Due to Parent and affiliated companies | 114 | 161 |
| Income taxes payable | 461 | 211 |
| Deferred income taxes | 6,180 | 6,287 |
| Other liabilities | 1,280 | 1,137 |
| Derivative instruments | 1,789 | 1,736 |
| Total liabilities | 51,866 | 49,866 |
| Commitments and contingencies (Note 8) | | |
| Shareholder's equity: | | |
| Common stock, $100 par value. Authorized 15,000,000 shares; issued and outstanding 13,660,000 shares as of June 30, 2023 and March 31, 2023 | 1,366 | 1,366 |
| Retained earnings | 16,953 | 16,688 |
| Accumulated other comprehensive loss | (110) | (135) |
| Total shareholder's equity | 18,209 | 17,919 |
| Noncontrolling interest in subsidiary | 1,154 | 1,106 |
| Total equity | 19,363 | 19,025 |
| Total liabilities and equity | $ 71,229 | $ 68,891 |

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 9 for additional information.

| | June 30, 2023 | March 31, 2023 |
|---|---|---|
| Finance receivables, net | $ 7,635 | $ 7,216 |
| Investment in operating leases, net | 114 | 168 |
| Other assets | 519 | 433 |
| Total assets | $ 8,268 | $ 7,817 |
| | | |
| Secured debt | $ 7,281 | $ 6,927 |
| Other liabilities | 10 | 7 |
| Total liabilities | $ 7,291 | $ 6,934 |

See accompanying *Notes to Consolidated Financial Statements (Unaudited)*.

## AMERICAN HONDA FINANCE CORPORATION
## AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(U.S. dollars in millions)

| | Three months ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Revenues: | | |
| Retail | $ 436 | $ 362 |
| Dealer | 50 | 17 |
| Operating leases | 1,537 | 1,768 |
| Total revenues | 2,023 | 2,147 |
| Leased vehicle expenses | 1,110 | 1,314 |
| Interest expense | 323 | 181 |
| Net revenues | 590 | 652 |
| Other income, net | 29 | 14 |
| Total net revenues | 619 | 666 |
| Expenses: | | |
| General and administrative expenses | 127 | 119 |
| Provision for credit losses | 79 | 21 |
| Early termination loss on operating leases | 12 | (1) |
| (Gain)/Loss on derivative instruments | (71) | 525 |
| (Gain)/Loss on foreign currency revaluation of debt | 50 | (428) |
| Total expenses | 197 | 236 |
| Income before income taxes | 422 | 430 |
| Income tax expense | 132 | 117 |
| Net income | 290 | 313 |
| Less: Net income attributable to noncontrolling interest | 25 | 28 |
| Net income attributable to American Honda Finance Corporation | $ 265 | $ 285 |

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(U.S. dollars in millions)

| | Three months ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Net income | $ 290 | $ 313 |
| Other comprehensive income: | | |
| Foreign currency translation adjustment | 48 | (73) |
| Comprehensive income | 338 | 240 |
| Less: Comprehensive income/(loss) attributable to noncontrolling interest | 48 | (7) |
| Comprehensive income attributable to American Honda Finance Corporation | $ 290 | $ 247 |

See accompanying *Notes to Consolidated Financial Statements (Unaudited)*.

**AMERICAN HONDA FINANCE CORPORATION**
**AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(U.S. dollars in millions)

| | Total | Retained earnings | Accumulated other comprehensive income/(loss) | Common stock | Noncontrolling interest |
|---|---|---|---|---|---|
| **Balance at March 31, 2022** | $ 19,452 | $ 16,901 | $ (38) | $ 1,366 | $ 1,223 |
| Net income | 313 | 285 | — | — | 28 |
| Other comprehensive loss | (73) | — | (38) | — | (35) |
| **Balance at June 30, 2022** | $ 19,692 | $ 17,186 | $ (76) | $ 1,366 | $ 1,216 |
| | | | | | |
| **Balance at March 31, 2023** | $ 19,025 | $ 16,688 | $ (135) | $ 1,366 | $ 1,106 |
| Net income | 290 | 265 | — | — | 25 |
| Other comprehensive income | 48 | — | 25 | — | 23 |
| **Balance at June 30, 2023** | $ 19,363 | $ 16,953 | $ (110) | $ 1,366 | $ 1,154 |

See accompanying *Notes to Consolidated Financial Statements (Unaudited)*.

**AMERICAN HONDA FINANCE CORPORATION**
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(U.S. dollars in millions)

| | Three months ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| Cash flows from operating activities: | | |
| Net income | $ 290 | $ 313 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Debt and derivative instrument valuation adjustments | 36 | 98 |
| Provision for credit losses | 79 | 21 |
| Early termination loss on operating leases | 12 | (1) |
| Depreciation on leased vehicles | 1,116 | 1,315 |
| Accretion of unearned subsidy income | (237) | (291) |
| Amortization of deferred dealer participation and other deferred costs | 86 | 83 |
| Gain on disposition of leased vehicles | (31) | (33) |
| Deferred income taxes | (118) | (219) |
| Changes in operating assets and liabilities: | | |
| Income taxes receivable/payable | 251 | 307 |
| Other assets | (12) | 94 |
| Accrued interest/discounts on debt | 38 | 13 |
| Other liabilities | 60 | (72) |
| Due to/from Parent and affiliated companies | (79) | (21) |
| Net cash provided by operating activities | 1,491 | 1,607 |
| Cash flows from investing activities: | | |
| Finance receivables acquired | (7,054) | (3,327) |
| Principal collected on finance receivables | 4,443 | 4,552 |
| Net change in wholesale loans | 43 | 153 |
| Purchase of operating lease vehicles | (3,638) | (2,174) |
| Disposal of operating lease vehicles | 2,746 | 2,793 |
| Cash received for unearned subsidy income | 203 | 118 |
| Other investing activities, net | — | (1) |
| Net cash (used in)/provided by investing activities | (3,257) | 2,114 |

Statement continues on the next page.

**AMERICAN HONDA FINANCE CORPORATION**
**AND SUBSIDIARIES**

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

| | Three months ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| Cash flows from financing activities: | | |
| Proceeds from issuance of commercial paper | $ 12,487 | $ 5,200 |
| Paydown of commercial paper | (11,893) | (4,433) |
| Proceeds from issuance of medium-term notes and other debt | 2,243 | 197 |
| Paydown of medium-term notes and other debt | (1,650) | (3,233) |
| Proceeds from issuance of secured debt | 1,496 | — |
| Paydown of secured debt | (1,153) | (1,392) |
| Dividends paid | — | (132) |
| Net cash provided by/(used in) financing activities | 1,530 | (3,793) |
| Effect of exchange rate changes on cash and cash equivalents | 3 | (2) |
| Net decrease in cash and cash equivalents | (233) | (74) |
| Cash and cash equivalents and restricted cash at beginning of period | 1,964 | 2,972 |
| Cash and cash equivalents and restricted cash at end of period | $ 1,731 | $ 2,898 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | $ 216 | $ 119 |
| Income taxes (refunded)/paid | $ (3) | $ 30 |

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.

| | June 30, | |
|---|---|---|
| | **2023** | **2022** |
| Cash and cash equivalents | $ 1,226 | $ 2,594 |
| Restricted cash included in other assets [1] | 505 | 304 |
| Total | $ 1,731 | $ 2,898 |

(1) Restricted cash balances relate to securitization arrangements (Note 9).

See accompanying *Notes to Consolidated Financial Statements (Unaudited)*.

## Note 1. Summary of Business and Significant Accounting Policies

### *Organizational Structure*

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, and references to "AHFC" refer solely to American Honda Finance Corporation (excluding AHFC's subsidiaries).

### *Basis of Presentation*

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim information, and instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, these unaudited interim financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. Results for interim periods should not be considered indicative of results for the full year or for any other interim period. These unaudited interim financial statements should be read in conjunction with the Company's audited consolidated financial statements, significant accounting policies, and the other notes to the consolidated financial statements for the fiscal year ended March 31, 2023 included in the Company's Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on June 23, 2023. All significant intercompany balances and transactions have been eliminated upon consolidation.

### *Recently Adopted Accounting Standard*

Effective April 1, 2023, the Company adopted Accounting Standards Update (ASU) 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted ASU 2016-13 and enhance the disclosure requirements for certain loan refinancings and restructurings when borrowers are experiencing financial difficulty. In addition, the amendments require the disclosure of current-period gross writeoffs for financing receivables by year of origination in the vintage disclosures. The adoption of this standard did not have a material impact on the consolidated financial statements.

### *Recently Issued Accounting Standards*

ASUs issued but not yet adopted were assessed and determined to be either not applicable or not expected to have a material impact on the consolidated financial statements.

### Note 2. Finance Receivables

Finance receivables consisted of the following:

| | June 30, 2023 | | |
|---|---|---|---|
| | Retail | Dealer | Total |
| | (U.S. dollars in millions) | | |
| Finance receivables | $ 37,535 | $ 2,913 | $ 40,448 |
| Allowance for credit losses | (303) | (5) | (308) |
| Deferred dealer participation and other deferred costs | 528 | — | 528 |
| Unearned subsidy income | (544) | — | (544) |
| Finance receivables, net | $ 37,216 | $ 2,908 | $ 40,124 |

| | March 31, 2023 | | |
|---|---|---|---|
| | Retail | Dealer | Total |
| | (U.S. dollars in millions) | | |
| Finance receivables | $ 35,110 | $ 2,836 | $ 37,946 |
| Allowance for credit losses | (248) | (5) | (253) |
| Deferred dealer participation and other deferred costs | 472 | — | 472 |
| Unearned subsidy income | (580) | — | (580) |
| Finance receivables, net | $ 34,754 | $ 2,831 | $ 37,585 |

Finance receivables include retail loans with a net carrying amount of $7.6 billion and $7.2 billion as of June 30, 2023 and March 31, 2023, respectively, which have been transferred to bankruptcy-remote Special Purpose Entities (SPEs) and are considered to be legally isolated but do not qualify for sale accounting treatment. These retail loans are restricted and serve as collateral for the payment of the related secured debt obligations. Refer to Note 9 for additional information.

***Allowance for Credit Losses***

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

| | Three months ended June 30, 2023 | | |
|---|---|---|---|
| | Retail | Dealer | Total |
| | (U.S. dollars in millions) | | |
| Beginning balance as of April 1, 2023 | $ 248 | $ 5 | $ 253 |
| Provision | 79 | — | 79 |
| Charge-offs | (47) | — | (47) |
| Recoveries | 23 | — | 23 |
| Ending balance as of June 30, 2023 | $ 303 | $ 5 | $ 308 |

| | Three months ended June 30, 2022 | | |
|---|---|---|---|
| | Retail | Dealer | Total |
| | (U.S. dollars in millions) | | |
| Beginning balance as of April 1, 2022 | $ 206 | $ 5 | $ 211 |
| Provision | 21 | — | 21 |
| Charge-offs | (37) | | (37) |
| Recoveries | 22 | — | 22 |
| Ending balance as of June 30, 2022 | $ 212 | $ 5 | $ 217 |

The allowance for credit losses increased during the three months ended June 30, 2023 primarily due to the increase in acquisition of retail loans during the period.

***Delinquencies***

Collection experience provides an indication of the credit quality of finance receivables. For retail loans, delinquencies are a good predictor of charge-offs in the near term. The likelihood of accounts charging off is significantly higher once an account becomes 60 days delinquent. Retail loans 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 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) | | | | | |
| **June 30, 2023** | | | | | | |
| Retail loans: | | | | | | |
| New auto | $ 226 | $ 63 | $ 14 | $ 303 | $ 29,402 | $ 29,705 |
| Used and certified auto | 113 | 38 | 9 | 160 | 6,339 | 6,499 |
| Motorcycle and other | 13 | 6 | 3 | 22 | 1,293 | 1,315 |
| Total retail loans | 352 | 107 | 26 | 485 | 37,034 | 37,519 |
| Dealer loans: | | | | | | |
| Wholesale flooring | — | — | — | — | 1,909 | 1,909 |
| Commercial loans | — | — | — | — | 1,004 | 1,004 |
| Total dealer loans | — | — | — | — | 2,913 | 2,913 |
| Total finance receivables | $ 352 | $ 107 | $ 26 | $ 485 | $ 39,947 | $ 40,432 |
| **March 31, 2023** | | | | | | |
| Retail loans: | | | | | | |
| New auto | $ 217 | $ 44 | $ 11 | $ 272 | $ 27,479 | $ 27,751 |
| Used and certified auto | 103 | 25 | 6 | 134 | 5,870 | 6,004 |
| Motorcycle and other | 14 | 5 | 2 | 21 | 1,226 | 1,247 |
| Total retail loans | 334 | 74 | 19 | 427 | 34,575 | 35,002 |
| Dealer loans: | | | | | | |
| Wholesale flooring | — | — | — | — | 1,946 | 1,946 |
| Commercial loans | — | — | — | — | 890 | 890 |
| Total dealer loans | — | — | — | — | 2,836 | 2,836 |
| Total finance receivables | $ 334 | $ 74 | $ 19 | $ 427 | $ 37,411 | $ 37,838 |

***Credit Quality Indicators***

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. Exposure to credit risk in retail loans is managed through regular monitoring and adjusting of underwriting standards, pricing of contracts for expected losses, and focusing collection efforts to minimize losses. Exposure to credit risk for dealers is managed through ongoing reviews of their financial condition.

*Retail Loan Segment*

The Company utilizes proprietary credit scoring systems to evaluate the credit risk of applicants and assign internal credit grades at origination. Factors used to develop a customer's credit grade include the terms of the contract, the loan-to-value ratio, the customer's debt ratios, and credit bureau attributes such as the number of trade lines, utilization ratio, and number of credit inquiries. Different scorecards are utilized depending on the type of product financed. The Company regularly reviews and analyzes the performance of the consumer-financing portfolio to ensure the effectiveness of underwriting guidelines, purchasing criteria and scorecard predictability of customers. Internal credit grades are determined only at the time of origination and are not reassessed during the life of the contract. The following describes the internal credit grade ratings.

A - Borrowers classified as very low credit risks. Based on their application and credit bureau report, they have the ability to pay and have shown a willingness to pay. Generally, A credit borrowers have an extensive credit history, an excellent payment record and extensive financial resources.

B - Borrowers classified as relatively low credit risks. Based on their application and credit bureau report, they have the ability to pay and have shown a willingness to pay. Generally, B credit borrowers may have one or more conditions that could reduce the internal credit score, such as a shorter credit history or a minor credit weakness.

C - Borrowers classified as moderate credit risks. Based on their application and credit bureau report, they may have limited financial resources, limited credit history, or a weakness in credit history.

D - Borrowers classified as relatively higher credit risks. Based on their application and credit bureau report, they may have very limited financial resources, very limited or no credit history, or a poor credit history.

Others - Borrowers, including businesses, without credit bureau reports.

The following table summarizes the amortized cost of retail loans by internal credit grade:

| | Retail loans by vintage fiscal year | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2024** | **2023** | **2022** | **2021** | **2020** | **Prior** | **Total** |
| | (U.S. dollars in millions) | | | | | | |
| **June 30, 2023** | | | | | | | |
| Credit grade A | $ 4,046 | $ 7,621 | $ 5,388 | $ 4,568 | $ 1,294 | $ 550 | $ 23,467 |
| Credit grade B | 1,208 | 2,627 | 1,533 | 1,160 | 429 | 222 | 7,179 |
| Credit grade C | 807 | 1,729 | 1,057 | 785 | 348 | 192 | 4,918 |
| Credit grade D | 210 | 414 | 262 | 225 | 164 | 98 | 1,373 |
| Others | 100 | 194 | 133 | 87 | 42 | 26 | 582 |
| Total retail loans | $ 6,371 | $ 12,585 | $ 8,373 | $ 6,825 | $ 2,277 | $ 1,088 | $ 37,519 |
| Gross charge-offs for the three months ended June 30, 2023 | $ — | $ 18 | $ 13 | $ 9 | $ 4 | $ 3 | $ 47 |

| | Retail loans by vintage fiscal year | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2023** | **2022** | **2021** | **2020** | **2019** | **Prior** | **Total** |
| | (U.S. dollars in millions) | | | | | | |
| **March 31, 2023** | | | | | | | |
| Credit grade A | $ 8,332 | $ 5,994 | $ 5,188 | $ 1,570 | $ 661 | $ 171 | $ 21,916 |
| Credit grade B | 2,828 | 1,693 | 1,308 | 504 | 229 | 78 | 6,640 |
| Credit grade C | 1,864 | 1,174 | 887 | 407 | 189 | 71 | 4,592 |
| Credit grade D | 447 | 294 | 255 | 191 | 92 | 36 | 1,315 |
| Others | 211 | 146 | 97 | 50 | 22 | 13 | 539 |
| Total retail loans | $ 13,682 | $ 9,301 | $ 7,735 | $ 2,722 | $ 1,193 | $ 369 | $ 35,002 |

*Dealer Loan 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.

Dealerships have been divided into the following groups:

Group I - Dealerships in the strongest internal risk rating tier

Group II - Dealerships with internal risk ratings below the strongest tier

Group III - Dealerships with impaired loans

The following table summarizes the amortized cost of dealer loans by risk rating groups:

| | Commercial loans by vintage fiscal year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2024** | **2023** | **2022** | **2021** | **2020** | **Prior** | **Revolving loans** | **Wholesale Flooring** | **Total** |
| | (U.S. dollars in millions) | | | | | | | | |
| **June 30, 2023** | | | | | | | | | |
| Group I | $ 59 | $ 66 | $ 10 | $ 118 | $ 52 | $ 102 | $ 519 | $ 1,144 | $ 2,070 |
| Group II | — | 1 | 6 | 29 | 11 | 31 | — | 764 | 842 |
| Group III | — | — | — | — | — | — | — | 1 | 1 |
| Total dealer loans | $ 59 | $ 67 | $ 16 | $ 147 | $ 63 | $ 133 | $ 519 | $ 1,909 | $ 2,913 |
| Gross charge-offs for the three months ended June 30, 2023 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |

| | Commercial loans by vintage fiscal year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2023** | **2022** | **2021** | **2020** | **2019** | **Prior** | **Revolving loans** | **Wholesale Flooring** | **Total** |
| | (U.S. dollars in millions) | | | | | | | | |
| **March 31, 2023** | | | | | | | | | |
| Group I | $ 67 | $ 10 | $ 143 | $ 56 | $ 24 | $ 89 | $ 428 | $ 1,223 | $ 2,040 |
| Group II | 1 | 6 | 29 | 6 | — | 31 | — | 723 | 796 |
| Group III | — | — | — | — | — | — | — | — | — |
| Total dealer loans | $ 68 | $ 16 | $ 172 | $ 62 | $ 24 | $ 120 | $ 428 | $ 1,946 | $ 2,836 |

***Loan Modifications***

The contractual terms of loans may be modified when borrowers are experiencing financial difficulties in an effort to mitigate losses. There were no dealer loans that were modified for dealers experiencing financial difficulties during the three months ended June 30, 2023. Payment deferrals are granted on retail loans, however the delays in payments are considered insignificant since the number of deferred payments are limited and interest continues to accrue during the deferral period. Starting in April 2023, the Company began granting term extensions on retail loans in the United States. Term extensions extend the maturity date of the loan which reduces the monthly payments over the remaining extended term of the loan. Term extensions do not change the contractual interest rates or reduce the outstanding principal balances. During the three months ended June 30, 2023, term extensions were not material to the Company's consolidated financial statement. Retail loans may also be modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code which may include interest rate adjustments, term extensions, and principal forgiveness. Retail loans modified under bankruptcy protection were not material to the Company's consolidated financial statements during the three months ended June 30, 2023.

Prior to the adoption of ASU 2022-2, there were no dealer loans during the fiscal year ended March 31, 2023 that were considered troubled debt restructurings. Retail loans modified under bankruptcy protection were considered troubled debt restructurings but were not material to the Company's consolidated financial statements during the fiscal year ended March 31, 2023.

**Note 3. Investment in Operating Leases**

Investment in operating leases consisted of the following:

| | June 30, 2023 | March 31, 2023 |
|---|---|---|
| | (U.S. dollars in millions) | |
| Operating lease vehicles | $ 35,958 | $ 36,412 |
| Accumulated depreciation | (7,671) | (7,989) |
| Deferred dealer participation and initial direct costs | 92 | 88 |
| Unearned subsidy income | (661) | (656) |
| Estimated early termination losses | (86) | (77) |
| Investment in operating leases, net | $ 27,632 | $ 27,778 |

Operating lease revenue consisted of the following:

| | Three months ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| | (U.S. dollars in millions) | |
| Lease payments | $ 1,400 | $ 1,597 |
| Subsidy income and dealer rate participation, net | 128 | 158 |
| Reimbursed lessor costs | 9 | 13 |
| Total operating lease revenue, net | $ 1,537 | $ 1,768 |

Leased vehicle expenses consisted of the following:

| | Three months ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| | (U.S. dollars in millions) | |
| Depreciation expense | $ 1,116 | $ 1,315 |
| Initial direct costs and other lessor costs | 25 | 32 |
| Gain on disposition of leased vehicles (1) | (31) | (33) |
| Total leased vehicle expenses, net | $ 1,110 | $ 1,314 |

(1) Included in the gain on disposition of leased vehicles are end of term charges of $1 million and less than $1 million for the three months ended June 30, 2023, and 2022, respectively.

Investment in operating leases includes lease assets with a net carrying amount of $114 million and $168 million as of June 30, 2023 and March 31, 2023, respectively, 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 and serve 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 June 30, 2023 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.

| **Twelve-month periods ending June 30,** | **(U.S. dollars in millions)** |
|---|---|
| 2024 | $ 4,430 |
| 2025 | 2,593 |
| 2026 | 1,143 |
| 2027 | 216 |
| 2028 | 52 |
| Total | $ 8,434 |

The Company recognized early termination losses on operating leases of $12 million and a reversal of early termination losses on operating leases of $1 million during the three months ended June 30, 2023 and 2022, respectively. Net realized losses totaled $3 million and $1 million during the three months ended June 30, 2023 and 2022, respectively.

The general allowance for uncollectible operating lease receivables was recorded through a reduction to revenue of $3 million and less than $1 million for the three months ended June 30, 2023 and 2022, respectively.

No impairment losses due to declines in estimated residual values were recognized during both the three months ended June 30, 2023 and 2022.

**Note 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:

| | | | Weighted average contractual interest rate [1] | | Contractual interest rate ranges | |
|---|---|---|---|---|---|---|
| | **June 30, 2023** | **March 31, 2023** | **June 30, 2023** | **March 31, 2023** | **June 30, 2023** | **March 31, 2023** |
| | **(U.S. dollars in millions)** | | | | | |
| Unsecured debt: | | | | | | |
| Commercial paper | $ 6,997 | $ 6,375 | 5.47 % | 5.18 % | 4.66 - 5.65% | 4.30 - 5.93% |
| Bank loans | 1,910 | 1,894 | 6.02 % | 5.66 % | 5.69 - 6.54% | 5.38 - 6.14% |
| Public MTN program | 22,612 | 21,962 | 2.25 % | 1.99 % | 0.30 - 5.93% | 0.30 - 5.43% |
| Other debt | 3,242 | 3,176 | 3.19 % | 3.15 % | 1.34 - 6.13% | 1.34 - 5.88% |
| Total unsecured debt | 34,761 | 33,407 | | | | |
| Secured debt | 7,281 | 6,927 | 3.06 % | 2.42 % | 0.27 - 5.71% | 0.20 - 5.50% |
| Total debt | $ 42,042 | $ 40,334 | | | | |

(1) Weighted average contractual interest rates for commercial paper are bond equivalent yields. Contractual interest rates approximate effective yields.

As of June 30, 2023, the outstanding principal balance of long-term debt with floating interest rates totaled $3.7 billion, long-term debt with fixed interest rates totaled $30.8 billion, and short-term debt with floating or fixed interest rates totaled $7.5 billion. As of March 31, 2023, the outstanding principal balance of long-term debt with floating interest rates totaled $4.1 billion, long-term debt with fixed interest rates totaled $29.5 billion, and short-term debt with floating or fixed interest rates totaled $6.7 billion.

***Commercial Paper***

As of June 30, 2023 and March 31, 2023, the Company had commercial paper programs that provide the Company with available funds of up to $8.9 billion and $8.8 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 $6.8 billion and $2.5 billion during the three months ended June 30, 2023 and 2022, respectively. The maximum balance outstanding at any month-end during the three months ended June 30, 2023 and 2022 was $7.0 billion and $3.1 billion, respectively.

***Bank Loans***

Outstanding bank loans at June 30, 2023 were either short-term or long-term, with floating interest rates, and denominated in U.S. dollars or Canadian dollars. Outstanding bank loans have prepayment options. No outstanding bank loans as of June 30, 2023 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.

***Public MTN Program***

In August 2022, 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 June 30, 2023 were long-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.

***Other Debt***

The outstanding balances as of June 30, 2023 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 contain 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 June 30, 2023 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 9 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 23, 2024, a $2.1 billion credit agreement, which expires on February 25, 2026, and a $1.4 billion credit agreement, which expires on February 25, 2028. As of June 30, 2023, 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 $1.5 billion syndicated bank credit facility that includes a $755 million credit agreement, which expires on March 25, 2024 and a $755 million credit agreement, which expires on March 25, 2027. As of June 30, 2023, 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 June 30, 2023, no amounts were drawn upon under these agreements. These agreements expire in September 2023. The Company intends to renew or replace these credit agreements prior to or on their respective expiration dates.

## Note 5. Derivative Instruments

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 12 regarding the valuation of derivative instruments.

| | June 30, 2023 | | | March 31, 2023 | | |
|---|---|---|---|---|---|---|
| | Notional balances | Assets | Liabilities | Notional balances | Assets | Liabilities |
| | (U.S. dollars in millions) | | | | | |
| Interest rate swaps | $ 56,995 | $ 1,267 | $ 1,122 | $ 55,974 | $ 1,133 | $ 1,062 |
| Cross currency swaps | 4,328 | 2 | 667 | 4,328 | — | 674 |
| Gross derivative assets/liabilities | | 1,269 | 1,789 | | 1,133 | 1,736 |
| Collateral posted/held | | — | 61 | | — | 37 |
| Counterparty netting adjustment | | (1,119) | (1,119) | | (1,000) | (1,000) |
| Net derivative assets/liabilities | | $ 150 | $ 731 | | $ 133 | $ 773 |

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.

| | Three months ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| | **(U.S. dollars in millions)** | |
| Interest rate swaps | $ 126 | $ 9 |
| Cross currency swaps | (55) | (534) |
| Total gain/(loss) on derivative instruments | $ 71 | $ (525) |

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.

**Note 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** | **Three months ended June 30, 2023** | **2022** |
|---|---|---|
| | **(U.S. dollars in millions)** | |
| Revenue: | | |
| Subsidy income | $ 236 | $ 289 |
| General and administrative expenses: | | |
| Support Compensation Agreement fees | 15 | 17 |
| Benefit plan expenses | 2 | 2 |
| Shared services | 18 | 18 |
| Lease expense | 1 | 1 |

| **Balance Sheet** | **June 30, 2023** | **March 31, 2023** |
|---|---|---|
| | **(U.S. dollars in millions)** | |
| **Assets**: | | |
| Finance receivables, net: | | |
| Unearned subsidy income | $ (537) | $ (573) |
| Investment in operating leases, net: | | |
| Unearned subsidy income | (660) | (655) |
| Due from Parent and affiliated companies | 97 | 66 |
| **Liabilities:** | | |
| Due to Parent and affiliated companies | 114 | 161 |
| Other liabilities: | | |
| Accrued benefit expenses | 65 | 63 |
| Operating lease liabilities | 10 | 11 |

***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, Public MTN Program, and HCFI's private placement debt and loans, if any, under AHFC's and HCFI'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.

***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.

***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 Note 7 for additional information.

***Other***

The majority of the amounts due from the Parent and affiliated companies at June 30, 2023 and March 31, 2023 were related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at June 30, 2023 and March 31, 2023 were 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 leases its premises from its parent, AHM.

In July 2023 and 2022, AHFC declared and paid cash dividends of $553 million and $766 million, respectively, to its parent, AHM.

In July 2023, HCFI declared and paid cash dividends to AHFC and HCI of $37 million and $34 million, respectively. In July 2022, HCFI declared and paid cash dividends to AHFC and HCI of $69 million and $63 million, respectively.

**Note 7. Income Taxes**

On August 16, 2022, the Inflation Reduction Act of 2022 (IRA) was enacted into law. The IRA includes tax provisions for a new corporate alternative minimum tax (CAMT) of 15% on adjusted financial statement income of corporations with profits greater than $1 billion, effective for taxable years beginning after December 31, 2022, in addition to a new tax credit for qualified commercial clean vehicles (QCCV) that applies to vehicles acquired after December 31, 2022. At June 30, 2023, based on proposed guidance and regulations thus far, the Company does not expect to be subject to the CAMT for fiscal year 2024 and expects to generate an immaterial amount of QCCV tax credits during the fourth quarter of fiscal year 2024. We will continue to evaluate the effects of IRA as additional guidance and regulations are issued.

The Company's effective tax rate was 31.3% and 27.2% for the three months ended June 30, 2023 and 2022, respectively. The increase in effective tax rate was primarily due to an increase in state taxes attributable to state tax law changes. The Company's effective tax rate for the three months ended June 30, 2023 differs from the U.S. federal statutory tax rate primarily as a result of U.S. state taxes.

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 June 30, 2023, $1.1 billion of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of June 30, 2023 were to be distributed, the tax liability associated with these earnings would be $123 million, inclusive of currency translation adjustments.

As of June 30, 2023, the Company is subject to examination for U.S. federal returns filed for the taxable years ended March 31, 2014 through 2022, and returns filed for the taxable years ended March 31, 2008 through 2022 in various U.S. states. The Company’s Canadian subsidiary, HCFI, is subject to examination for returns filed for the taxable years ended March 31, 2016 through 2022, federally and provincially. The Company believes appropriate provision has been made for all outstanding issues for all open years and does not expect any material changes in the amounts of unrecognized tax benefits during the fiscal year ending March 31, 2024.

**Note 8. Commitments and Contingencies**

***Operating Leases***

The Company leases certain premises and equipment through operating leases. AHFC leases its premises and equipment from AHM and 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 June 30, 2023, maturities of operating lease liabilities were as follows:

| **Twelve-month periods ending June 30,** | **(U.S. dollars in millions)** |
|---|---|
| 2024 | $ 11 |
| 2025 | 9 |
| 2026 | 10 |
| 2027 | 10 |
| 2028 | 9 |
| Thereafter | 28 |
| Total undiscounted future lease obligations | 77 |
| Less: imputed interest | (9) |
| Operating lease liabilities | $ 68 |

Lease expense under operating leases was $2 million for both the three months ended June 30, 2023 and 2022. Rent expense is included within general and administrative expenses.

As of June 30, 2023, the weighted average remaining lease term for operating leases was 8.1 years and the weighted average remaining discount rate for operating leases was 2.85%.

***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 $566 million as of June 30, 2023. The Company also has commitments to finance the construction of auto dealership facilities. The remaining unfunded balance for these construction loans was $1 million as of June 30, 2023.

***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 concerning business practices and policies. The Company is also subject to regulation, supervision, and licensing under various federal, state, provincial, and local statutes, ordinances and regulations which involve governmental reviews and inquiries from time to time. 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.

## Note 9. 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 three months ended June 30, 2023, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling $1.5 billion which were secured by assets with an initial balance of $1.6 billion. During the three months ended June 30, 2022, the Company did not issue notes through asset-backed securitizations.

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.

| | June 30, 2023 | | | | |
|---|---|---|---|---|---|
| | Assets | | | Liabilities | |
| | (U.S. dollars in millions) | | | | |
| | Securitized assets | Restricted cash (1) | Other | Secured debt | Other |
| Retail loan securitizations | $ 7,635 | $ 504 | $ 13 | $ 7,237 | $ 9 |
| Operating lease securitizations | 114 | 1 | 1 | 44 | 1 |
| Total | $ 7,749 | $ 505 | $ 14 | $ 7,281 | $ 10 |

| | March 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Assets | | | Liabilities | |
| | (U.S. dollars in millions) | | | | |
| | Securitized assets | Restricted cash (1) | Other | Secured debt | Other |
| Retail loan securitizations | $ 7,216 | $ 419 | $ 12 | $ 6,844 | $ 6 |
| Operating lease securitizations | 168 | 1 | 1 | 83 | 1 |
| Total | $ 7,384 | $ 420 | $ 13 | $ 6,927 | $ 7 |

(1) Included with other assets in the Company's consolidated balance sheets (Note 10).

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 June 30, 2023 and March 31, 2023, AHFC and HCFI had combined cash collections of $409 million and $400 million, respectively, which were required to be remitted to the SPEs.

**Note 10. Other Assets**

Other assets consisted of the following:

| | June 30, 2023 | March 31, 2023 |
|---|---|---|
| | (U.S. dollars in millions) | |
| Accrued interest and fees on finance receivables | $ 117 | $ 103 |
| Accrued rental payments and fees on operating leases | 58 | 62 |
| Vehicles held for disposition | 44 | 50 |
| Restricted cash | 505 | 420 |
| Operating lease right-of-use assets | 60 | 61 |
| Other miscellaneous assets | 69 | 61 |
| Total | $ 853 | $ 757 |

Certain balances as of March 31, 2023 have been reclassified to conform with the current period presentation.

## Note 11. Other Liabilities

Other liabilities consisted of the following:

| | June 30, 2023 | March 31, 2023 |
|---|---|---|
| | (U.S. dollars in millions) | |
| Dealer payables | $ 208 | $ 188 |
| Accrued interest expense | 209 | 121 |
| Accounts payable and accrued expenses | 325 | 304 |
| Lease security deposits | 55 | 57 |
| Unearned income, operating leases | 259 | 269 |
| Operating lease liabilities | 68 | 69 |
| Uncertain tax positions | 94 | 92 |
| Other liabilities | 62 | 37 |
| Total | $ 1,280 | $ 1,137 |

## Note 12. 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:

| | June 30, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (U.S. dollars in millions) | | | |
| **Assets:** | | | | |
| Derivative instruments: | | | | |
| Interest rate swaps | $ — | $ 1,267 | $ — | $ 1,267 |
| Cross currency swaps | — | 2 | — | 2 |
| Total assets | $ — | $ 1,269 | $ — | $ 1,269 |
| **Liabilities:** | | | | |
| Derivative instruments: | | | | |
| Interest rate swaps | $ — | $ 1,122 | $ — | $ 1,122 |
| Cross currency swaps | — | 667 | — | 667 |
| Total liabilities | $ — | $ 1,789 | $ — | $ 1,789 |

| | March 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (U.S. dollars in millions) | | | |
| **Assets:** | | | | |
| Derivative instruments: | | | | |
| Interest rate swaps | $ — | $ 1,133 | $ — | $ 1,133 |
| Cross currency swaps | — | — | — | — |
| Total assets | $ — | $ 1,133 | $ — | $ 1,133 |
| **Liabilities:** | | | | |
| Derivative instruments: | | | | |
| Interest rate swaps | $ — | $ 1,062 | $ — | $ 1,062 |
| Cross currency swaps | — | 674 | — | 674 |
| Total liabilities | $ — | $ 1,736 | $ — | $ 1,736 |

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 three months ended June 30, 2023 and 2022. Refer to Note 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) | | | | |
| **June 30, 2023** | | | | | |
| Vehicles held for disposition | $ — | $ — | $ 33 | $ 33 | $ 8 |
| **June 30, 2022** | | | | | |
| Vehicles held for disposition | $ — | $ — | $ 23 | $ 23 | $ 3 |

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. The carrying values of cash and cash equivalents, restricted cash, and short term investments approximate fair values due to the short-term nature and limited credit risk of the instruments.

| | June 30, 2023 | | | | |
|---|---|---|---|---|---|
| | Carrying value | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| | (U.S. dollars in millions) | | | | |
| **Assets:** | | | | | |
| Dealer loans, net | $ 2,908 | — | — | $ 2,616 | $ 2,616 |
| Retail loans, net | 37,216 | — | — | 35,850 | 35,850 |
| **Liabilities:** | | | | | |
| Commercial paper | $ 6,997 | $ — | $ 6,998 | $ — | $ 6,998 |
| Bank loans | 1,910 | — | 1,913 | — | 1,913 |
| Medium-term note programs | 22,612 | — | 21,249 | — | 21,249 |
| Other debt | 3,242 | — | 3,088 | — | 3,088 |
| Secured debt | 7,281 | — | 7,146 | — | 7,146 |

| | March 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Carrying value | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| | (U.S. dollars in millions) | | | | |
| **Assets:** | | | | | |
| Dealer loans, net | $ 2,831 | — | — | $ 2,507 | $ 2,507 |
| Retail loans, net | 34,754 | — | — | 33,674 | 33,674 |
| **Liabilities:** | | | | | |
| Commercial paper | $ 6,375 | $ — | $ 6,374 | $ — | $ 6,374 |
| Bank loans | 1,894 | — | 1,886 | — | 1,886 |
| Medium-term note programs | 21,962 | — | 20,745 | — | 20,745 |
| Other debt | 3,176 | — | 3,045 | — | 3,045 |
| Secured debt | 6,927 | — | 6,786 | — | 6,786 |

Fair value information presented in the tables above is based on information available at June 30, 2023 and March 31, 2023. 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.

**Note 13. 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 both the three months ended June 30, 2023 and 2022 is summarized in the following tables:

| | United States | Canada | Valuation adjustments and reclassifications | Consolidated Total |
|---|---|---|---|---|
| | (U.S. dollars in millions) | | | |
| **Three months ended June 30, 2023** | | | | |
| Revenues: | | | | |
| Retail | $ 388 | $ 48 | $ — | $ 436 |
| Dealer | 45 | 5 | — | 50 |
| Operating leases | 1,297 | 240 | — | 1,537 |
| Total revenues | 1,730 | 293 | — | 2,023 |
| Leased vehicle expenses | 925 | 185 | — | 1,110 |
| Interest expenses | 269 | 54 | — | 323 |
| Realized (gains)/losses on derivatives and foreign currency denominated debt | (40) | (16) | 56 | — |
| Net revenues | 576 | 70 | (56) | 590 |
| Other income, net | 25 | 4 | — | 29 |
| Total net revenues | 601 | 74 | (56) | 619 |
| Expenses: | | | | |
| General and administrative expenses | 114 | 13 | — | 127 |
| Provision for credit losses | 77 | 2 | — | 79 |
| Early termination loss on operating leases | 12 | — | — | 12 |
| Gain on derivative instruments | — | — | (71) | (71) |
| Loss on foreign currency revaluation of debt | — | — | 50 | 50 |
| Income before income taxes | $ 398 | $ 59 | $ (35) | $ 422 |
| | | | | |
| **June 30, 2023** | | | | |
| Finance receivables, net | $ 35,680 | $ 4,444 | $ — | $ 40,124 |
| Investment in operating leases, net | 23,723 | 3,909 | — | 27,632 |
| Total assets | 62,475 | 8,754 | — | 71,229 |

| | United States | Canada | Valuation adjustments and reclassifications | Consolidated Total |
|---|---|---|---|---|
| | | (U.S. dollars in millions) | | |
| **Three months ended June 30, 2022** | | | | |
| Revenues: | | | | |
| Retail | $ 320 | $ 42 | $ — | $ 362 |
| Dealer | 15 | 2 | — | 17 |
| Operating leases | 1,477 | 291 | — | 1,768 |
| Total revenues | 1,812 | 335 | — | 2,147 |
| Leased vehicle expenses | 1,089 | 225 | — | 1,314 |
| Interest expense | 151 | 30 | — | 181 |
| Realized (gains)/losses on derivatives and foreign currency denominated debt | — | (1) | 1 | — |
| Net revenues | 572 | 81 | (1) | 652 |
| Other income, net | 11 | 3 | — | 14 |
| Total net revenues | 583 | 84 | (1) | 666 |
| Expenses: | | | | |
| General and administrative expenses | 105 | 14 | — | 119 |
| Provision for credit losses | 19 | 2 | — | 21 |
| Early termination loss on operating leases | (1) | — | — | (1) |
| Loss on derivative instruments | — | — | 525 | 525 |
| Gain on foreign currency revaluation of debt | — | — | (428) | (428) |
| Income before income taxes | $ 460 | $ 68 | $ (98) | $ 430 |
| | | | | |
| **June 30, 2022** | | | | |
| Finance receivables, net | $ 31,974 | $ 4,003 | $ — | $ 35,977 |
| Investment in operating leases, net | 27,057 | 4,604 | — | 31,661 |
| Total assets | 63,815 | 8,966 | — | 72,781 |

## Item 2. 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 13—Segment Information of *Notes to Consolidated Financial Statements (Unaudited)*. 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 2024" and "fiscal year 2023" refer to our fiscal year ending March 31, 2024 and our fiscal year ended March 31, 2023, respectively.

## Results of Operations

### *Operating Environment Overview*

Production levels and the availability of new vehicles have continued to improve resulting in higher dealer inventory levels, dealer loan financing balances, and consumer financing acquisition volumes since the lows we experienced during the first half of fiscal year 2023. The rising interest rate environment has increased the returns on more recently acquired financing assets and our funding costs. Higher interest rates have also contributed to an increase in the demand for 72 and 84 months retail loans.

The trend in delinquencies and charge-offs we have observed over the past several quarters continued to increase which may be attributable to the negative effects of inflationary pressures, rising interest rates, and other factors affecting consumers' ability to perform on their obligations. Used vehicle prices have softened but remain relatively strong with return rates on leased vehicles remaining at historically low levels.

### *Segment Results—Comparison of the Three months ended June 30, 2023 and 2022*

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

| | United States Segment | | | | Canada Segment | | | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Three months ended June 30, | | Difference | | Three months ended June 30, | | Difference | | Three months ended June 30, | |
| | 2023 | 2022 | Amount | % | 2023 | 2022 | Amount | % | 2023 | 2022 |
| | (U.S. dollars in millions) | | | | | | | | | |
| Revenues: | | | | | | | | | | |
| Retail | $ 388 | $ 320 | $ 68 | 21 % | $ 48 | $ 42 | $ 6 | 14 % | $ 436 | $ 362 |
| Dealer | 45 | 15 | 30 | 200 % | 5 | 2 | 3 | 150 % | 50 | 17 |
| Operating leases | 1,297 | 1,477 | (180) | (12)% | 240 | 291 | (51) | (18)% | 1,537 | 1,768 |
| Total revenues | 1,730 | 1,812 | (82) | (5)% | 293 | 335 | (42) | (13)% | 2,023 | 2,147 |
| Leased vehicle expenses | 925 | 1,089 | (164) | (15)% | 185 | 225 | (40) | (18)% | 1,110 | 1,314 |
| Interest expense | 269 | 151 | 118 | 78 % | 54 | 30 | 24 | 80 % | 323 | 181 |
| Realized (gains)/losses on derivatives and foreign currency debt | (40) | — | (40) | n/m | (16) | (1) | (15) | n/m | (56) | (1) |
| Net revenues | 576 | 572 | 4 | 1 % | 70 | 81 | (11) | (14)% | 646 | 653 |
| Other income | 25 | 11 | 14 | 127 % | 4 | 3 | 1 | 33 % | 29 | 14 |
| Total net revenues | 601 | 583 | 18 | 3 % | 74 | 84 | (10) | (12)% | 675 | 667 |
| Expenses: | | | | | | | | | | |
| General and administrative expenses | 114 | 105 | 9 | 9 % | 13 | 14 | (1) | (7)% | 127 | 119 |
| Provision for credit losses | 77 | 19 | 58 | n/m | 2 | 2 | — | — % | 79 | 21 |
| Early termination loss on operating leases | 12 | (1) | 13 | n/m | — | — | — | — | 12 | (1) |
| Income before income taxes | $ 398 | $ 460 | $ (62) | (13)% | $ 59 | $ 68 | $ (9) | (13)% | $ 457 | $ 528 |

n/m = not meaningful

The following table summarizes average outstanding asset balances, units, and yields and average outstanding debt and interest rates.

| | United States Segment | | | | Canada Segment | | | |
|---|---|---|---|---|---|---|---|---|
| | Three months ended June 30, | | Difference | | Three months ended June 30, | | Difference | |
| | 2023 | 2022 | Amount | % | 2023 | 2022 | Amount | % |
| | (U.S. dollars in millions except as noted, units in thousands) [1] | | | | | | | |
| Retail loans: | | | | | | | | |
| Average outstanding balance | $32,225 | $31,099 | $ 1,126 | 4 % | $3,916 | $3,856 | $ 60 | 2 % |
| Average outstanding units | 1,910 | 1,965 | (55) | (3)% | 266 | 273 | (7) | (3)% |
| Effective yield | 4.8 % | 4.1 % | | | 4.9 % | 4.4 % | | |
| Dealer loans: | | | | | | | | |
| Average outstanding balance | $2,518 | $1,777 | $ 741 | 42 % | $ 319 | $ 215 | $ 104 | 48 % |
| Effective yield | 7.1 % | 3.5 % | | | 6.9 % | 3.6 % | | |
| Operating leases: | | | | | | | | |
| Average outstanding balance | $23,771 | $27,908 | $ (4,137) | (15)% | $3,888 | $4,754 | $ (866) | (18)% |
| Average outstanding units | 939 | 1,155 | (216) | (19)% | 202 | 237 | (35) | (15)% |
| Average monthly rental income[2] | $ 461 | $ 426 | $ 35 | 8 % | $ 396 | $ 410 | $ (14) | (3)% |
| Average monthly depreciation[2],[3] | $ 338 | $ 323 | $ 15 | 5 % | $ 311 | $ 321 | $ (10) | (3)% |
| Debt: | | | | | | | | |
| Average outstanding balance | $36,034 | $39,150 | $ (3,116) | (8)% | $5,290 | $5,724 | $ (434) | (8)% |
| Effective interest rate | 3.0 % | 1.5 % | | | 4.1 % | 2.1 % | | |

(1) Average outstanding balances and units based on month end amounts during respective periods. Effective yields and interest rates based on average outstanding month end balances. Average monthly rental income and depreciation based on average outstanding month end units.
(2) U.S. dollars per unit.
(3) Excludes gains on disposition of leased vehicles.

***United States Segment***

*Revenues*

– Revenue from retail loans increased due to higher yields and higher average outstanding balances.

– Revenue from dealer loans increased due to higher yields and higher average outstanding wholesale flooring loan balances as a result of higher dealer inventory levels.

– Operating lease revenue decreased due to lower average outstanding units, which was partially offset by an increase in average rental income per unit.

*Leased vehicle expenses*

Leased vehicle expenses decreased due to lower average outstanding units, which were partially offset by higher average depreciation expense per unit.

*Interest expense*

Interest expense increased due to higher average interest rates, which was partially offset by lower average outstanding debt balances. See "—*Liquidity and Capital Resources*" below for more information.

*Realized (gains)/losses on derivatives and foreign currency debt*

Net realized gains during the first quarter of fiscal year 2024 consisted of gains on pay fixed interest rate swaps of $253 million, which was partially offset by losses on pay float interest rate swaps of $155 million and losses on cross currency swaps of $58 million.

*Provision for credit losses*

Provision for credit losses increased primarily due to the increase in acquisition of retail loans. See "—*Financial Condition—Credit Risk*" below for more information.

*Early termination loss on operating leases*

We recognized early termination losses on operating leases during the first quarter of fiscal year 2024 due to a higher estimate of early termination losses. We recognized a reversal of early termination on operating leases during the first quarter of fiscal year 2023 due to lower than expected realized losses. See *—Financial Condition—Credit Risk*" below for more information.

***Canada Segment***

*Revenues*

– Revenue from retail loans increased due to higher yields and higher average outstanding balances.
– Revenue from dealer loans increased due to higher yields and higher average outstanding wholesale flooring loan balances as a result of higher dealer inventory levels.
– Operating lease revenue decreased due to lower average outstanding units and the effect of foreign currency translation adjustments.

*Leased vehicle expenses*

Leased vehicle expenses decreased due to lower average outstanding units and the effect of foreign currency translation adjustments.

*Interest expense*

Interest expense increased due to higher average interest rates, which was partially offset by lower average outstanding debt. See "—*Liquidity and Capital Resources*" below for more information.

*Realized (gains)/losses on derivative instruments*

Net realized gains during the first quarter of fiscal year 2024 consisted of gains on pay fixed interest rate swaps of $36 million, which were partially offset by realized losses on pay float interest rate swaps of $20 million.

*Provision for credit losses*

Provision for credit losses were relatively consistent. See "—*Financial Condition—Credit Risk*" below for more information.

*Early termination loss on operating leases*

We recognized early termination losses on operating leases of less than $1 million during the first quarter of fiscal year 2024 compared to a reversal of early termination losses of less than $1 million during the same period in fiscal year 2023. See "—*Financial Condition—Credit Risk*" below for more information.

***Income tax expense***

The consolidated effective tax rate was 31.3% for the first quarter of fiscal year 2024 compared to 27.2% for the same period in fiscal year 2023. The increase in the effective tax rate was primarily due to an increase in state taxes attributable to state tax law changes. The Company's effective tax rate for the three months ended June 30, 2023 differs from the U.S. federal statutory tax rate primarily as a result of U.S. state taxes. For additional information regarding income taxes, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements (Unaudited)*.

## 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:

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | Acquired | Sponsored [2] | Acquired | Sponsored [2] |
| | (Units [1] in thousands) | | | |
| **United States Segment** | | | | |
| Retail loans: | | | | |
| New auto | 139 | 77 | 55 | 36 |
| Used auto | 35 | 6 | 19 | 4 |
| Motorcycle and other | 22 | 5 | 19 | — |
| Total retail loans | 196 | 88 | 93 | 40 |
| Leases | 89 | 69 | 52 | 49 |
| **Canada Segment** | | | | |
| Retail loans | 25 | 4 | 16 | 7 |
| Leases | 12 | 3 | 11 | 10 |
| **Consolidated** | | | | |
| Retail loans | 221 | 92 | 109 | 47 |
| Leases | 101 | 72 | 63 | 59 |

(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:

| | Three months ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| **United States Segment** | | |
| New auto | 66% | 45% |
| Motorcycle | 34% | 29% |
| **Canada Segment** | | |
| New auto | 67% | 74% |
| Motorcycle | 19% | 16% |
| **Consolidated** | | |
| New auto | 66% | 48% |
| Motorcycle | 32% | 27% |

*Consumer Financing Asset Balances*

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

| | June 30, 2023 | March 31, 2023 | June 30, 2023 | March 31, 2023 |
|---|---|---|---|---|
| | (U.S. dollars in millions) | | (Units (1) in thousands) | |
| **United States Segment** | | | | |
| Retail loans: | | | | |
| New auto | $ 26,269 | $ 24,564 | 1,407 | 1,375 |
| Used auto | 5,643 | 5,276 | 348 | 337 |
| Motorcycle and other | 1,193 | 1,137 | 182 | 176 |
| Total retail loans | $ 33,105 | $ 30,977 | 1,937 | 1,888 |
| Investment in operating leases | $ 23,723 | $ 23,853 | 922 | 954 |
| | | | | |
| Securitized retail loans (2) | $ 7,221 | $ 6,770 | 542 | 540 |
| | | | | |
| **Canada Segment** | | | | |
| Retail loans | $ 4,111 | $ 3,777 | 269 | 264 |
| Investment in operating leases | $ 3,909 | $ 3,925 | 197 | 207 |
| | | | | |
| Securitized retail loans (2) | $ 414 | $ 446 | 25 | 26 |
| Securitized investments in operating leases (2) | $ 114 | $ 168 | 10 | 14 |
| | | | | |
| **Consolidated** | | | | |
| Retail loans | $ 37,216 | $ 34,754 | 2,206 | 2,152 |
| Investment in operating leases | $ 27,632 | $ 27,778 | 1,119 | 1,161 |
| | | | | |
| Securitized retail loans (2) | $ 7,635 | $ 7,216 | 567 | 566 |
| Securitized investments in operating leases (2) | $ 114 | $ 168 | 10 | 14 |

(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.

In the United States segment, retail loan acquisition volumes increased by 111% and lease acquisition volumes increased by 71% during the first quarter of fiscal year 2024 compared to the same period in fiscal year 2023. In the Canada segment, retail loan acquisition volumes increased by 56% and lease acquisition volumes increased by 9% during the first quarter of fiscal year 2024 compared to the same period in fiscal year 2023. The increase in availability of new vehicles and the increase in incentive volumes in the United States contributed to an increase in consumer financing acquisition volumes.

***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:

| | June 30, 2023 | March 31, 2023 |
|---|---|---|
| **United States Segment** | | |
| Automobile | 28 % | 28 % |
| Motorcycle | 98 % | 98 % |
| Other | 18 % | 16 % |
| | | |
| **Canada Segment** | | |
| Automobile | 28 % | 29 % |
| Motorcycle | 94 % | 95 % |
| Other | 93 % | 94 % |
| | | |
| **Consolidated** | | |
| Automobile | 28 % | 28 % |
| Motorcycle | 97 % | 97 % |
| Other | 20 % | 19 % |

*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:

| | Three months ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| **United States Segment** | | |
| Automobile | 21% | 22% |
| Motorcycle | 98% | 98% |
| Other | 8% | 9% |
| | | |
| **Canada Segment** | | |
| Automobile | 24% | 26% |
| Motorcycle | 88% | 91% |
| Other | 97% | 96% |
| | | |
| **Consolidated** | | |
| Automobile | 21% | 22% |
| Motorcycle | 98% | 97% |
| Other | 9% | 14% |

*Dealer Financing Asset Balances*

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

| | June 30, 2023 | March 31, 2023 | June 30, 2023 | March 31, 2023 |
|---|---|---|---|---|
| | (U.S. dollars in millions) | | (Units (1) in thousands) | |
| **United States Segment** | | | | |
| Wholesale flooring loans: | | | | |
| Automobile | $ 1,183 | $ 1,193 | 35 | 35 |
| Motorcycle | 371 | 428 | 50 | 58 |
| Other | 54 | 65 | 45 | 55 |
| Total wholesale flooring loans | $ 1,608 | $ 1,686 | 130 | 148 |
| Commercial loans | $ 966 | $ 855 | | |
| **Canada Segment** | | | | |
| Wholesale flooring loans | $ 300 | $ 258 | 51 | 45 |
| Commercial loans | $ 34 | $ 32 | | |
| **Consolidated** | | | | |
| Wholesale flooring loans | $ 1,908 | $ 1,944 | 181 | 193 |
| Commercial loans | $ 1,000 | $ 887 | | |

(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 or an increase in inflationary pressures, 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 and focusing collection efforts to minimize losses. We manage our exposure to credit risk for dealers through ongoing reviews of their financial condition.

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.

The allowance for credit losses is management's estimate of lifetime expected credit losses on the amortized cost basis of finance receivables. Additional information regarding credit losses is provided in the discussion of "—*Critical Accounting Estimates—Allowance for Credit Losses and Estimated Early Termination Losses on Operating Lease Assets*" 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:

| | United States Segment | | Canada Segment | | Consolidated | |
|---|---|---|---|---|---|---|
| | As of or for the three months ended June 30, | | | | | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| | (U.S. dollars in millions) | | | | | |
| Finance receivables: | | | | | | |
| Allowance for credit losses at beginning of period | $ 242 | $ 204 | $ 11 | $ 7 | $ 253 | $ 211 |
| Provision for credit losses | 77 | 19 | 2 | 2 | 79 | 21 |
| Charge-offs, net of recoveries | (23) | (14) | (1) | (1) | (24) | (15) |
| Effect of translation adjustment | — | — | — | — | — | — |
| Allowance for credit losses at end of period | $ 296 | $ 209 | $ 12 | $ 8 | $ 308 | $ 217 |
| | | | | | | |
| Charge-offs as a percentage of average receivable balance (1), (3) | 0.27 % | 0.17 % | 0.07 % | 0.08 % | 0.24 % | 0.16 % |
| Allowance as a percentage of ending receivable balance (1) | 0.82 % | 0.64 % | 0.30 % | 0.21 % | 0.76 % | 0.59 % |
| Delinquencies (60 or more days past due): | | | | | | |
| Delinquent amount (2) | $ 128 | $ 111 | $ 4 | $ 3 | $ 132 | $ 114 |
| As a percentage of ending receivable balance (1),(2) | 0.36 % | 0.34 % | 0.09 % | 0.08 % | 0.33 % | 0.31 % |
| | | | | | | |
| Operating leases: | | | | | | |
| Early termination loss on operating leases | $ 12 | $ (1) | $ — | $ — | $ 12 | $ (1) |

(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. Payments that were granted deferrals are not considered delinquent during the deferral period.

(3) Percentages for both the three months ended June 30, 2023 and 2022 have been annualized.

In the United States segment, we recognized a provision for credit losses on our finance receivables of $77 million and $19 million during the first quarter of fiscal year 2024 and 2023, respectively. The increase in provision for credit losses was primarily attributable to higher retail loan acquisitions. Expected credit losses on our retail loans also increased due to the increasing trend of delinquencies and net charge-offs above the historical lows experienced during the COVID-19 pandemic and a slight decline in overall credit quality. The increase in used vehicle financing, 72 and 84 month loans, and loan-to-value ratios for loans acquired since fiscal year 2023 contributed to the slight decline in overall credit quality. Lower incentive volumes, particularly during fiscal year 2023, also contributed to the slight decline in overall credit quality. We recognized early termination losses on operating leases of $12 million and a reversal of early termination losses of $1 million during the first quarter of fiscal year 2024 and 2023, respectively. We recognized early termination losses on operating leases during the first quarter of fiscal year 2024 due to higher estimate of early termination losses. We recognized a reversal of early termination on operating leases during the first quarter of fiscal year 2024 due to lower than expected realized losses.

In the Canada segment, we recognized a provision for credit losses of $2 million on our finance receivables during both the first quarter of fiscal year 2024 and 2023. We recognized early termination losses on operating leases of less than $1 million during the first quarter of fiscal year 2024 and a reversal of early termination losses of less than $1 million during the same period in fiscal year 2023.

### *Lease Residual Value Risk*

Contractual residual values of lease vehicles are determined at lease inception based on our expectations of used vehicle values at the end of their lease term. 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 dealers are sold through online and physical auctions. We are exposed to a risk of loss on the disposition of returned lease vehicles if the market values of leased vehicles at the end of their lease terms are less than their contractual residual values.

Operating lease vehicles are depreciated on a straight-line basis over the lease term to the lower of contract residual values or estimated end of term residual values. Adjustments to estimated end of term residual values are made prospectively on a straight-line basis over the remaining lease term. A review for impairment of our operating lease assets is performed whenever events or changes in circumstances indicate that their 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 did not recognize impairment losses due to declines in estimated residual values during the first quarter of fiscal year 2024. Additional information regarding lease residual values is provided in the discussion of "*—Critical Accounting Estimates—Estimated End of Term Residual Values*" below.

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

| | **Three months ended June 30,** | |
|---|---|---|
| | **2023** | **2022** |
| | **(Units [1] in thousands)** | |
| **United States Segment** | | |
| Termination units: | | |
| Sales at outstanding contractual balances [2] | 118 | 124 |
| Sales through auctions and dealer direct programs [3] | — | — |
| Total termination units | 118 | 124 |
| **Canada Segment** | | |
| Termination units: | | |
| Sales at outstanding contractual balances [2] | 22 | 21 |
| Sales through auctions and dealer direct programs [3] | — | — |
| Total termination units | 22 | 21 |
| **Consolidated** | | |
| Termination units: | | |
| Sales at outstanding contractual balances [2] | 140 | 145 |
| Sales through auctions and dealer direct programs [3] | — | — |
| Total termination units | 140 | 145 |

(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. 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 June 30, 2023 and March 31, 2023 includes foreign currency denominated debt, which was translated into U.S. dollars using the relevant exchange rates as of June 30, 2023 and March 31, 2023, as applicable. Additionally, the amounts in this section that are presented in "C$" (Canadian dollar) were converted into U.S. dollars solely for the convenience based on the exchange rate on June 30, 2023. 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:

| | June 30, 2023 | March 31, 2023 | Weighted average contractual interest rate [(1)] June 30, 2023 | Weighted average contractual interest rate [(1)] March 31, 2023 |
|---|---|---|---|---|
| | (U.S. dollars in millions) | | | |
| **United States Segment** | | | | |
| Unsecured debt: | | | | |
| Commercial paper | $ 6,024 | $ 5,609 | 5.57 % | 5.25 % |
| Bank loans | 1,099 | 1,099 | 6.17 % | 5.70 % |
| Public MTN program | 22,612 | 21,962 | 2.25 % | 1.99 % |
| Total unsecured debt | 29,735 | 28,670 | | |
| Secured debt | 6,868 | 6,444 | 2.90 % | 2.19 % |
| Total debt | $ 36,603 | $ 35,114 | | |
| **Canada Segment** | | | | |
| Unsecured debt: | | | | |
| Commercial paper | $ 973 | $ 766 | 4.86 % | 4.70 % |
| Bank loans | 811 | 795 | 5.83 % | 5.59 % |
| Other debt | 3,242 | 3,176 | 3.19 % | 3.15 % |
| Total unsecured debt | 5,026 | 4,737 | | |
| Secured debt | 413 | 483 | 5.70 % | 5.48 % |
| Total debt | $ 5,439 | $ 5,220 | | |
| **Consolidated** | | | | |
| Unsecured debt: | | | | |
| Commercial paper | $ 6,997 | $ 6,375 | 5.47 % | 5.18 % |
| Bank loans | 1,910 | 1,894 | 6.02 % | 5.66 % |
| Public MTN program | 22,612 | 21,962 | 2.25 % | 1.99 % |
| Other debt | 3,242 | 3,176 | 3.19 % | 3.15 % |
| Total unsecured debt | 34,761 | 33,407 | | |
| Secured debt | 7,281 | 6,927 | 3.06 % | 2.42 % |
| Total debt | $ 42,042 | $ 40,334 | | |

(1) Weighted average contractual interest rates for commercial paper are bond equivalent yields. Contractual interest rates approximate effective yields.

*Commercial Paper*

As of June 30, 2023, we had commercial paper programs in the United States of $7.0 billion and in Canada of C$2.5 billion ($1.9 billion). Interest rates on the commercial paper are fixed at the time of issuance. During the three months ended June 30, 2023, consolidated commercial paper month-end outstanding principal balances ranged from $6.4 billion to $7.0 billion.

*Bank Loans*

During the three months ended June 30, 2023, neither AHFC nor HCFI entered into any new loan agreement. As of June 30, 2023, the remaining maturities of all bank loans outstanding ranged from 87 days to approximately 3.8 years. The weighted average remaining maturity on all bank loans was 2.3 years as of June 30, 2023.

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 June 30, 2023, management believes that AHFC and HCFI were in compliance with all covenants contained in our bank loan agreements.

*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 2022, 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 the three months ended June 30, 2023, AHFC issued $2.3 billion of fixed rate notes ranging from 2 to 7 years. The weighted average remaining maturities of all Public MTNs was 2.4 years as of June 30, 2023.

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 June 30, 2023, management believes that AHFC was in compliance with all covenants under the indenture.

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

| | **June 30, 2023** | **March 31, 2023** |
|---|---|---|
| | **(U.S. dollars in millions)** | |
| U.S. dollar | $ 18,465 | $ 17,868 |
| Euro | 2,883 | 2,867 |
| Sterling | 1,264 | 1,227 |
| Total | $ 22,612 | $ 21,962 |

*Other Debt*

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During the three months ended June 30, 2023, HCFI did not enter into any new private placements. As of June 30, 2023, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 59 days to approximately 4.7 years. The weighted average remaining maturities of these notes was 2.4 years as of June 30, 2023.

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 June 30, 2023, 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 the three months ended June 30, 2023, we issued notes through asset-backed securitizations totaling $1.5 billion, which were secured by assets with an initial balance of $1.6 billion.

***Credit Agreements***

*Syndicated Bank Credit Facilities*

AHFC maintains a $7.0 billion syndicated bank credit facility that includes a $3.5 billion 364-day credit agreement, which expires on February 23, 2024, a $2.1 billion credit agreement, which expires on February 25, 2026, and a $1.4 billion credit agreement, which expires on February 25, 2028. As of June 30, 2023, 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 ($1.5 billion) syndicated bank credit facility that includes a C$1.0 billion ($755 million) credit agreement, which expires on March 25, 2024 and a C$1.0 billion ($755 million) credit agreement, which expires March 25, 2027. As of June 30, 2023, 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 June 30, 2023, 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 June 30, 2023, no amounts were drawn upon under these agreements. These agreements expire in September 2023. 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. Pursuant to the Keep Well Agreements, HMC has agreed to, among other things:

- own and hold, at all times, directly or indirectly, at least 80% of each of AHFC's and 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 each of AHFC and HCFI to, on the last day of each of AHFC's and HCFI's respective fiscal years, have a positive consolidated tangible net worth (with "tangible net worth" meaning (a) shareholders' equity less (b) any intangible assets, as determined in accordance with GAAP with respect to AHFC and generally accepted accounting principles in Canada with respect to HCFI); and

- ensure that, at all times, each of AHFC and HCFI has sufficient liquidity and funds to meet their payment obligations under any Debt (with "Debt" defined as AHFC's or HCFI's debt, as applicable, for borrowed money that HMC has confirmed in writing is covered by the respective Keep Well Agreement) in accordance with the terms of such Debt, or where necessary, HMC will make available to AHFC or HCFI, as applicable, or HMC will procure for AHFC or HCFI, as applicable, sufficient funds to enable AHFC or HCFI, as applicable, to pay its Debt in accordance with its terms. AHFC or HCFI Debt does not include the notes issued by SPEs in connection with AHFC's or HCFI's secured financing transactions, any related party debt or any indebtedness outstanding as of June 30, 2023 under AHFC's and HCFI's bank loan agreements.

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 $15 million and $17 million during the three months ended June 30, 2023 and 2022, respectively, pursuant to these Support Compensation Agreements.

***Indebtedness of Consolidated Subsidiaries***

As of June 30, 2023, AHFC and its consolidated subsidiaries had $51.9 billion of outstanding indebtedness and other liabilities, including current liabilities, of which $13.9 billion consisted of indebtedness and liabilities of our consolidated subsidiaries. None of AHFC's consolidated subsidiaries had any outstanding preferred equity.

**Material Cash Requirements**

The following table summarizes our material cash requirements, including from contractual obligations and excluding lending commitments to dealers and derivative obligations, for the periods indicated:

| | Payments due for the twelve-month periods ending June 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2024 | 2025 | 2026 | 2027 | 2028 | Thereafter |
| | (U.S. dollars in millions) | | | | | | |
| Unsecured debt obligations [1] | $ 34,858 | $ 14,341 | $ 7,527 | $ 2,980 | $ 3,640 | $ 3,215 | $ 3,155 |
| Secured debt obligations [1] | 7,292 | 3,921 | 2,215 | 931 | 225 | — | — |
| Interest payments on debt [2] | 2,229 | 841 | 581 | 339 | 213 | 143 | 112 |
| Total | $ 44,379 | $ 19,103 | $ 10,323 | $ 4,250 | $ 4,078 | $ 3,358 | $ 3,267 |

(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 June 30, 2023.

(2) Interest payments on floating rate and foreign currency denominated debt based on the applicable floating rates and/or exchange rates as of June 30, 2023.

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 8—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.

**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 13—Segment Information of *Notes to Consolidated Financial Statements (Unaudited)* for additional information about segment information and Note 5—Derivative Instruments of *Notes to Consolidated Financial Statements (Unaudited)* for additional information on derivative instruments.

**Off-Balance Sheet Arrangements**

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

**New Accounting Standards**

Refer to Note 1—Summary of Business and Significant Accounting Policies of *Notes to Consolidated Financial Statements (Unaudited)*.

## Critical Accounting Estimates

The application of certain accounting policies may require management to make estimates that affect our financial condition and results of operations. Critical accounting estimates require 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. Actual results could differ from these estimates which could have a material effect on our financial condition and results of operations in subsequent periods.

### *Allowance for Credit Losses on Retail Loans and Estimated Early Termination Losses on Operating Lease Assets*

Retail loans are evaluated on a collective basis and grouped into pools with similar risk characteristics such as origination quarter, internal credit grade at origination, product type, and original term. The allowance for retail loans is measured using econometric regression models that correlate vintage age, credit quality, economic, and other variables to historical vintage-level credit loss performance. Statistically relevant economic factors such as unemployment rates, bankruptcies, and used vehicle price indexes are applied in the analysis of the economic environment. Current and forecasted economic conditions are applied in the models to project monthly gross loss rates in terms of origination dollars for the remaining contractual life of each vintage. Recoveries are projected as a percentage of the cumulative forecasted loss dollar of each vintage. The contractual term is the estimated lifetime of retail loans and is considered to be a reasonable and supportable forecast period of future economic conditions. Economic forecasts and macroeconomic variables are obtained from a third party economic research firm that extend through the lifetime of retail loans and converge to long-run equilibrium trends. Baseline forecasts that reflect the most likely economic future is the single economic scenario applied in the models. Qualitative adjustments may also be applied if management believes the quantitative models do not reflect the best estimate of lifetime expected credit losses. Estimated losses on operating leases expected to terminate early due to lessee defaults are also determined collectively using modeling methodologies consistent with those used for retail loans.

*Sensitivity Analysis*

We applied the baseline economic scenarios for the United States and Canada that were obtained from a third party economic research firm in our models to determine our allowance for credit losses on retail loans and estimated early termination losses on operating lease assets as of June 30, 2023. These baseline economic scenarios represent forecasts of the most likely economic future, with an equal probability of economic conditions being better or worse than forecasted. Alternative economic scenarios were also obtained from the third party economic research firm. As an example of the sensitivity of our accounting estimates, we applied upside and downside economic scenarios in our models. The peak unemployment rate over the next 24 month period under the upside and downside economic scenarios in the United States was 3.6% and 7.9%, respectively. The resulting allowance for credit losses on retail loans under the upside and downside economic scenarios was $277 million and $450 million, respectively. Similarly, the resulting estimated early termination losses on operating lease assets were $78 million and $117 million, respectively.

### *Estimated End of Term Residual Values*

Estimated end of term residual values are dependent on the expected market values of leased vehicles at the end of their lease terms and the percentage of leased vehicles expected to be returned by lessees. Factors considered in this evaluation include, among other factors, economic conditions, external market information on new and used vehicles, historical trends, and recent auction values. Estimated return rates are dependent on expected market values of leased vehicles since declines in used vehicle prices generally increase the probability of vehicles being returned to us at the end of their lease terms. 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 the carrying values exceed their fair values.

*Sensitivity Analysis*

If future expected end of term market values for all outstanding operating leases as of June 30, 2023 were to decrease by $100 per unit from our current estimates, the total impact would be an increase of approximately $40 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 $9 million in depreciation expense, which would be recognized over the remaining lease terms. This sensitivity analysis is specific to the conditions in effect as of June 30, 2023 and does not consider the effect declines in estimated end of term market values may have on return rates.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

## Item 4. 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 June 30, 2023, 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.

### Changes in Internal Control over Financial Reporting

There were no changes in the internal control over financial reporting during the quarter ended June 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II – OTHER INFORMATION

## Item 1. Legal Proceedings

For information on our material legal proceedings, see Note 8—Commitments and Contingencies—Legal Proceedings and Regulatory Matters of *Notes to Consolidated Financial Statements (Unaudited)*, which is incorporated by reference herein.

## Item 1A. Risk Factors

There are no material changes to the risk factors set forth under *"Item 1A. Risk Factors"* in our Annual Report on Form 10-K for the fiscal year ended March 31, 2023, which was filed with the SEC on June 23, 2023.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

## Item 3. Defaults Upon Senior Securities

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

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

**Item 6. 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[7][8] | Form of Fixed Rate Medium-Term Note, Series A and Form of Floating Rate Medium-Term Note, Series A. |
| 31.1[9] | Certification of Principal Executive Officer |
| 31.2[9] | Certification of Principal Financial Officer |
| 32.1[10] | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 |
| 32.2[10] | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 |
| 101.INS[9] | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH[9] | XBRL Taxonomy Extension Schema Document |
| 101.CAL[9] | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB[9] | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE[9] | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF[9] | XBRL Taxonomy Extension Definition Linkbase Document |
| 104[9] | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

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 Exhibit number 4.6 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 11, 2022.
8. Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 11, 2022.
9. Filed herewith.
10. Furnished herewith.

## Signature

Pursuant to the requirements 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: August 10, 2023

**AMERICAN HONDA FINANCE CORPORATION**

By: /s/ Paul C. Honda

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