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 December 31, 2021

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) 972-2555
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of exchange on which registered
1.300% Medium-Term Notes, Series A Due March 21, 2022	**HMC/22B**	**New York Stock Exchange**
2.625% Medium-Term Notes, Series A Due October 14, 2022	**HMC/22A**	**New York Stock Exchange**
1.375% Medium-Term Notes, Series A Due November 10, 2022	**HMC/22**	**New York Stock Exchange**
0.550% Medium-Term Notes, Series A Due March 17, 2023	**HMC/23**	**New York Stock Exchange**
0.750% Medium-Term Notes, Series A Due January 17, 2024	**HMC/26A**	**New York Stock Exchange**
0.350% Medium-Term Notes, Series A Due August 26, 2022	**HMC/22C**	**New York Stock Exchange**
1.600% Medium-Term Notes, Series A Due April 20, 2022	**HMC/22E**	**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**

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 January 31, 2022, 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 December 31, 2021

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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:

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

Additional information regarding these and other risks and uncertainties to which our business is subject to is contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2021 filed with the Securities and Exchange Commission on June 24, 2021. 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)

	December 31, 2021	March 31, 2021
Assets		
Cash and cash equivalents	$ 2,132	$ 1,870
Finance receivables, net of allowance for credit losses of $228 and $288	39,008	41,433
Investment in operating leases, net	35,160	35,345
Due from Parent and affiliated companies	52	194
Other assets	1,221	1,042
Derivative instruments	715	918
Total assets	$ 78,288	$ 80,802
Liabilities and Equity		
Debt	$ 48,696	$ 51,927
Due to Parent and affiliated companies	117	106
Income taxes payable	464	205
Deferred income taxes	7,121	7,033
Other liabilities	1,171	1,734
Derivative instruments	500	632
Total liabilities	58,069	61,637
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 December 31, 2021 and March 31, 2021	1,366	1,366
Retained earnings	17,594	16,626
Accumulated other comprehensive loss	(53)	(44)
Total shareholder’s equity	18,907	17,948
Noncontrolling interest in subsidiary	1,312	1,217
Total equity	20,219	19,165
Total liabilities and equity	$ 78,288	$ 80,802

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.

	December 31, 2021	March 31, 2021
Finance receivables, net	$ 8,926	$ 8,783
Investment in operating leases, net	321	440
Other assets	350	397
Total assets	$ 9,597	$ 9,620
Secured debt	$ 8,806	$ 8,890
Other liabilities	5	6
Total liabilities	$ 8,811	$ 8,896

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 December 31,		Nine months ended December	
	2021	2020	2021	2020
Revenues:				
Retail	$ 401	$ 423	$ 1,235	$ 1,256
Dealer	15	25	52	82
Operating leases	1,924	1,951	5,921	5,798
Total revenues	2,340	2,399	7,208	7,136
Leased vehicle expenses	1,406	1,391	4,256	4,188
Interest expense	171	207	541	697
Net revenues	763	801	2,411	2,251
Other income, net	13	17	37	46
Total net revenues	776	818	2,448	2,297
Expenses:				
General and administrative expenses	117	116	357	344
Provision for credit losses	(3)	(19)	(26)	(20)
Early termination loss on operating leases	10	(18)	10	(133)
(Gain)/Loss on derivative instruments	106	(259)	234	(584)
(Gain)/Loss on foreign currency revaluation of debt	(112)	279	(234)	627
Total expenses	118	99	341	234
Income before income taxes	658	719	2,107	2,063
Income tax expense	168	160	545	515
Net income	490	559	1,562	1,548
Less: Net income attributable to noncontrolling interest	33	34	103	93
Net income attributable to American Honda Finance Corporation	$ 457	$ 525	$ 1,459	$ 1,455

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

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Net income	$ 490	$ 559	$ 1,562	$ 1,548
Other comprehensive income:				
Foreign currency translation adjustment	9	107	(17)	220
Comprehensive income	499	666	1,545	1,768
Less: Comprehensive income attributable to noncontrolling interest	38	85	95	198
Comprehensive income attributable to American Honda Finance Corporation	$ 461	$ 581	$ 1,450	$ 1,570

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, 2020	$ 17,563	$ 15,395	$ (175)	$ 1,366	$ 977
Adoption of accounting standard (Note 1)	(75)	(73)	—	—	(2)
Net income	1,548	1,455	—	—	93
Other comprehensive income	220	—	115	—	105
Dividends declared	(143)	(143)	—	—	—
Balance at December 31, 2020	$ 19,113	$ 16,634	$ (60)	$ 1,366	$ 1,173
Balance at March 31, 2021	$ 19,165	$ 16,626	$ (44)	$ 1,366	$ 1,217
Net income	1,562	1,459	—	—	103
Other comprehensive loss	(17)	—	(9)	—	(8)
Dividends declared	(491)	(491)	—	—	—
Balance at December 31, 2021	$ 20,219	$ 17,594	$ (53)	$ 1,366	$ 1,312

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)

	Nine months ended December 31,	
	2021	**2020**
Cash flows from operating activities:		
Net income	$ 1,562	$ 1,548
Adjustments to reconcile net income to net cash provided by operating activities:		
Debt and derivative instrument valuation adjustments	(126)	(180)
Provision for credit losses	(26)	(20)
Early termination loss on operating leases	10	(133)
Depreciation on leased vehicles	4,306	4,250
Accretion of unearned subsidy income	(1,104)	(1,118)
Amortization of deferred dealer participation and other deferred costs	281	273
Gain on disposition of leased vehicles	(162)	(162)
Deferred income taxes	91	409
Changes in operating assets and liabilities:		
Income taxes receivable/payable	259	(71)
Other assets	(283)	44
Accrued interest/discounts on debt	11	34
Other liabilities	(553)	7
Due to/from Parent and affiliated companies	152	25
Net cash provided by operating activities	4,418	4,906
Cash flows from investing activities:		
Finance receivables acquired	(14,939)	(16,117)
Principal collected on finance receivables	15,187	13,674
Net change in wholesale loans	1,978	1,244
Purchase of operating lease vehicles	(12,805)	(11,963)
Disposal of operating lease vehicles	8,942	7,502
Cash received for unearned subsidy income	932	945
Other investing activities, net	(6)	(7)
Net cash used in investing activities	(711)	(4,722)

Statement continues on the next page.

AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES

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

	Nine months ended December 31,	
	2021	**2020**
Cash flows from financing activities:		
Proceeds from issuance of commercial paper	$ 23,415	$ 31,037
Paydown of commercial paper	(24,946)	(29,821)
Proceeds from issuance of short-term debt	—	519
Paydown of short-term debt	(240)	(738)
Proceeds from issuance of related party debt	—	1,196
Paydown of related party debt	—	(1,373)
Proceeds from issuance of medium-term notes and other debt	5,186	7,817
Paydown of medium-term notes and other debt	(6,321)	(6,306)
Proceeds from issuance of secured debt	4,488	3,241
Paydown of secured debt	(4,582)	(4,281)
Dividends paid	(491)	(143)
Net cash (used in)/provided by financing activities	(3,491)	1,148
Effect of exchange rate changes on cash and cash equivalents	1	22
Net increase in cash and cash equivalents	217	1,354
Cash and cash equivalents and restricted cash at beginning of period	2,250	2,085
Cash and cash equivalents and restricted cash at end of period	$ 2,467	$ 3,439
Supplemental disclosures of cash flow information:		
Interest paid	$ 456	$ 461
Income taxes paid	$ 201	$ 212

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.

	December 31,	
	2021	**2020**
Cash and cash equivalents	$ 2,132	$ 3,017
Restricted cash included in other assets [1]	335	422
Total	$ 2,467	$ 3,439

(1) Restricted cash balances relate primarily 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 of operations, cash flows, and financial condition 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, 2021 included in the Company’s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on June 24, 2021. All significant intercompany balances and transactions have been eliminated upon consolidation.

Recently Adopted Accounting Standard

Effective April 1, 2021, the Company adopted Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The adoption of this standard did not have a material impact on the consolidated financial statements.

Note 2. Finance Receivables

Finance receivables consisted of the following:

	December 31, 2021		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Finance receivables	$ 37,683	$ 2,021	$ 39,704
Allowance for credit losses	(222)	(6)	(228)
Deferred dealer participation and other deferred costs	408	—	408
Unearned subsidy income	(876)	—	(876)
Finance receivables, net	$ 36,993	$ 2,015	$ 39,008

	March 31, 2021		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Finance receivables	$ 38,102	$ 4,085	$ 42,187
Allowance for credit losses	(280)	(8)	(288)
Deferred dealer participation and other deferred costs	434	—	434
Unearned subsidy income	(900)	—	(900)
Finance receivables, net	$ 37,356	$ 4,077	$ 41,433

Finance receivables include retail loans with a net carrying amount of $8.9 billion and $8.8 billion as of December 31, 2021 and March 31, 2021, 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 and nine months ended December 31, 2021		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Beginning balance as of October 1, 2021	$ 243	$ 7	$ 250
Provision	(2)	(1)	(3)
Charge-offs	(39)	—	(39)
Recoveries	20	—	20
Effect of translation adjustment	—	—	—
Ending balance as of December 31, 2021	$ 222	$ 6	$ 228
Beginning balance as of April 1, 2021	$ 280	$ 8	$ 288
Provision	(24)	(2)	(26)
Charge-offs	(102)	—	(102)
Recoveries	68	—	68
Effect of translation adjustment	—	—	—
Ending balance as of December 31, 2021	$ 222	$ 6	$ 228

	Three and nine months ended December 31, 2020		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Beginning balance as of October 1, 2020	$ 405	$ 8	$ 413
Provision	(18)	(1)	(19)
Charge-offs	(64)	—	(64)
Recoveries	32	1	33
Effect of translation adjustment	—	—	—
Ending balance as of December 31, 2020	$ 355	$ 8	$ 363
Beginning balance	$ 364	$ 6	$ 370
Cumulative effective of adopting ASU 2016-13	98	3	101
Beginning balance as of April 1, 2020	462	9	471
Provision	(18)	(2)	(20)
Charge-offs	(177)	(1)	(178)
Recoveries	87	2	89
Effect of translation adjustment	1	—	1
Ending balance as of December 31, 2020	$ 355	$ 8	$ 363

The allowance declined during the nine months ended December 31, 2021 reflecting a reduction in expected credit losses due to favorable revisions to forecasted economic factors including forecasted personal bankruptcy rates and better than expected net charge-offs during the period.

There were no modifications to the terms of dealer loan contracts that constituted troubled debt restructurings during the nine months ended December 31, 2021 and 2020. The Company generally does not grant concessions on consumer finance receivables that are considered troubled debt restructurings other than modifications of retail loans in reorganization proceedings pursuant to the U.S. Bankruptcy Code. Retail loans modified under bankruptcy protection were not material to the Company's consolidated financial statements during the nine months ended December 31, 2021 and 2020. The Company does allow limited payment deferrals on consumer finance receivables. These payment deferrals are not treated as troubled debt restructurings since the deferrals are deemed insignificant and interest continues to accrue during the deferral period. Payment deferrals were also granted to certain customers impacted by COVID-19 beginning in mid-March 2020 through the end of March 2021. Customers taking advantage of the deferrals were not considered delinquent during such deferral periods and therefore were not reflected in delinquency measures.

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)			
December 31, 2021						
Retail loans:						
New auto	$ 210	$ 60	$ 14	$ 284	$ 30,711	$ 30,995
Used and certified auto	85	25	5	115	4,709	4,824
Motorcycle and other	14	6	3	23	1,373	1,396
Total retail loans	309	91	22	422	36,793	37,215
Dealer loans:						
Wholesale flooring	1	—	—	1	1,228	1,229
Commercial loans	—	—	—	—	792	792
Total dealer loans	1	—	—	1	2,020	2,021
Total finance receivables	$ 310	$ 91	$ 22	$ 423	$ 38,813	$ 39,236
March 31, 2021						
Retail loans:						
New auto	$ 145	$ 33	$ 7	$ 185	$ 30,715	$ 30,900
Used and certified auto	50	12	3	65	5,202	5,267
Motorcycle and other	10	3	2	15	1,454	1,469
Total retail loans	205	48	12	265	37,371	37,636
Dealer loans:						
Wholesale flooring	1	—	—	1	3,205	3,206
Commercial loans	—	—	—	—	879	879
Total dealer loans	1	—	—	1	4,084	4,085
Total finance receivables	$ 206	$ 48	$ 12	$ 266	$ 41,455	$ 41,721

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						
	2022	2021	2020	2019	2018	Prior	Total
	(U.S. dollars in millions)						
December 31, 2021							
Credit grade A	$ 7,873	$ 8,902	$ 3,566	$ 2,324	$ 980	$ 259	$ 23,904
Credit grade B	2,056	2,223	1,026	623	344	113	6,385
Credit grade C	1,451	1,572	825	477	286	96	4,707
Credit grade D	396	468	393	220	123	48	1,648
Others	183	169	105	66	32	16	571
Total retail loans	$ 11,959	$ 13,334	$ 5,915	$ 3,710	$ 1,765	$ 532	$ 37,215

	Retail loans by vintage fiscal year						
	2021	2020	2019	2018	2017	Prior	Total
	(U.S. dollars in millions)						
March 31, 2021							
Credit grade A	$ 11,763	$ 5,384	$ 3,965	$ 1,982	$ 728	$ 136	$ 23,958
Credit grade B	2,898	1,508	996	629	255	60	6,346
Credit grade C	2,081	1,245	767	504	206	47	4,850
Credit grade D	628	598	349	212	90	27	1,904
Others	223	153	105	58	32	7	578
Total retail loans	$ 17,593	$ 8,888	$ 6,182	$ 3,385	$ 1,311	$ 277	$ 37,636

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								
	2022	2021	2020	2019	2018	Prior	Revolving loans	Wholesale Flooring	Total
	(U.S. dollars in millions)								
December 31, 2021									
Group I	$ —	$ 178	$ 59	$ 10	$ 59	$ 110	$ 265	$ 610	$ 1,291
Group II	6	58	8	26	8	5	—	619	730
Group III	—	—	—	—	—	—	—	—	—
Total dealer loans	$ 6	$ 236	$ 67	$ 36	$ 67	$ 115	$ 265	$ 1,229	$ 2,021

	Commercial loans by vintage fiscal year								
	2021	2020	2019	2018	2017	Prior	Revolving loans	Wholesale Flooring	Total
	(U.S. dollars in millions)								
March 31, 2021									
Group I	$ 155	$ 57	$ —	$ 43	$ 44	$ 88	$ 283	$ 1,491	$ 2,161
Group II	92	25	40	30	9	13	—	1,715	1,924
Group III	—	—	—	—	—	—	—	—	—
Total dealer loans	$ 247	$ 82	$ 40	$ 73	$ 53	$ 101	$ 283	$ 3,206	$ 4,085

Note 3. Investment in Operating Leases

Investment in operating leases consisted of the following:

	December 31, 2021	March 31, 2021
	(U.S. dollars in millions)	
Operating lease vehicles	$ 44,639	$ 45,153
Accumulated depreciation	(8,541)	(8,726)
Deferred dealer participation and initial direct costs	123	130
Unearned subsidy income	(975)	(1,123)
Estimated early termination losses	(86)	(89)
Investment in operating leases, net	$ 35,160	$ 35,345

Operating lease revenue consisted of the following:

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	(U.S. dollars in millions)			
Lease payments	$ 1,725	$ 1,715	$ 5,247	$ 5,077
Subsidy income and dealer rate participation, net	190	225	626	677
Reimbursed lessor costs	9	11	48	44
Total operating lease revenue, net	$ 1,924	$ 1,951	$ 5,921	$ 5,798

Leased vehicle expenses consisted of the following:

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	(U.S. dollars in millions)			
Depreciation expense	$ 1,412	$ 1,418	$ 4,306	$ 4,250
Initial direct costs and other lessor costs	29	30	112	100
Gain on disposition of leased vehicles (1)	(35)	(57)	(162)	(162)
Total leased vehicle expenses, net	$ 1,406	$ 1,391	$ 4,256	$ 4,188

(1) Included in the gain on disposition of leased vehicles are end of term charges of $1 million and $10 million for the three months ended December 31, 2021 and 2020, respectively, and $17 million and $43 million for the nine months ended December 31, 2021 and 2020, respectively.

Investment in operating leases includes lease assets with a net carrying amount of $321 million and $440 million as of December 31, 2021 and March 31, 2021, 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 December 31, 2021 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 December 31,	**(U.S. dollars in millions)**
2022	$ 5,730
2023	3,775
2024	1,372
2025	239
2026	60
Total	$ 11,176

The Company recognized early termination losses on operating leases of $10 million during both the three and nine months ended December 31, 2021, and recognized a reversal of early termination losses on operating leases of $18 million and $133 million during the three and nine months ended December 31, 2020, respectively. Net realized losses totaled $8 million and $13 million during the three and nine months ended December 31, 2021, respectively, and $17 million and $53 million during the three and nine months ended December 31, 2020, respectively.

The general allowance for uncollectible operating lease receivables was recorded through a reduction to revenue of $2 million and $9 million during the three months ended December 31, 2021 and 2020, respectively, and $4 million and $30 million during the nine months ended December 31, 2021 and 2020, respectively.

No impairment losses due to declines in estimated residual values were recognized during the three and nine months ended December 31, 2021 and 2020.

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		Contractual interest rate ranges	
	December 31, 2021	March 31, 2021	December 31, 2021	March 31, 2021	December 31, 2021	March 31, 2021
	(U.S. dollars in millions)					
Unsecured debt:						
Commercial paper	$ 4,010	$ 5,542	0.29 %	0.31 %	0.21 - 0.54%	0.20 - 0.67%
Bank loans	3,389	4,052	0.96 %	1.01 %	0.56 - 1.35%	0.56 - 1.29%
Private MTN program	—	500	— %	3.80 %	— - —%	3.80 - 3.80%
Public MTN program	28,555	28,943	1.44 %	1.53 %	0.25 - 3.63%	0.33 - 3.63%
Euro MTN programme	26	27	2.23 %	2.23 %	2.23 - 2.23%	2.23 - 2.23%
Other debt	3,910	3,973	2.11 %	2.11 %	0.58 - 3.44%	0.53 - 3.44%
Total unsecured debt	39,890	43,037				
Secured debt	8,806	8,890	0.85 %	1.34 %	0.12 - 3.30%	0.12 - 3.30%
Total debt	$ 48,696	$ 51,927				

As of December 31, 2021, the outstanding principal balance of long-term debt with floating interest rates totaled $7.3 billion, long-term debt with fixed interest rates totaled $36.8 billion, and short-term debt with floating or fixed interest rates totaled $4.6 billion. As of March 31, 2021, the outstanding principal balance of long-term debt with floating interest rates totaled $9.9 billion, long-term debt with fixed interest rates totaled $35.6 billion, and short-term debt with floating or fixed interest rates totaled $6.4 billion.

Commercial Paper

As of December 31, 2021 and March 31, 2021, the Company had commercial paper programs that provide the Company with available funds of up to $9.0 billion at prevailing market interest rates for terms up to one year. The commercial paper programs are supported by the Keep Well Agreements with HMC described in Note 6.

Outstanding commercial paper averaged $5.6 billion and $5.1 billion during the nine months ended December 31, 2021 and 2020, respectively. The maximum balance outstanding at any month-end during the nine months ended December 31, 2021 and 2020 was $6.7 billion and $6.8 billion, respectively.

Bank Loans

Outstanding bank loans at December 31, 2021 were either short-term or long-term, with floating or fixed interest rates, and denominated in U.S. dollars or Canadian dollars. Outstanding bank loans have prepayment options. No outstanding bank loans as of December 31, 2021 were supported by the Keep Well Agreements with HMC described in Note 6. Outstanding bank loans contain certain covenants, including limitations on liens, mergers, consolidations and asset sales.

Medium-Term Note (MTN) Programs

Private MTN Program

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. The last remaining note under the Private MTN Program matured on September 20, 2021. Notes under this program were issued pursuant to the terms of an issuing and paying agency agreement which contained certain covenants, including negative pledge provisions.

Public MTN Program

In August 2019, AHFC renewed its Public MTN program by filing a registration statement with the SEC under which it may issue from time to time up to $30.0 billion aggregate principal amount of Public MTNs pursuant to the Public MTN program. The aggregate principal amount of MTNs offered under this program may be increased from time to time. Notes outstanding under the Public MTN program as of December 31, 2021 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.

Euro MTN Programme

The Euro MTN Programme was retired in August 2014. AHFC has one note outstanding under this program as of December 31, 2021. The note has a maturity date of February 21, 2023, a fixed interest rate and is not listed on the Luxembourg Stock Exchange. The note was issued pursuant to the terms of an agency agreement which contains certain covenants, including negative pledge provisions.

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

Other Debt

The outstanding balances as of December 31, 2021 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 December 31, 2021 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 25, 2022, a $2.1 billion credit agreement, which expires on February 28, 2023, and a $1.4 billion credit agreement, which expires on February 28, 2025. As of December 31, 2021, 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 $1.6 billion syndicated bank credit facility that includes a $791 million credit agreement, which expires on March 25, 2022 and a $791 million credit agreement, which expires on March 25, 2025. As of December 31, 2021, 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 December 31, 2021, no amounts were drawn upon under these agreements. These agreements expire in September 2022. 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 13 regarding the valuation of derivative instruments.

	December 31, 2021			March 31, 2021		
	Notional balances	Assets	Liabilities	Notional balances	Assets	Liabilities
	(U.S. dollars in millions)					
Interest rate swaps	$ 62,836	$ 521	$ 310	$ 64,088	$ 545	$ 586
Cross currency swaps	8,348	194	190	6,303	373	46
Gross derivative assets/liabilities		715	500		918	632
Collateral posted/held		8	16		37	5
Counterparty netting adjustment		(462)	(462)		(591)	(591)
Net derivative assets/liabilities		$ 261	$ 54		$ 364	$ 46

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 December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	(U.S. dollars in millions)			
Interest rate swaps	$ 54	$ (20)	$ 97	$ (35)
Cross currency swaps	(160)	279	(331)	619
Total (loss)/gain on derivative instruments	$ (106)	$ 259	$ (234)	$ 584

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 December 31,**		**Nine months ended December 31,**	
	2021	**2020**	**2021**	**2020**
	(U.S. dollars in millions)			
Revenue:				
Subsidy income	$ 342	$ 372	$ 1,097	$ 1,112
Interest expense:				
Related party debt	—	—	—	2
Other income, net:				
VSC administration fees	—	26	2	79
Support Service Fee	—	(11)	—	(34)
General and administrative expenses:				
Support Compensation Agreement fees	19	18	58	53
Benefit plan expenses	2	2	6	6
Shared services	18	17	54	52
Lease expense	1	1	3	1

Balance Sheet	**December 31, 2021**	**March 31, 2021**
	(U.S. dollars in millions)	
Assets:		
Finance receivables, net:		
Unearned subsidy income	$ (866)	$ (891)
Investment in operating leases, net:		
Unearned subsidy income	(972)	(1,120)
Due from Parent and affiliated companies	52	194
Liabilities:		
Due to Parent and affiliated companies	117	106
Other liabilities:		
Unearned VSC administrative fees	—	333
Accrued benefit expenses	61	60
Operating lease liabilities	16	17

Support Agreements

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

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

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

Incentive Financing Programs

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

Related Party Debt

HCFI no longer issues short-term notes to HCI to fund HCFI's general corporate operations and had paid the remaining balance as of March 31, 2021. Interest rates were based on prevailing rates of debt with comparable terms.

Vehicle Service Contract (VSC) Administration

AHFC performed administrative services for VSCs issued by certain subsidiaries of AHM. AHFC's performance obligations for the services were satisfied over the term of the underlying contracts and revenue was recognized proportionate to the anticipated amount of services to be performed. Contract terms ranged between two and nine years with the majority of contracts having had original terms between four and eight years. The majority of the administrative service revenue was recognized during the latter years of the underlying contracts as this is the period in which the majority of VSC claims were processed. AHFC received fees for performing the administrative services when the contracts were acquired. Effective April 1, 2021, the administration of VSCs has been transferred to AHM.

Unearned VSC administration fees represented AHFC's contract liabilities and were included in other liabilities (Note 11). VSC administration income was recognized in other income, net (Note 12). HCFI receives fees for marketing VSCs issued by HCI. These fees were recognized in other income, net.

AHFC paid fees to AHM for services provided in support of AHFC's performance of VSC administrative services. The support fees were recognized as an expense within other income, net (Note 12).

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

AHM periodically sponsors programs that allow lessees to terminate their lease contracts prior to the contractual maturity date. AHM compensates the Company for rental payments that were waived under these programs. During the three months ended December 31, 2021 and 2020, the Company recognized less than $1 million and $2 million, respectively, and during the nine months ended December 31, 2021 and 2020, the Company recognized $1 million and $7 million, respectively, under these programs which were reflected as proceeds on the disposition of the returned lease vehicles.

The majority of the amounts due from the Parent and affiliated companies at December 31, 2021 and March 31, 2021 related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at December 31, 2021 and March 31, 2021 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.

Effective October 1, 2020, AHFC leases certain premises from its parent, AHM.

In July 2021 and 2020, AHFC declared and paid cash dividends of $491 million and $143 million, respectively, to its parent, AHM.

Note 7. Income Taxes

The Company's effective tax rate was 25.5% and 22.3% for the three months ended December 31, 2021 and 2020, respectively, and 25.9% and 25.0% for the nine months ended December 31, 2021 and 2020, respectively. The increase in the effective tax rates for the three and nine months ended December 31, 2021 was primarily due to changes in non-recurring unrecognized tax benefits and an increase in 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 December 31, 2021, $1.2 billion of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of December 31, 2021 were to be distributed, the tax liability associated with these earnings would be $64 million, inclusive of currency translation adjustments.

As of December 31, 2021, the Company is subject to examination for U.S. federal returns filed for the taxable years ended March 31, 2014 through 2020 and returns filed for the taxable years ended March 31, 2008 through 2020 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, 2015 through 2021, federally, and returns filed for the taxable years ended March 31, 2008 through 2021, except for 2011 through 2013, provincially. The Company believes appropriate provisions have 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, 2022.

Note 8. Commitments and Contingencies

Operating Leases

The Company leases certain premises and equipment through operating leases. AHFC leases its premises and equipment from third parties and HCFI leases its premises from HCI. Effective October 1, 2020, AHFC leases certain premises from its parent, AHM.

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.

In November 2020, we finalized plans to consolidate our nine regional offices in the United States into three customer and dealer services centers located in California, Texas, and Georgia. The consolidation is taking place in stages from June 2021 through the fall of 2022.

Operating lease liabilities are reported in other liabilities on the Company's consolidated balance sheets. At December 31, 2021, maturities of operating lease liabilities were as follows:

Twelve-month periods ending December 31,	**(U.S. dollars in millions)**
2022	$ 10
2023	9
2024	7
2025	7
2026	8
Thereafter	26
Total undiscounted future lease obligations	67
Less: imputed interest	(8)
Operating lease liabilities	$ 59

Lease expense under operating leases was $3 million and $2 million for the three months ended December 31, 2021 and 2020, respectively, and $8 million and $7 million for the nine months ended December 31, 2021 and 2020, respectively. Rent expense is included within general and administrative expenses.

As of December 31, 2021, the weighted average remaining lease term for operating leases was 8.1 years and the weighted average remaining discount rate for operating leases was 2.87%.

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 $681 million as of December 31, 2021. The Company also has commitments to finance the construction of auto dealership facilities. The remaining unfunded balance for these construction loans was $5 million as of December 31, 2021.

Legal Proceedings and Regulatory Matters

The Company establishes accruals for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. When able, the Company will determine estimates of reasonably possible loss or range of loss, whether in excess of any related accrued liability or where there is no accrued liability. Given the inherent uncertainty associated with legal matters, the actual costs of resolving legal claims and associated costs of defense may be substantially higher or lower than the amounts for which accruals have been established.

The Company is involved, in the ordinary course of business, in various legal proceedings including claims of individual customers and purported class action lawsuits. Certain of these actions are similar to suits filed against other financial institutions and captive finance companies. Most of these proceedings concern customer allegations of wrongful repossession or defamation of credit. The Company is also subject to governmental reviews and inquiries from time to time. 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.

The Company previously received two Civil Investigative Demands from the U.S. Department of Justice (DOJ) relating to the financing of motor vehicles by servicemembers under the Servicemembers Civil Relief Act. The two Civil Investigative Demands were resolved and settled with a consent order filed on September 29, 2021.

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 nine months ended December 31, 2021 and 2020, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling $4.5 billion and $3.3 billion, respectively. The notes were secured by assets with an initial balance of $4.9 billion and $3.5 billion, respectively.

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

	December 31, 2021				
	Assets			Liabilities	
	(U.S. dollars in millions)				
	Securitized assets	Restricted cash [1]	Other	Secured debt	Other
Retail loan securitizations	$ 8,926	$ 334	$ 14	$ 8,574	$ 3
Operating lease securitizations	321	1	1	232	2
Total	$ 9,247	$ 335	$ 15	$ 8,806	$ 5

	March 31, 2021				
	Assets			Liabilities	
	(U.S. dollars in millions)				
	Securitized assets	Restricted cash [1]	Other	Secured debt	Other
Retail loan securitizations	$ 8,783	$ 378	$ 16	$ 8,540	$ 4
Operating lease securitizations	440	2	1	350	2
Total	$ 9,223	$ 380	$ 17	$ 8,890	$ 6

(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 December 31, 2021 and March 31, 2021, AHFC and HCFI had combined cash collections of $510 million and $581 million, respectively, which were required to be remitted to the SPEs.

Note 10. Other Assets

Other assets consisted of the following:

	December 31, 2021	March 31, 2021
	(U.S. dollars in millions)	
Interest receivable and other assets	$ 84	$ 92
Vehicles held for disposition	50	94
Other receivables	97	194
Deferred expense	5	93
Software, net of accumulated amortization of $172 and $168 as of December 31, 2021 and March 31, 2021, respectively	22	24
Property and equipment, net of accumulated depreciation of $19 as of both December 31, 2021 and March 31, 2021	6	3
Restricted cash	335	380
Operating lease assets	54	62
Like-kind exchange assets	560	89
Other miscellaneous assets	8	11
Total	$ 1,221	$ 1,042

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to five years. General and administrative expenses include depreciation and amortization expense of $2 million and $3 million for the three months ended December 31, 2021 and 2020, respectively, and $7 million and $8 million for the nine months ended December 31, 2021 and 2020, respectively.

Note 11. Other Liabilities

Other liabilities consisted of the following:

	December 31, 2021	March 31, 2021
	(U.S. dollars in millions)	
Dealer payables	$ 83	$ 175
Accrued interest expense	154	138
Accounts payable and accrued expenses	351	484
Lease security deposits	73	81
Unearned VSC administrative fees (Note 6)	—	333
Unearned income, operating leases	331	340
Operating lease liabilities	59	65
Uncertain tax positions	97	103
Other liabilities	23	15
Total	$ 1,171	$ 1,734

Note 12. Other Income, net

Other income consisted of the following:

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	(U.S. dollars in millions)			
VSC administration fees (Note 6)	$ —	$ 26	$ 2	$ 79
Other, net	13	(9)	35	(33)
Total	$ 13	$ 17	$ 37	$ 46

Note 13. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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:

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	(U.S. dollars in millions)			
Assets:				
Derivative instruments:				
Interest rate swaps	$ —	$ 521	$ —	$ 521
Cross currency swaps	—	194	—	194
Total assets	$ —	$ 715	$ —	$ 715
Liabilities:				
Derivative instruments:				
Interest rate swaps	$ —	$ 310	$ —	$ 310
Cross currency swaps	—	190	—	190
Total liabilities	$ —	$ 500	$ —	$ 500

	March 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	(U.S. dollars in millions)			
Assets:				
Derivative instruments:				
Interest rate swaps	$ —	$ 545	$ —	$ 545
Cross currency swaps	—	373	—	373
Total assets	$ —	$ 918	$ —	$ 918
Liabilities:				
Derivative instruments:				
Interest rate swaps	$ —	$ 586	$ —	$ 586
Cross currency swaps	—	46	—	46
Total liabilities	$ —	$ 632	$ —	$ 632

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 nine months ended December 31, 2021 and 2020. 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)		
December 31, 2021					
Vehicles held for disposition	$ —	$ —	$ 26	$ 26	$ 4
December 31, 2020					
Vehicles held for disposition	$ —	$ —	$ 81	$ 81	$ 19

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.

	December 31, 2021				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)				
Assets:					
Cash and cash equivalents	$ 2,132	$ 2,132	$ —	$ —	$ 2,132
Dealer loans, net	2,015	—	—	1,918	1,918
Retail loans, net	36,993	—	—	37,552	37,552
Restricted cash	335	335	—	—	335
Liabilities:					
Commercial paper	$ 4,010	$ —	$ 4,010	$ —	$ 4,010
Bank loans	3,389	—	3,413	—	3,413
Medium-term note programs	28,581	—	28,911	—	28,911
Other debt	3,910	—	3,917	—	3,917
Secured debt	8,806	—	8,810	—	8,810

	March 31, 2021				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)				
Assets:					
Cash and cash equivalents	$ 1,870	$ 1,870	$ —	$ —	$ 1,870
Dealer loans, net	4,077	—	—	3,936	3,936
Retail loans, net	37,356	—	—	38,284	38,284
Restricted cash	380	380	—	—	380
Liabilities:					
Commercial paper	$ 5,542	$ —	$ 5,543	$ —	$ 5,543
Bank loans	4,052	—	4,085	—	4,085
Medium-term note programs	29,470	—	30,069	—	30,069
Other debt	3,973	—	4,066	—	4,066
Secured debt	8,890	—	8,968	—	8,968

Fair value information presented in the tables above is based on information available at December 31, 2021 and March 31, 2021. 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 14. Segment Information

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

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

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

Financial information for the three and nine months ended December 31, 2021 and 2020 is summarized in the following tables:

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
Three months ended December 31, 2021				
Revenues:				
Retail	$ 355	$ 46	$ —	$ 401
Dealer	13	2	—	15
Operating leases	1,605	319	—	1,924
Total revenues	1,973	367	—	2,340
Leased vehicle expenses	1,163	243	—	1,406
Interest expenses	144	27	—	171
Realized (gains)/losses on derivatives and foreign currency denominated debt	27	5	(32)	—
Net revenues	639	92	32	763
Other income, net	10	3	—	13
Total net revenues	649	95	32	776
Expenses:				
General and administrative expenses	104	13	—	117
Provision for credit losses	(3)	—	—	(3)
Early termination loss on operating leases	9	1	—	10
Loss on derivative instruments	—	—	106	106
Gain on foreign currency revaluation of debt	—	—	(112)	(112)
Income before income taxes	$ 539	$ 81	$ 38	$ 658
Nine months ended December 31, 2021				
Revenues:				
Retail	$ 1,094	$ 141	$ —	$ 1,235
Dealer	44	8	—	52
Operating leases	4,931	990	—	5,921
Total revenues	6,069	1,139	—	7,208
Leased vehicle expenses	3,510	746	—	4,256
Interest expenses	459	82	—	541
Realized (gains)/losses on derivatives and foreign currency denominated debt	107	19	(126)	—
Net revenues	1,993	292	126	2,411
Other income, net	27	10	—	37
Total net revenues	2,020	302	126	2,448
Expenses:				
General and administrative expenses	315	42	—	357
Provision for credit losses	(27)	1	—	(26)
Early termination loss on operating leases	11	(1)	—	10
Loss on derivative instruments	—	—	234	234
Gain on foreign currency revaluation of debt	—	—	(234)	(234)
Income before income taxes	$ 1,721	$ 260	$ 126	$ 2,107
December 31, 2021				
Finance receivables, net	$ 34,733	$ 4,275	$ —	$ 39,008
Investment in operating leases, net	30,139	5,021	—	35,160
Total assets	68,704	9,584	—	78,288

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
		(U.S. dollars in millions)		
Three months ended December 31, 2020				
Revenues:				
Retail	$ 373	$ 50	$ —	$ 423
Dealer	22	3	—	25
Operating leases	1,612	339	—	1,951
Total revenues	2,007	392	—	2,399
Leased vehicle expenses	1,137	254	—	1,391
Interest expense	177	30	—	207
Realized (gains)/losses on derivatives and foreign	67	11	(78)	—
Net revenues	626	97	78	801
Other income, net	13	4	—	17
Total net revenues	639	101	78	818
Expenses:				
General and administrative expenses	103	13	—	116
Provision for credit losses	(19)	—	—	(19)
Early termination loss on operating leases	(16)	(2)	—	(18)
Gain on derivative instruments	—	—	(259)	(259)
Loss on foreign currency revaluation of debt	—	—	279	279
Income before income taxes	$ 571	$ 90	$ 58	$ 719
Nine months ended December 31, 2020				
Revenues:				
Retail	$ 1,113	$ 143	$ —	$ 1,256
Dealer	72	10	—	82
Operating leases	4,806	992	—	5,798
Total revenues	5,991	1,145	—	7,136
Leased vehicle expenses	3,435	753	—	4,188
Interest expense	604	93	—	697
Realized (gains)/losses on derivatives and foreign currency denominated debt	192	31	(223)	—
Net revenues	1,760	268	223	2,251
Other income, net	35	11	—	46
Total net revenues	1,795	279	223	2,297
Expenses:				
General and administrative expenses	305	39	—	344
Provision for credit losses	(17)	(3)	—	(20)
Early termination loss on operating leases	(133)	—	—	(133)
Gain on derivative instruments	—	—	(584)	(584)
Loss on foreign currency revaluation of debt	—	—	627	627
Income before income taxes	$ 1,640	$ 243	$ 180	$ 2,063
December 31, 2020				
Finance receivables, net	$ 36,388	$ 4,442	$ —	$ 40,830
Investment in operating leases, net	29,693	5,380	—	35,073
Total assets	71,343	10,304	—	81,647

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 14—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 2022" and "fiscal year 2021" refer to our fiscal year ending March 31, 2022 and our fiscal year ended March 31, 2021, respectively.

Results of Operations

The following table presents our income before income taxes:

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	(U.S. dollars in millions)			
Income before income taxes:				
United States segment	$ 562	$ 621	$ 1,812	$ 1,799
Canada segment	96	98	295	264
Total income before income taxes	$ 658	$ 719	$ 2,107	$ 2,063

Comparison of the Three Months Ended December 31, 2021 and 2020

Our consolidated income before income taxes was $658 million during the third quarter of fiscal year 2022 compared to $719 million during the same period in fiscal year 2021. This decrease of $61 million, or 8%, was due to the following differences:

	Three months ended December 31,			
	2021	2020	Difference	% Change
	(U.S. dollars in millions)			
Net revenues:				
Retail	$ 401	$ 423	$ (22)	(5)%
Dealer	15	25	(10)	(40)%
Operating lease, net of leased vehicle expenses	518	560	(42)	(8)%
Interest expense	(171)	(207)	36	(17)%
Other income, net	13	17	(4)	(24)%
Total net revenues	776	818	(42)	(5)%
Expenses:				
General and administrative expenses	117	116	1	1 %
Provision for credit losses	(3)	(19)	16	(84)%
Early termination loss on operating leases	10	(18)	28	n/m
(Gain)/Loss on derivative instruments	106	(259)	365	n/m
(Gain)/Loss on foreign currency revaluation of debt	(112)	279	(391)	n/m
Total expenses	118	99	19	19 %
Total income before income taxes	$ 658	$ 719	$ (61)	(8)%

n/m = not meaningful

Comparison of the Nine Months Ended December 31, 2021 and 2020

Our consolidated income before income taxes was $2,107 million during the first nine months of fiscal year 2022 compared to $2,063 million during the same period in fiscal year 2021. This increase of $44 million, or 2%, was due to the following differences:

	Nine months ended December 31,			
	2021	2020	Difference	% Change
	(U.S. dollars in millions)			
Net revenues:				
Retail	$ 1,235	$ 1,256	$ (21)	(2)%
Dealer	52	82	(30)	(37)%
Operating lease, net of leased vehicle expenses	1,665	1,610	55	3 %
Interest expense	(541)	(697)	156	(22)%
Other income, net	37	46	(9)	(20)%
Total net revenues	2,448	2,297	151	7 %
Expenses:				
General and administrative expenses	357	344	13	4 %
Provision for credit losses	(26)	(20)	(6)	30 %
Early termination loss on operating leases	10	(133)	143	n/m
(Gain)/Loss on derivative instruments	234	(584)	818	n/m
(Gain)/Loss on foreign currency revaluation of debt	(234)	627	(861)	n/m
Total expenses	341	234	107	46 %
Total income before income taxes	$ 2,107	$ 2,063	$ 44	2 %

Segment Results—Comparison of the Three Months Ended December 31, 2021 and 2020

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

	United States Segment		Canada Segment		Consolidated	
	Three months ended December 31,		Three months ended December 31,		Three months ended December 31,	
	2021	2020	2021	2020	2021	2020
	(U.S. dollars in millions)					
Revenues:						
Retail	$ 355	$ 373	$ 46	$ 50	$ 401	$ 423
Dealer	13	22	2	3	15	25
Operating leases	1,605	1,612	319	339	1,924	1,951
Total revenues	1,973	2,007	367	392	2,340	2,399
Leased vehicle expenses	1,163	1,137	243	254	1,406	1,391
Interest expense	144	177	27	30	171	207
Net revenues	666	693	97	108	763	801
Other income, net	10	13	3	4	13	17
Total net revenues	676	706	100	112	776	818
Expenses:						
General and administrative expenses	104	103	13	13	117	116
Provision for credit losses	(3)	(19)	—	—	(3)	(19)
Early termination loss on operating leases	9	(16)	1	(2)	10	(18)
(Gain)/Loss on derivative instruments	116	(262)	(10)	3	106	(259)
(Gain)/Loss on foreign currency revaluation of debt	(112)	279	—	—	(112)	279
Income before income taxes	$ 562	$ 621	$ 96	$ 98	$ 658	$ 719

Revenues

Revenue from retail loans in the United States segment decreased by $18 million, or 5%, and $4 million, or 8% in the Canada segment during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. The decreases in revenue for both the United States and Canada segments were attributable to lower yields, partially offset by higher average outstanding loan balances.

Operating lease revenue in the United States segment decreased by $7 million, or less than 1%, and by $20 million, or 6%, in the Canada segment during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. The decreases in revenue for both the United States and Canada segments were primarily attributable to lower average outstanding operating lease units.

Revenue from dealer loans in the United States segment decreased by $9 million, or 41%, and by $1 million, or 33% in the Canada segment during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. The decreases in revenue for both the United States and Canada segments were primarily attributable to lower average outstanding wholesale flooring loan balances. Dealer inventory levels have declined due in part to supply chain disruptions that have negatively impacted the production of new vehicles.

Consolidated subsidy income from AHM and HCI sponsored incentive programs decreased by $30 million, or 8%, to $342 million during the third quarter of fiscal year 2022 compared to $372 million during the same period in fiscal year 2021 primarily due to the decrease in the average number of incentive retail loans that were outstanding during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021.

Leased vehicle expenses

Leased vehicle expenses in the United States segment increased by $26 million, or 2%, during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. The increase was attributable to lower gains on the disposition of leased vehicles during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. Leased vehicle expenses in the Canada segment decreased by $11 million, or 4%, during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. The decrease was attributable to lower average outstanding operating leases.

Interest expense

Interest expense in the United States segment decreased by $33 million, or 19%, during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. The decrease was attributable to lower average interest rates and lower average outstanding debt. Interest expense in the Canada segment decreased by $3 million, or 10%, during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. The decrease was attributable to lower average outstanding debt partially offset by higher average interest rates. See "*—Liquidity and Capital Resources*" below for more information.

Provision for credit losses

In the United States segment, we recognized a negative provision for credit losses of $3 million during the third quarter of fiscal year 2022 and a negative provision for credit losses of $19 million during the same period in fiscal year 2021. Net charge-offs of retail loans during the third quarter of fiscal year 2022 were lower than expected which resulted in the negative provision for credit losses. The provision for credit losses in the Canada segment was consistent during the third quarter of fiscal year 2022 compared to the same period in fiscal year 2021. See "*—Financial Condition—Credit Risk*" below for more information.

Early termination loss on operating leases

In the United States segment, we recognized early termination losses on operating leases of $9 million during the third quarter of fiscal year 2022 compared to a reversal of early termination losses of $16 million during the same period in fiscal year 2021. We recognized reversals of early termination losses throughout fiscal year 2021 as the result of reducing our estimate of early termination losses. During the third quarter of fiscal year 2022, our estimate of early termination losses increased slightly resulting in losses of $9 million during the quarter. In the Canada segment, we recognized early termination losses on operating leases of $1 million during the third quarter of fiscal year 2022 compared to a reversal of early termination losses of $2 million during the same period in fiscal year 2021. The early termination losses during the third quarter of fiscal year 2022 was the result of higher than expected realized losses during the period. See "*—Financial Condition—Credit Risk*" below for more information.

Gain/loss on derivative instruments

In the United States segment, we recognized a loss on derivative instruments of $116 million during the third quarter of fiscal year 2022 compared to a gain of $262 million during the same period in fiscal year 2021. The loss in the third quarter of fiscal year 2022 was attributable to a loss on cross currency swaps of $159 million and a loss on pay float interest rate swaps of $127 million, partially offset by a gain on pay fixed interest rate swaps of $170 million. The loss on cross currency swaps during the third quarter of fiscal year 2022 was primarily attributable to the U.S. dollar strengthening against the Euro during the period. The loss on pay float interest rate swaps and gain on pay fixed interest rate swaps during the third quarter of fiscal year 2022 was primarily due to the increase in applicable swap rates during the period. In the Canada segment, we recognized a gain on derivative instruments of $10 million during the third quarter of fiscal year 2022 compared to a loss of $3 million during the same period in fiscal year 2021. The gain in the third quarter of fiscal year 2022 was due to the increase in applicable swap rates during the period. See "*—Derivatives*" below for more information.

Gain/loss on foreign currency revaluation of debt

In the United States segment, we recognized a gain on the revaluation of foreign currency denominated debt of $112 million during the third quarter of fiscal year 2022 compared to a loss of $279 million during the same period in fiscal year 2021. The gain in the third quarter of fiscal year 2022 was primarily due to the U.S. dollar strengthening against the Euro during the period.

Income tax expense
The consolidated effective tax rate was 25.5% for the third quarter of fiscal year 2022 compared to 22.3% for the same period in fiscal year 2021. The increase in the effective tax rate was primarily due to changes in non-recurring unrecognized tax benefits and an increase in state taxes. For additional information regarding income taxes, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements (Unaudited).*

Segment Results—Comparison of the Nine Months Ended December 31, 2021 and 2020

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

	United States Segment		Canada Segment		Consolidated	
	Nine months ended December 31,		Nine months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020	2021	2020
	(U.S. dollars in millions)					
Revenues:						
Retail	$ 1,094	$ 1,113	$ 141	$ 143	$ 1,235	$ 1,256
Dealer	44	72	8	10	52	82
Operating leases	4,931	4,806	990	992	5,921	5,798
Total revenues	6,069	5,991	1,139	1,145	7,208	7,136
Leased vehicle expenses	3,510	3,435	746	753	4,256	4,188
Interest expense	459	604	82	93	541	697
Net revenues	2,100	1,952	311	299	2,411	2,251
Other income, net	27	35	10	11	37	46
Total net revenues	2,127	1,987	321	310	2,448	2,297
Expenses:						
General and administrative expenses	315	305	42	39	357	344
Provision for credit losses	(27)	(17)	1	(3)	(26)	(20)
Early termination loss on operating leases	11	(133)	(1)	—	10	(133)
(Gain)/Loss on derivative instruments	250	(594)	(16)	10	234	(584)
(Gain)/Loss on foreign currency revaluation of debt	(234)	627	—	—	(234)	627
Income before income taxes	$ 1,812	$ 1,799	$ 295	$ 264	$ 2,107	$ 2,063

Revenues

Revenue from retail loans in the United States segment decreased by $19 million, or 2%, during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021. The decrease was due to lower yields partially offset by higher average outstanding loan balances. Revenue from retail loans in the Canada segment was relatively consistent during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021.

Operating lease revenue in the United States segment increased by $125 million, or 3%, during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021. The increase was attributable to higher average revenue per operating lease unit and higher average outstanding operating lease units during the first half of the fiscal year. Operating lease revenue in the Canada segment was relatively consistent during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021.

Revenue from dealer loans in the United States segment decreased by $28 million, or 39%, and by $2 million, or 20%, in the Canada segment during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021. The decreases in revenue for both the United States and Canada segments were primarily attributable to lower average outstanding wholesale flooring loan balances. Dealer inventory levels have declined due in part to supply chain disruptions that have negatively impacted the production of new vehicles.

Consolidated subsidy income from AHM and HCI sponsored incentive programs decreased by $15 million, or 1%, to $1,097 million during the first nine months of fiscal year 2022 compared to $1,112 million during the same period in fiscal year 2021 primarily due to the decrease in the average number of incentive retail loans that were outstanding during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021.

Leased vehicle expenses

Leased vehicle expenses in the United States segment increased by $75 million, or 2%, during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021. The increase was primarily due to the increase in depreciation due to higher average outstanding operating leases during the first nine months of fiscal year 2022. Leased vehicle expenses in the Canada segment decreased by $7 million, or 1%, during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021. The decrease was primarily due to lower average outstanding operating leases during the first nine months of fiscal year 2022.

Interest expense

Interest expense in the United States segment decreased by $145 million, or 24%, during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021 primarily due to lower average interest rates. Interest expense in the Canada segment decreased by $11 million, or 12%, during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021. The decrease was attributable to lower average interest rates and lower average outstanding debt. See "*—Liquidity and Capital Resources*" below for more information.

Provision for credit losses

In the United States segment, we recognized a negative provision for credit losses of $27 million, during the first nine months of fiscal year 2022 and a negative provision for credit losses of $17 million during the same period in fiscal year 2021. Net charge-offs of retail loans during the first nine months of fiscal year 2022 were lower than expected which resulted in the negative provision for credit losses. In the Canada segment, we recognized a provision for credit losses of less than $1 million during the first nine months of fiscal year 2022 compared to a negative provision for credit losses of $3 million in the same period in fiscal year 2021. See "*—Financial Condition—Credit Risk*" below for more information.

Early termination loss on operating leases

In the United States segment, we recognized early termination losses on operating leases of $11 million during the first nine months of fiscal year 2022 compared to a reversal of early termination losses of $133 million during the same period in fiscal year 2021. We recognized reversals of early termination losses throughout fiscal year 2021 and the first quarter of fiscal year 2022 as the result of reducing our estimate of early termination losses. During the third quarter of fiscal year 2022, our estimate of early termination losses increased slightly resulting in net losses of $11 million during the first nine months of fiscal year 2022. In the Canada segment, we recognized a reversal of early termination losses on operating leases of $1 million during the first nine months of fiscal year 2022 compared to early termination losses of less than $1 million during the same period in fiscal year 2021. The reversal of early termination losses during the first nine months of fiscal year 2022 was the result of lower than expected realized losses during the period. See "*—Financial Condition—Credit Risk*" below for more information.

Gain/loss on derivative instruments

In the United States segment, we recognized a loss on derivative instruments of $250 million during the first nine months of fiscal year 2022 compared to a gain of $594 million during the same period in fiscal year 2021. The loss in the first nine months of fiscal year 2022 was attributable to a loss on cross currency swaps of $330 million and a loss on pay float interest rate swaps of $63 million, partially offset by a gain on pay fixed interest rate swaps of $143 million. The loss on cross currency swaps during the first nine months of fiscal year 2022 was primarily attributable to the U.S. dollar strengthening against the Euro and Sterling during the period. The loss on pay float interest rate swaps and gain on pay fixed interest rates swaps during the first nine months of fiscal year 2022 was primarily due to the increase in applicable swap rates during the period. In the Canada segment, we recognized a gain on derivative instruments of $16 million during the first nine months of fiscal year 2022 compared to a loss of $10 million during the same period in fiscal year 2021. The gain in the first nine months of fiscal year 2022 was due to the increase in applicable swap rates during the period. See "*—Derivatives*" below for more information.

Gain/loss on foreign currency revaluation of debt

In the United States segment, we recognized a gain on the revaluation of foreign currency denominated debt of $234 million during the first nine months of fiscal year 2022 compared to a loss of $627 million during the same period in fiscal year 2021. The gain in the first nine months of fiscal year 2022 was primarily due to the U.S. dollar strengthening against the Euro and Sterling during the period.

Income tax expense

The consolidated effective tax rate was 25.9% for the first nine months of fiscal year 2022 compared to 25.0% for the same period in fiscal year 2021. The increase in the effective tax rate was primarily due to changes in non-recurring unrecognized tax benefits and an increase in 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 December 31,				Nine months ended December 31,			
	2021		2020		2021		2020	
	Acquired	Sponsored (2)	Acquired	Sponsored (2)	Acquired	Sponsored (2)	Acquired	Sponsored (2)
	(Units (1) in thousands)							
United States Segment								
Retail loans:								
New auto	70	53	132	110	354	300	400	334
Used auto	15	4	24	7	52	13	83	30
Motorcycle and other	15	—	18	—	48	1	71	1
Total retail loans	100	57	174	117	454	314	554	365
Leases	73	65	122	103	342	318	354	305
Canada Segment								
Retail loans:								
New auto	9	6	14	12	41	35	43	38
Used auto	2	—	3	—	10	—	9	—
Motorcycle and other	1	—	1	1	5	4	8	8
Total retail loans	12	6	18	13	56	39	60	46
Leases	12	11	20	20	50	48	54	53
Consolidated								
Retail loans:								
New auto	79	59	146	122	395	335	443	372
Used auto	17	4	27	7	62	13	92	30
Motorcycle and other	16	—	19	1	53	5	79	9
Total retail loans	112	63	192	130	510	353	614	411
Leases	85	76	142	123	392	366	408	358

(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 December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
United States Segment				
New auto	50%	69%	62%	72%
Motorcycle	28%	32%	29%	33%
Canada Segment				
New auto	67%	96%	78%	87%
Motorcycle	17%	29%	21%	30%
Consolidated				
New auto	51%	72%	64%	73%
Motorcycle	27%	32%	28%	33%

Consumer Financing Asset Balances

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

	December 31, 2021	March 31, 2021	December 31, 2021	March 31, 2021
	(U.S. dollars in millions)		(Units [(1)] in thousands)	
United States Segment				
Retail loans:				
New auto	$ 27,300	$ 27,200	1,548	1,587
Used auto	4,431	4,915	329	359
Motorcycle and other	1,264	1,328	188	196
Total retail loans	$ 32,995	$ 33,443	2,065	2,142
Investment in operating leases	$ 30,139	$ 30,036	1,258	1,311
Securitized retail loans [(2)]	$ 8,715	$ 8,368	696	686
Canada Segment				
Retail loans:				
New auto	$ 3,525	$ 3,502	232	244
Used auto	357	290	29	26
Motorcycle and other	116	121	21	22
Total retail loans	$ 3,998	$ 3,913	282	292
Investment in operating leases	$ 5,021	$ 5,309	249	272
Securitized retail loans [(2)]	$ 211	$ 415	21	38
Securitized investments in operating leases [(2)]	$ 321	$ 440	19	23
Consolidated				
Retail loans:				
New auto	$ 30,825	$ 30,702	1,780	1,831
Used auto	4,788	5,205	358	385
Motorcycle and other	1,380	1,449	209	218
Total retail loans	$ 36,993	$ 37,356	2,347	2,434
Investment in operating leases	$ 35,160	$ 35,345	1,507	1,583
Securitized retail loans [(2)]	$ 8,926	$ 8,783	717	724
Securitized investments in operating leases [(2)]	$ 321	$ 440	19	23

(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 decreased by 18% and lease acquisition volumes decreased by 3% during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021. In the Canada segment, retail loan acquisition volumes decreased by 7% and lease acquisition volumes decreased by 7% during the first nine months of fiscal year 2022 compared to the same period in fiscal year 2021. Supply chain disruptions have negatively impacted the production of new vehicles and dealer inventory levels which contributed to the decline in acquisition volumes in both the United States and Canada segments. The duration and severity of the supply chain disruptions are uncertain. Prolonged disruptions could materially impact the volume of future retail loan and lease acquisitions.

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:

	December 31, 2021	March 31, 2021
United States Segment		
Automobile	28 %	28 %
Motorcycle	98 %	97 %
Other	17 %	18 %
Canada Segment		
Automobile	32 %	33 %
Motorcycle	95 %	95 %
Other	92 %	92 %
Consolidated		
Automobile	29 %	29 %
Motorcycle	97 %	97 %
Other	19 %	20 %

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 December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
United States Segment				
Automobile	22%	26%	23%	24%
Motorcycle	98%	97%	98%	98%
Other	4%	4%	6%	7%
Canada Segment				
Automobile	28%	30%	29%	32%
Motorcycle	92%	95%	92%	89%
Other	95%	96%	96%	97%
Consolidated				
Automobile	23%	26%	24%	25%
Motorcycle	98%	97%	97%	97%
Other	7%	6%	9%	10%

Dealer Financing Asset Balances

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

	December 31, 2021	March 31, 2021	December 31, 2021	March 31, 2021
	(U.S. dollars in millions)		(Units [1] in thousands)	
United States Segment				
Wholesale flooring loans:				
Automobile	$ 767	$ 2,396	26	83
Motorcycle	211	216	30	26
Other	29	39	20	37
Total wholesale flooring loans	$ 1,007	$ 2,651	76	146
Commercial loans	$ 730	$ 812		
Canada Segment				
Wholesale flooring loans:				
Automobile	$ 164	$ 488	6	17
Motorcycle	30	45	6	5
Other	26	20	18	18
Total wholesale flooring loans	$ 220	$ 553	30	40
Commercial loans	$ 58	$ 61		
Consolidated				
Wholesale flooring loans:				
Automobile	$ 931	$ 2,884	32	100
Motorcycle	241	261	36	31
Other	55	59	38	55
Total wholesale flooring loans	$ 1,227	$ 3,204	106	186
Commercial loans	$ 788	$ 873		

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

Credit Risk

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

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

	As of or for the three months ended December 31,		As of or for the nine months ended December 31,	
	2021	2020	2021	2020
	(U.S. dollars in millions)			
United States Segment				
Finance receivables:				
Allowance for credit losses at beginning of period [4]	$ 241	$ 402	$ 279	$ 456
Provision for credit losses	(3)	(19)	(27)	(17)
Charge-offs, net of recoveries	(19)	(31)	(33)	(87)
Allowance for credit losses at end of period	$ 219	$ 352	$ 219	$ 352
Allowance as a percentage of ending receivable balance [1]			0.62 %	0.95 %
Charge-offs as a percentage of average receivable balance [1], [3]	0.20%.	0.35 %	0.12 %	0.33 %
Delinquencies (60 or more days past due):				
Delinquent amount [2]			$ 109	$ 116
As a percentage of ending receivable balance [1], [2]			0.31 %	0.31 %
Operating leases:				
Early termination loss on operating leases	$ 9	$ (16)	$ 11	$ (133)
Canada Segment				
Finance receivables:				
Allowance for credit losses at beginning of period [4]	$ 9	$ 11	$ 9	$ 15
Provision for credit losses	—	—	1	(3)
Charge-offs, net of recoveries	—	—	(1)	(2)
Effect of translation adjustment	—	—	—	1
Allowance for credit losses at end of period	$ 9	$ 11	$ 9	$ 11
Allowance as a percentage of ending receivable balance [1]			0.19 %	0.25 %
Charge-offs as a percentage of average receivable balance [1], [3]	0.04 %	— %	0.04 %	0.06 %
Delinquencies (60 or more days past due):				
Delinquent amount [2]			$ 3	$ 4
As a percentage of ending receivable balance [1], [2]			0.07 %	0.08 %
Operating leases:				
Early termination loss on operating leases	$ 1	$ (2)	$ (1)	$ —
Consolidated				
Finance receivables:				
Allowance for credit losses at beginning of period [4]	$ 250	$ 413	$ 288	$ 471
Provision for credit losses	(3)	(19)	(26)	(20)
Charge-offs, net of recoveries	(19)	(31)	(34)	(89)
Effect of translation adjustment	—	—	—	1
Allowance for credit losses at end of period	$ 228	$ 363	$ 228	$ 363
Allowance as a percentage of ending receivable balance [1]			0.57 %	0.87 %
Charge-offs as a percentage of average receivable balance [1], [3]	0.19 %	0.31 %	0.11 %	0.30 %
Delinquencies (60 or more days past due):				
Delinquent amount [2]			$ 112	$ 120
As a percentage of ending receivable balance [1], [2]			0.28 %	0.29 %
Operating leases:				
Early termination loss on operating leases	$ 10	$ (18)	$ 10	$ (133)

(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 each respective period.

(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 the three and nine months ended December 31, 2021 and 2020 have been annualized.

(4) Beginning allowance for the nine months ended December 31, 2020 includes the cumulative effect of adopting ASU 2016-13.

In the United States segment, we recognized a negative provision for credit losses on our finance receivables of $27 million during the first nine months of fiscal year 2022 and a negative provision for credit losses of $17 million during the same period in fiscal year 2021. The negative provision for credit losses during the first nine months of fiscal year 2022 was attributable to the reduction in the allowance for credit losses reflecting favorable revisions to forecasted economic factors including forecasted personal bankruptcy rates and better than expected net charge-offs of retail loans during the period. We recognized early termination losses on operating leases of $11 million during the first nine months of fiscal year 2022 compared to a reversal of early termination losses of $133 million during the same period in fiscal year 2021. We recognized reversals of early termination losses throughout fiscal year 2021 and the first quarter of fiscal year 2022 as a result of favorable revisions to the estimated impact of COVID-19, lower than expected realized losses, and reductions in estimated lessee default rates. During the third quarter of fiscal year 2022, our estimate of early termination losses increased slightly resulting in losses of $9 million during the quarter and net losses of $11 million during the first nine months of fiscal year 2022.

In the Canada segment, we recognized a provision for credit losses of less than $1 million on our finance receivables during the first nine months of fiscal year 2022 compared to a negative provision for credit losses of $3 million during the same period in fiscal year 2021. We recognized a reversal of early termination losses on operating lease assets of $1 million during the first nine months of fiscal year 2022 compared to early termination losses of less than $1 million during the same period in fiscal year 2021.

Lease Residual Value Risk

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

We assess our estimates for end of lease term market values of leased vehicles, at minimum, on a quarterly basis. The primary factors affecting the estimates are the percentage of leased vehicles that we expect to be returned by the lessee at the end of lease term and expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends, and market information on new and used vehicles. Adjustments to estimated residual values are made on a straight-line basis over the remaining term of the lease and recognized as depreciation expense. Additional information regarding lease residual values is provided in the discussion of "*—Critical Accounting Policies—Determination of Lease Residual Values*" below.

We also review our investment in operating leases for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If impairment conditions are met, impairment losses are measured by the amount the carrying values exceed their fair values. We did not recognize impairment losses due to declines in estimated residual values during the first nine months of fiscal year 2022 or 2021.

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

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	(Units [(1)] in thousands)			
United States Segment				
Termination units:				
Sales at outstanding contractual balances [(2)]	110	100	382	280
Sales through auctions and dealer direct programs [(3)]	—	12	5	71
Total termination units	110	112	387	351
Canada Segment				
Termination units:				
Sales at outstanding contractual balances [(2)]	20	23	72	63
Sales through auctions and dealer direct programs [(3)]	—	2	1	6
Total termination units	20	25	73	69
Consolidated				
Termination units:				
Sales at outstanding contractual balances [(2)]	130	123	454	343
Sales through auctions and dealer direct programs [(3)]	—	14	6	77
Total termination units	130	137	460	420

(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 December 31, 2021 and March 31, 2021 includes foreign currency denominated debt, which was translated into U.S. dollars using the relevant exchange rates as of December 31, 2021 and March 31, 2021, 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 December 31, 2021. 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:

	December 31, 2021	March 31, 2021	Weighted average contractual interest rate December 31, 2021	Weighted average contractual interest rate March 31, 2021
	(U.S. dollars in millions)			
United States Segment				
Unsecured debt:				
Commercial paper	$ 3,129	$ 4,615	0.27 %	0.29 %
Bank loans	2,499	2,799	0.88 %	0.95 %
Private MTN program	—	500	— %	3.80 %
Public MTN program	28,555	28,943	1.44 %	1.53 %
Euro MTN programme	26	27	2.23 %	2.23 %
Total unsecured debt	34,209	36,884		
Secured debt	8,380	8,149	0.84 %	1.37 %
Total debt	$ 42,589	$ 45,033		
Canada Segment				
Unsecured debt:				
Commercial paper	$ 881	$ 927	0.36 %	0.42 %
Bank loans	890	1,253	1.18 %	1.15 %
Other debt	3,910	3,973	2.11 %	2.11 %
Total unsecured debt	5,681	6,153		
Secured debt	426	741	0.96 %	0.95 %
Total debt	$ 6,107	$ 6,894		
Consolidated				
Unsecured debt:				
Commercial paper	$ 4,010	$ 5,542	0.29 %	0.31 %
Bank loans	3,389	4,052	0.96 %	1.01 %
Private MTN program	—	500	— %	3.80 %
Public MTN program	28,555	28,943	1.44 %	1.53 %
Euro MTN programme	26	27	2.23 %	2.23 %
Other debt	3,910	3,973	2.11 %	2.11 %
Total unsecured debt	39,890	43,037		
Secured debt	8,806	8,890	0.85 %	1.34 %
Total debt	$ 48,696	$ 51,927		

Commercial Paper

As of December 31, 2021, we had commercial paper programs in the United States of $7.0 billion and in Canada of C$2.5 billion ($2.0 billion). Interest rates on the commercial paper are fixed at the time of issuance. During the nine months ended December 31, 2021, consolidated commercial paper month-end outstanding principal balances ranged from $3.5 billion to $6.7 billion.

Bank Loans

During the nine months ended December 31, 2021, AHFC entered into a $500 million floating rate term loan agreement. HCFI did not enter into any new term loan agreements. As of December 31, 2021, we had bank loans denominated in U.S. dollars and Canadian dollars with floating and fixed interest rates, in principal amounts ranging from $79 million to $600 million. As of December 31, 2021, the remaining maturities of all bank loans outstanding ranged from 20 days to approximately 4.7 years. The weighted average remaining maturity on all bank loans was 1.6 years as of December 31, 2021.

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 December 31, 2021, management believes that AHFC and HCFI were in compliance with all covenants contained in our bank loan agreements.

Medium-Term Note (MTN) Programs

Private MTN Program

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. The last remaining note under the Private MTN program matured on September 20, 2021. Notes under this program were issued pursuant to the terms of an issuing and paying agency agreement, which required AHFC to comply with certain covenants, including negative pledge provisions, and includes customary events of defaults.

Public MTN Program

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

The Public MTNs may have original maturities of 9 months or more from the date of issue, may be interest bearing with either fixed or floating interest rates, or may be discounted notes. During the nine months ended December 31, 2021, AHFC issued $2.2 billion aggregate principal amount of U.S. dollar denominated fixed rate notes with an original maturity ranging from 23 months to 5 years. AHFC also issued $1.3 billion aggregate principal amount of Euro denominated fixed rate notes with an original maturity of 7 years and $0.7 billion aggregate principal amount of sterling denominated fixed rate notes with an original maturity of 6 years. The weighted average remaining maturities of all Public MTNs was 2.5 years as of December 31, 2021.

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 December 31, 2021, management believes that AHFC was in compliance with all covenants under the indenture.

Euro MTN Programme

The Euro MTN Programme was retired in August 2014. AHFC has one note outstanding under this program. The note has a maturity date of February 21, 2023, a fixed interest rate and is not listed on the Luxembourg Stock Exchange. The note was issued pursuant to the terms of an agency agreement which requires AHFC to comply with certain covenants, including negative pledge provisions, and includes customary events of default. As of December 31, 2021, management believes that AHFC was in compliance with all covenants contained in the Euro MTNs.

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

	December 31, 2021	March 31, 2021
	(U.S. dollars in millions)	
U.S. dollar	$ 20,209	$ 22,902
Euro	6,189	5,032
Sterling	2,157	1,509
Japanese yen	26	27
Total	$ 28,581	$ 29,470

Other Debt

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During the nine months ended December 31, 2021, HCFI entered into a new 3 year floating rate private placements for $198 million and a new 5 year fixed rate private placement for $317 million. As of December 31, 2021, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 196 days to approximately 6.2 years. The weighted average remaining maturities of these notes was 2.8 years as of December 31, 2021.

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 December 31, 2021, 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 nine months ended December 31, 2021, we issued notes through asset-backed securitizations totaling $4.5 billion, which were secured by assets with an initial balance of $4.9 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 25, 2022, a $2.1 billion credit agreement, which expires on February 28, 2023, and a $1.4 billion credit agreement, which expires on February 28, 2025. As of December 31, 2021, 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 ($1.6 billion) syndicated bank credit facility that includes a C$1.0 billion ($791 million) credit agreement, which expires on March 25, 2022 and a C$1.0 billion ($791 million) credit agreement, which expires March 25, 2025. As of December 31, 2021, 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 December 31, 2021, 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 December 31, 2021, no amounts were drawn upon under these agreements. These agreements expire in September 2022. 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 December 31, 2021 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 $19 million and $18 million during the three months ended December 31, 2021 and 2020, respectively, and $58 million and $53 million during the nine months ended December 31, 2021 and 2020, respectively, pursuant to these Support Compensation Agreements and the predecessor agreements.

Indebtedness of Consolidated Subsidiaries

As of December 31, 2021, AHFC and its consolidated subsidiaries had $58.1 billion of outstanding indebtedness and other liabilities, including current liabilities, of which $16.1 billion consisted of indebtedness and liabilities of our consolidated subsidiaries. None of AHFC's consolidated subsidiaries had any outstanding preferred equity.

Derivatives

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

All derivative financial instruments are recorded on our consolidated balance sheet as assets or liabilities, and carried at fair value. Changes in the fair value of derivatives are recognized in our consolidated statements of income in the period of the change. Since we do not elect to apply hedge accounting, the impact to earnings resulting from these valuation adjustments as reported under GAAP is not representative of our results of operations as evaluated by management. Realized gains and losses on derivative instruments, net of realized gains and losses on foreign currency denominated debt, are included in the measure of net revenues when we evaluate segment performance. Refer to Note 14—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.

Contractual Obligations

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

	Payments due for the twelve-month periods ending December 31,						
	Total	2022	2023	2024	2025	2026	Thereafter
	(U.S. dollars in millions)						
Unsecured debt obligations (1)	$ 39,964	$ 14,117	$ 8,224	$ 7,628	$ 2,096	$ 3,139	$ 4,760
Secured debt obligations (1)	8,820	4,969	2,675	1,042	134	—	—
Interest payments on debt (2)	1,565	548	391	244	140	113	129
Operating lease obligations	67	10	9	7	7	8	26
Total	$ 50,416	$ 19,644	$ 11,299	$ 8,921	$ 2,377	$ 3,260	$ 4,915

(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 December 31, 2021.

(2) Interest payments on floating rate and foreign currency denominated debt based on the applicable floating rates and/or exchange rates as of December 31, 2021.

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 (Unaudited)* 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 (Unaudited)* for additional information on derivative instruments.

New Accounting Standards

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

Critical Accounting Policies

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

Credit Losses

The allowance for credit losses is management's estimate of lifetime expected credit losses on the amortized cost basis of finance receivables. We have elected not to measure an allowance for credit losses for accrued interest receivables. The allowance is measured on an undiscounted basis. Management evaluates the allowance, at minimum, on a quarterly basis.

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 model 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 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 model. Qualitative adjustments may also be applied if management believes the quantitative models do not reflect the best estimate of lifetime expected credit losses.

Dealer loans are evaluated on a collective basis if they have not been specifically identified as impaired. Collectively evaluated dealer loans are grouped by loan type and internal risk ratings and the allowance is measured primarily using historical loss rates. Dealer loans that have been specifically identified as impaired are excluded from the collective assessment and the allowance is measured at the individual dealer level. Dealer loans are considered impaired when it is probable that we will be unable to collect the amounts due according to the terms of the applicable contracts. Our determination of whether dealer loans are impaired is based on evaluations of the dealership's payment history, financial condition, ability to perform under the terms of the loan agreements, and collateral values, as applicable. Expected credit losses on impaired dealer loans are measured based upon the specific circumstances of each dealer considering all expected sources of repayment or the fair value of the collateral if foreclosure is probable.

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.

Refer to Note 2—Finance Receivables of *Notes to Consolidated Financial Statements (Unaudited)* for additional information regarding credit losses on retail and dealer loans. Refer to Note 3—Investment in Operating Leases of *Notes to Consolidated Financial Statements (Unaudited)* for additional information regarding early termination losses on operating leases.

Sensitivity Analysis

Our allowance for credit losses and early termination losses on operating leases requires significant judgment about inherently uncertain factors. The estimates are based on management’s evaluation of many factors, including our historical credit loss experience, the value of the underlying collateral, delinquency trends, and economic conditions. The estimates are based on information available as of each reporting date. Actual losses may differ from the original estimates due to actual results varying from those assumed in our estimates. 10% and 20% increases in estimated incurred losses on our consumer finance receivables would have resulted in increases to the allowance for credit losses as of December 31, 2021 of $22 million and $44 million, respectively. Similarly, 10% and 20% increases in estimated incurred losses due to defaults on operating leases would have resulted in increases to estimated early termination losses as of December 31, 2021 of $9 million and $17 million, respectively.

Determination of Lease Residual Values

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

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

Sensitivity Analysis

If future estimated auction values for all outstanding operating leases as of December 31, 2021 were to decrease by $100 per unit from our current estimates, the total impact would be an increase of approximately $61 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 $11 million in depreciation expense, which would be recognized over the remaining lease terms. This sensitivity analysis may be asymmetric and is specific to the conditions in effect as of December 31, 2021. Additionally, any declines in auction values are likely to have a negative effect on return rates which could affect the severity of the impact on our results of operations.

Item 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 December 31, 2021, 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 December 31, 2021, 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 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, 2021, which was filed with the SEC on June 24, 2021.

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	Form of Fixed Rate Medium-Term Note, Series A(7) and Form of Floating Rate Medium-Term Note, Series A (8).
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 8, 2019.
8. Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 8, 2019.
9. 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: February 10, 2022

AMERICAN HONDA FINANCE CORPORATION

By: /s/ Paul C. Honda

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