UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2024

OR

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

For the transition period from to

Commission File Number 001-36111

AMERICAN HONDA FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

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

(310) 972-2288
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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**
3.500% Medium-Term Notes, Series A Due April 24, 2026	**HMC/26F**	**New York Stock Exchange**
0.300% Medium-Term Notes, Series A Due July 7, 2028	**HMC/28A**	**New York Stock Exchange**
1.500% Medium-Term Notes, Series A Due October 19, 2027	**HMC/27A**	**New York Stock Exchange**
3.750% Medium-Term Notes, Series A Due October 25, 2027	**HMC/27B**	**New York Stock Exchange**
5.600% Medium-Term Notes, Series A Due September 6, 2030	**HMC/30A**	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by an of the registrant's executive officers during the relevant recovery period pursuant to (§240.10D-1(b)). ☐

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

As of May 31, 2024, the number of outstanding shares of common stock of the registrant was 13,660,000 all of which shares were held by American Honda Motor Co., Inc. None of the shares are publicly traded.

Documents incorporated by reference: None

REDUCED DISCLOSURE FORMAT

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

AMERICAN HONDA FINANCE CORPORATION
ANNUAL REPORT ON FORM 10-K
For the fiscal year ended March 31, 2024

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Cautionary Statement Regarding Forward-Looking Statements

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

- the duration and severity of supply chain disruptions on the production of new vehicles and dealer inventory levels;
- declines in the financial condition or performance of Honda Motor Co., Ltd. or the sales of Honda or Acura products;
- changes in economic and general business conditions, both domestically and internationally, including inflationary pressures, increases in interest rates and changes in international trade policy;
- fluctuations in interest rates and currency exchange rates;
- the failure of our customers, dealers or counterparties to meet the terms of any contracts with us, or otherwise fail to perform as agreed;
- our inability to recover the estimated residual value of leased vehicles at the end of their lease terms;
- changes or disruption in our funding sources or access to the capital markets;
- changes in our, or Honda Motor Co., Ltd.'s, credit ratings;
- increases in competition from other financial institutions seeking to increase their share of financing of Honda and Acura products;
- the impact of pandemics, epidemics, and other public health crises, such as COVID-19 and efforts to contain them on our operations, liquidity and financial condition;
- changes in laws and regulations, including the result of financial services legislation, and related costs;
- changes in accounting standards;
- a failure or interruption in our operations; and
- a security breach or cyber attack.

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

PART I

Item 1. Business

Overview

American Honda Finance Corporation (AHFC) is a California corporation that was incorporated on February 6, 1980. Unless otherwise indicated by the context, all references to the "Company", "we", "us", and "our" in this report include AHFC and its consolidated subsidiaries, and references to "AHFC" refer solely to American Honda Finance Corporation (excluding its subsidiaries). AHFC is a wholly-owned subsidiary of American Honda Motor Co., Inc. (AHM 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. AHFC's principal executive offices are located at 1919 Torrance Boulevard, Torrance, California 90501.

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

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

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

We acquire and offer, as applicable, substantially similar products and services throughout many different regions, provinces, and territories, subject to national and local legal restrictions and market conditions. We divide our business segments between our business in the United States and in Canada. For additional financial information regarding our operations by business segment, see Note 14—Segment Information of *Notes to Consolidated Financial Statements* and "*Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview.*" In the United States and Canada, we provide our financing products under the brand names Honda Financial Services and Acura Financial Services.

Public Filings

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

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

Consumer Financing

Retail Loans

We provide indirect financing to retail customers of Honda and Acura products by acquiring retail loans originated by Honda and Acura dealers. Retail loans are acquired in accordance with our underwriting standards. See "*—Underwriting and Pricing of Consumer Financing*" below for a description of our underwriting process. The products that we finance consist primarily of new and used Honda and Acura automobiles and Honda motorcycles, power equipment, and marine engines. Retail loans may also include the financing of insurance products or vehicle service contracts. See "*—Vehicle Service Contract Administration*" below for more information. The terms of retail loans originated in the United States generally range from 24 to 84 months. The terms of retail loans originated in Canada generally range from 24 to 84 months**.** Effective April 1, 2024, we began offering 96-month loans on new automobiles in Canada.

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

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

Retail Leases

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

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

Contractual residual values of lease vehicles are determined at lease inception based on expectations of used vehicle values at the end of their lease term. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the dealer accepting return of the leased vehicle (also referred to as the grounding dealer) for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market-based price. Returned lease vehicles that are not purchased by the grounding dealers are sold through online and physical auctions. See "*—Servicing of Consumer Financing—Remarketing Center*" below.

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

Underwriting and Pricing of Consumer Financing

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

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

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

Servicing of Consumer Financing

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

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

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

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

Recovery Policies and Procedures

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

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

Incentive Financing Programs for Retail Loans and Leases

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

Honda Aviation Financing

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

Dealer Financing

Wholesale Flooring Loans

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

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

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

We seek to retain a purchase money security interest in all products that are financed pursuant to wholesale flooring loan agreements we enter into with dealers. In addition, we generally secure wholesale flooring loans with liens on the dealership's other assets and obtain a personal guarantee from dealership owners, as well as corporate guarantees from, or on behalf of, dealership owner(s)' other dealerships. Although the loans are typically collateralized or guaranteed, the value of the underlying collateral or guarantees may not be sufficient to cover our exposure under such agreements. We require dealerships to maintain insurance on all inventory, including peril coverage for flood, hail, wind, false pretense, liability, earthquake, vandalism, and other risks.

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

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

In the United States, wholesale flooring loans are currently serviced at AHFC's service centers. In Canada, wholesale flooring loans are serviced at HCFI's headquarters in Ontario.

Commercial Loans

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

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

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

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

Competition

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

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

Relationships with HMC and Other Affiliates

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

HMC and AHFC Keep Well Agreement

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

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

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

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

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

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

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

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

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

HMC and HCFI Keep Well Agreement

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

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

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

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

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

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

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

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

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

Incentive Financing Programs

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

Shared Services

AHM provides services to Honda's North American operations. AHM provides us with information technology, legal, internal audit, facilities and other services pursuant to a shared services agreement. AHM is paid a compensation fee for these services.

In Canada, we also share certain common expenditures with HCI, including professional services, data processing services, insurance, software development and facilities. HCI is paid a compensation fee for these services.

Benefit Plans

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

Income taxes

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

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

During fiscal year 2024, several countries, including Japan, enacted tax laws to adopt various aspects of the Organization for Economic Cooperation and Development (OECD) Global Anti-Base Erosion Model Rules (GloBE Rules). The GloBE Rules are designed to ensure large multinational enterprises (MNEs) pay a minimum level of tax on income in each of the jurisdictions in which they operate. These rules generally apply to MNE groups with annual revenue of €750 million or more. We are in scope of the GloBE Rules, effective as of April 1, 2024, as a result of our affiliation with HMC. To date, the U.S. and Canada, where we have operations and conducts business, have not enacted laws to adopt the GloBE Rules. Based on preliminary analysis, we do not expect a material tax impact as a result of the GloBE Rules. We will continue to monitor legislative developments and changes in business for potential impacts of the GloBE Rules on future periods.

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

Repurchase Agreements

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

Seasonality

We are subject to seasonal variations in credit losses, which are historically higher in the first and fourth quarters of the calendar year. This seasonality does not have a significant impact on our results of operations.

Human Capital

Our associates are our most valuable asset. We aim to create a safe, respectful, and productive work environment that embraces diverse talents, backgrounds, and perspectives and where associates feel valued and supported as both individuals and members of the team. We are committed to attracting, retaining, and developing the best talent to achieve our goals for today and prepare our company for the future.

Foundational to our business are our Company values and our commitment to always strive "to be a company society wants to exist." Our Company philosophy is rooted in what we call our "Fundamental Beliefs," particularly our commitment to "Respect for the Individual." In line with our beliefs, we are committed to being an employer of choice for our associates and a good corporate citizen for society. Our associates are the safekeepers of our corporate reputation and the trust we have earned from our customers and society. We encourage associates to give back to their communities and the fact that many proactively embrace the opportunity to volunteer and contribute to local causes is a source of pride within our organization.

Our management and associates understand and support our zero tolerance for discrimination, including in recruitment, hiring, training, reviewing, promoting, or administering any other personnel actions. We offer resources, tools, and training to help facilitate conversations about race and social justice. We also encourage our associates to get involved in Business Resource Groups, whose members are aligned across broad constituencies such as gender, race/ethnicity, ability, life-stage and other dimensions of diversity.

We support our associates and provide resources and training to enable them to develop as individuals. We offer training to all levels of associates to help them develop skills for their current roles, build competence for future opportunities, and increase leadership capabilities for emerging and experienced leaders.

The collective efforts of our associates and their adherence to safety guidelines have been critical in enabling us to provide a safe and healthy work environment.

Employees

On March 31, 2024, we had 1,274 employees in the United States and 186 employees in Canada. We consider our employee relations to be satisfactory. We are not subject to any collective bargaining agreements with our employees.

Governmental Regulations

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

United States

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

Federal Regulation

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

- The Truth in Lending Act and the Consumer Leasing Act place disclosure and substantive transaction restrictions on consumer credit and leasing transactions.

- The Equal Credit Opportunity Act is designed to prevent discrimination based on certain protected classes in any aspect of a credit transaction, requires the distribution of specified credit decision notices and limits the information that may be requested and considered in a credit transaction.

- The Fair Credit Reporting Act imposes restrictions and requirements regarding our use and sharing of credit reports, the reporting of data to credit reporting agencies, credit decision notices, the accuracy and integrity of information reported to the credit reporting agencies, consumer dispute handling procedures, and identity theft prevention requirements.

- The Gramm-Leach-Bliley Act requires certain communications periodically with consumers on privacy matters, restricts the disclosure of nonpublic personal information about consumers by financial institutions and prohibits the sharing of account number information for certain marketing purposes.
- The Servicemembers Civil Relief Act provides special protection to certain customers in military service and is designed to protect military personnel from personal hardship or loss resulting from financial obligations while in service.
- The Right to Financial Privacy Act restricts the disclosure of customers’ financial records to federal government agencies.
- The Telephone Consumer Protection Act governs communication methods that may be used to contact consumers and among other things, prohibits the use of automated dialers to call cellular telephones without consent of the consumer.

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

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

State Regulation

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

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

In addition, many states are focusing on consumer privacy and data protection as areas warranting consumer protection. Some states have passed complex legislation dealing with consumer privacy and data protection, which impacts companies such as AHFC. Under certain of these laws, including the California Consumer Privacy Act, we must disclose to consumers our privacy policy and practices, including those policies relating to the sharing of consumers' non-public personal information with third parties. These regulations also require us to ensure that our systems are designed to protect the confidentiality of consumers' nonpublic personal information. In addition, in some jurisdictions, these laws and regulations provide a private right of action that would allow customers to bring suit directly against us for mishandling their data for certain violations of these laws and regulations.

Canada

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

Item 1A. Risk Factors

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

Operational Risks Relating To Our Business

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

Our results of operations, cash flows, and financial condition are substantially dependent upon the sale of Honda and Acura products in the United States and Canada. Any prolonged reduction or suspension of HMC's production or sales of Honda or Acura products in the United States or Canada resulting from a decline in demand, a change in consumer preferences, a decline in the actual or perceived quality, safety, or reliability of Honda and Acura products, shortages in key components or raw materials, supply chain issues or capacity constraints, a reduction of incentive financing programs, volatility in fuel prices, sustained economic stagnation or the occurrence of a recession, a financial crisis, a work stoppage, governmental action, including a change in regulation (for example, recent rules adopted by the Environmental Protection Agency (EPA) and states such as California regarding vehicle emissions), trade policies, including changes in import fees or tariffs on raw materials or imported vehicles, human rights legislation, adverse publicity, a recall, a war, a use of force by foreign countries, a terrorist attack, a multinational conflict, a natural disaster including extreme weather-related disasters due to climate change, a pandemic, or similar events could have a substantially unfavorable effect on us.

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

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

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

Declines in general business and economic conditions can have a significant adverse impact on our results of operations, cash flows, and financial condition.

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

- changes in the United States or Canadian economies;
- changes in the overall market for consumer financing or dealer financing;
- changes in consumer trends and preferences within the automotive industry;
- changes in the United States and Canadian regulatory environment, including financial incentives towards certain vehicles;
- a decline or slowdown in the new or used vehicle market;
- increased fuel prices;
- inflationary pressures;
- fluctuations in interest rates;
- changes in consumer confidence;
- pandemics, epidemics, and other public health crises, such as COVID-19, and the impact of efforts to contain them; and
- the fiscal and monetary policies in the countries in which we operate.

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

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

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

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

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

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

Vehicle recalls and other announcements may impact our business.

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

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

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

Financial Risks Relating To Our Business

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

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

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

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

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

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

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

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

We monitor the interest rate environment and enter into various financial instruments, including interest rate and basis swaps, to manage our exposure to the risk of interest rate fluctuations. However, our hedging strategies may not fully mitigate the impact of changes in interest rates. Beginning in the fourth quarter of fiscal year 2022, we began entering into transactions that reference the Secured Overnight Financing Rate (SOFR) and transitioned contracts that reference U.S. Dollar London Interbank Offered Rate (LIBOR) to SOFR when the relevant U.S. Dollar LIBOR ceased being published after June 2023. The potential impact of continued developments, modifications, or other reforms affecting benchmark rates could adversely affect the market valuation of securities, loans and other financial obligations, the interest rates on our current or future cost of funds and/or access to capital markets, and our ability to manage interest rate risk effectively.

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

The cost and availability of financing is influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security, or obligation. Our credit ratings depend, in large part, on the existence of the Keep Well Agreements with HMC and on the financial condition and results of operations of HMC. If these arrangements (or replacement arrangements acceptable to the rating agencies, if any) become unavailable to us, or if a credit rating of HMC is lowered, our credit ratings will also likely be adversely impacted, leading to higher borrowing costs.

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

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

Credit risk is the risk of loss arising from the failure of a consumer or dealer to meet the terms of any contract with us or otherwise fail to perform as agreed. Credit losses are an expected cost of extending credit. The majority of our credit risk is with consumer financing, and to a lesser extent, with dealer financing. Our level of credit risk on our consumer financing portfolios is influenced primarily by two factors: the total number of contracts that default, and the amount of loss per occurrence, net of recoveries, which in turn are influenced by various factors, such as the used vehicle market, our purchase quality mix, contract term lengths, operational changes, and certain economic factors such as unemployment and inflationary pressures. Our level of credit risk on our dealer-financing portfolio is influenced primarily by the financial strength of dealers within the portfolio, the concentration of dealers demonstrating financial strength, the quality of the collateral securing the financing within the portfolio and economic factors. Significant physical effects of climate change, such as extreme weather and natural disasters, may affect consumers or dealers. For example, consumers living in areas affected by extreme weather and natural disasters may suffer financial harm, reducing their ability to make timely payments. Dealerships and physical auctions that facilitate the disposition of the financed vehicles after repossession are also subject to disruption as a result of extreme weather and natural disasters, which could result in an inability to sell repossessed vehicles or a temporary or permanent decline in the market value of those vehicles. If such extreme weather or a natural disaster were to occur in a geographic region in which a large number of consumers or dealers are located, these risks would be exacerbated. An increase in credit risk would increase our provision for credit losses and early termination losses on operating lease assets, which would have a negative impact on our results of operations, cash flows, and financial condition.

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

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

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

We maintain an allowance for management's estimate of lifetime expected credit losses on our finance receivables. We also maintain an estimate for early termination losses on operating lease assets due to lessee defaults. Our allowance for credit losses and early termination losses on operating leases requires significant judgment about inherently uncertain factors. Actual losses may differ from the original estimates due to actual results varying from those assumed in our estimates, which may have a negative impact on our results of operations, cash flows and financial condition. Refer to "*Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates—Allowance for Credit Losses on Retail Loans and Estimated Early Termination Losses on Operating Lease Assets"* for additional information regarding our estimates.

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

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

We have exposure to many different financial institutions, and we routinely execute transactions with counterparties in the financial industry. Our debt, derivative and investment transactions, our ability to borrow under committed and uncommitted credit facilities, and the availability of our cash held in deposits at financial institutions could be adversely affected by the creditworthiness, actions, and commercial soundness of these financial institutions.

If the financial institutions with which we do business enter receivership or become insolvent in the future, there is no guarantee that the Department of the Treasury, the Federal Reserve, and the FDIC will intercede to provide us and other depositors with access to balances in excess of the $250,000 FDIC insurance limit or that we would be able to: (i) access our existing cash, cash equivalents, and investments; (ii) maintain any required letters of credit or other credit support arrangements; or (iii) adequately fund our business for a prolonged period of time or at all. Any of such events could have a material adverse effect on our results of operations, cash flows or financial condition. In addition, if any parties with which we conduct business are unable to access funds pursuant to such instruments or lending arrangements with such a financial institution, such parties' ability to continue to fund their business and perform their obligations to us could be adversely affected, which, in turn, could have a material adverse effect on our results of operations, cash flows and financial condition.

Deterioration of social, political, labor, or economic conditions along with increased regulation in a specific country or region may also adversely affect the ability of financial institutions, including our derivative counterparties and lenders, to perform their contractual obligations. Financial institutions are interrelated because of trading, clearing, lending, and other relationships, and as a result, financial and political difficulties in one country or region may adversely affect financial institutions in other jurisdictions, including those with which we have relationships. The failure of any financial institution and other counterparty to which we have exposure, directly or indirectly, to perform their contractual obligations, and any losses resulting from that failure, could have a material adverse effect on our results of operations, cash flows, or financial condition.

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

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

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

Our employees participate in either AHM's or HCI's defined benefit plans if they qualify. HMC also has a defined benefit plan, but a great majority of our employees do not participate in that plan. The amount of pension benefits and lump-sum payments provided in those plans are primarily based on the combination of years of service and compensation. AHM and HCI each determine and make periodic contributions to their respective defined benefit plans pursuant to applicable regulations and we are allocated our share of pension plan costs due to the participation of our employees. Since benefit obligations and pension costs are based on many assumptions, including, but not limited to, participant mortality, discount rate, rate of salary increase, expected long-term rate of return on plan assets, differences in actual expenses and costs or changes in those assumptions could affect AHM's, HCI's, and our cash contributions and liquidity. Under the Employee Retirement Income Security Act of 1974 (ERISA), we are jointly and severally liable for the obligations under AHM's plans that are subject to ERISA, even for participants in the plans that are not our employees. See Note 8—Benefit Plans of *Notes to Consolidated Financial Statements*, for more information.

Regulatory Risks Relating To Our Business

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

Our operations are subject to regulation, supervision, and licensing under various United States, Canadian, state, provincial, and local statutes, ordinances, and regulations. A failure to comply with applicable regulatory, supervisory, or licensing requirements may adversely affect our business, results of operations, cash flows, and financial condition. Due to events in the global financial markets, regulators have increased their focus on the regulation of the financial services industry. As a result, there have been and may continue to be proposals for laws and regulations that could increase the scope and nature of laws and regulations that are currently applicable to us. Changes to laws or regulations enacted to address the potential impacts of climate change, such as the recent rules adopted by the EPA and states such as California regarding vehicle emissions, may adversely impact the automobile industry in particular as a result of efforts to mitigate the factors contributing to climate change. Any change in such laws and regulations, whether in the form of new or amended laws or regulations, regulatory policies, supervisory action, or the application of any of the above, may adversely affect our business, results of operations, cash flows, and financial condition by increasing our costs to comply with the new laws, prohibiting or limiting the amount of certain revenues we currently receive, or constraining certain collection or collateral recovery action which are currently available to us. We are also subject to tax laws under various jurisdictions and changes in, or our application of, tax laws may result in additional tax exposure.

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

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

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

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

The CFPB has supervisory, examination and enforcement authority over certain non-depository institutions, including those entities that are larger participants of a market for consumer financial products or services, as defined by rule. We are subject to the CFPB’s supervisory authority with respect to our compliance with applicable consumer protection laws. Over the past few years, the CFPB has become active in investigating the products, services, and operations of credit providers, including AHFC. The CFPB’s investigations of, and initiation of enforcement actions against, credit providers, whether on its own initiative or jointly with other agencies and regulators, may continue for the foreseeable future.

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

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

General Risk Factors

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

Operational risk is the risk of loss resulting from, among other factors, inadequate or failed processes, systems or internal controls, theft, fraud, cybersecurity breaches, or natural disasters. Operational risk can occur in many forms including, but not limited to, errors, business interruptions, failure of controls, inappropriate behavior or misconduct by our employees or those contracted to perform services for us, and vendors that do not perform in accordance with their contractual agreements. These events can potentially result in financial losses, regulatory inquiries or other damage to us, including damage to our reputation.

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

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

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

A security breach or cyber attack of our systems could interrupt, damage or harm our operations or result in the slow performance or unavailability of our information systems for some customers. We collect, analyze and retain certain types of personally identifiable and other information pertaining to our customers and employees through internal and third-party information technology systems. We also store confidential business, employee and technical information. A security breach or cyber attack of these systems, including those caused by physical or electronic break-ins, computer virus, malware, attacks by hackers or foreign governments, ransomware attacks, disruptions from authorized access and tampering (including through social engineering such as phishing attacks) and similar breaches, could expose us to a risk of loss of this information, regulatory scrutiny, claims for damages, penalties, litigation, reputational harm, and a loss of confidence that could potentially have an adverse impact on current and future business with current and potential customers. Information security risks have increased recently because of new technologies (including artificial intelligence), the use of the internet and telecommunications technologies (including mobile devices and in-vehicle systems) to conduct financial and other business transactions, state-sponsored cybersecurity attacks during periods of geopolitical conflict, such as the ongoing conflicts in Ukraine and Gaza, and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists, and others. In some cases, it may be difficult to anticipate or immediately detect security breaches and the damage they cause.

We may not be able to anticipate or implement effective preventative measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. It is also possible that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. The occurrence of any of these events could have a material adverse effect on our business. For example, in June 2020, HMC and its subsidiaries, including AHFC and HCFI, experienced a cyber-attack. As a result, certain business operations were temporarily suspended but have since resumed. No damages to customers or other third parties, such as leaks of information, have been confirmed. While countermeasures have been taken to minimize the impacts of the attack and prevent similar or additional attacks, there may be undetected impacts of the attack, and the countermeasures may not be sufficient to prevent similar or additional attacks.

We are subject to various privacy, data protection and information security laws, including requirements concerning security breach notification. For example, the California Consumer Privacy Act, among others, imposes stringent data protection requirements and provides significant penalties for noncompliance. Compliance with current and future privacy, data protection and information security laws affecting customer or employee data to which we are subject could result in higher compliance and technology costs. Our failure or perceived failure, even if unfounded, to comply with privacy, data protection and information security laws could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions, damage to our reputation and could materially and adversely affect our profitability. See *"Item 1C. Cybersecurity"*

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Risk Management and Strategy

HMC and its consolidated subsidiaries, including AHFC and HCFI (Honda), have established a management system and standards for information system security in order to minimize the negative impact on its business and business results from the occurrence of cybersecurity incidents. Based on these standards, Honda has implemented security measures in both hardware and software aspects to strengthen the security of its information systems. To address security, including product security, Honda has established a cross-functional system across business and manufacturing systems, software, quality, and other areas.

Honda develops rules and procedures based on laws and regulations, formulate response flows, verify and implement measures for improvement through cybersecurity exercises, and develop human resources, among other things. Honda also utilizes solutions for managing cybersecurity information and monitoring malicious activities to monitor and analyze cybersecurity threats and vulnerabilities, and in the event of a security incident related to a cyberattack with a significant impact on Honda, a Global Emergency Headquarters will be established under the supervision and monitoring of Honda's Risk Management Officer, and the supervisory division in charge of risks from cybersecurity threats plays a central role in quickly ascertaining the actual situation and taking measures to minimize the impacts of cybersecurity incidents from a company-wide perspective.

When implementing third-party packaged software and cloud services, Honda makes decisions based on risk assessments following established security standards and conducts annual checks after implementation. In response to cyberattacks on production facilities and suppliers, Honda verifies the status of security measures at both domestic and overseas production facilities and suppliers. Based on the results of these verifications, Honda takes measures to strengthen security, such as supporting the introduction of solutions for managing cybersecurity incident information, and monitoring malicious activities. For such activities to strengthen security, Honda has concluded outsourcing agreements with security consulting companies and external specialists to receive support.

With regard to personal information protection regulations and cybersecurity-related laws and regulations in various countries, in addition to current regulations, Honda collects and monitors information on regulatory trends that are expected to be enforced in the future. Data security incident response plans have been established at AHFC and HCFI that guides the analytical processes, response phases, and procedures to follow during a data security incident of personally identifiable information.

Honda, including AHFC and HCFI, have been targeted by cyberattacks in the past; however, no risks from cybersecurity threats have been identified that have materially affected or are reasonably likely to materially affect us, including our business strategy, results of operations or financial condition, over the past three fiscal years. See "*Item 1A. Risk Factors—General Risk Factors—A security breach or a cyber attack may adversely affect our business, results of operations and financial condition.*"

Governance

Based on the resolution of Honda's Board of Directors, the Board of Directors has appointed the Director, Executive Vice President and Representative Executive Officer, as Honda's Risk Management Officer, who monitors and supervises the response status of significant risks, including risks from cybersecurity threats.

Honda's Risk Management Committee, chaired by the Risk Management Officer, has been established to deliberate on important matters related to risk management, including risk from cybersecurity threats. Honda has established the Honda Global Risk Management Policy, which stipulates Honda's basic policy for risk management, the collection of risk information, and the response system in the event of risk occurrence.

In accordance with the aforementioned Policy, Honda has designated its cybersecurity supervisory divisions to conduct risk assessments and report the status of cybersecurity risk responses to the Risk Management Officer through Honda's Risk Management Committee. The designated cybersecurity supervisory divisions consisted of 64 members as of the filing date of this Annual Report with practical experience in various roles related to information technology, including security, auditing, and systems are established in both the Quality Innovation Operations and Corporate Administration Operations divisions. Honda's Risk Management Officer, who has knowledge and experience in overall risk management, receives technical support from the cybersecurity risk supervisory divisions, and monitors and supervises the responses to risks from cybersecurity threats.

In the event of a material cybersecurity incident, the cybersecurity risk supervisory divisions are to immediately report it to Honda's Risk Management Officer. Upon receiving the report, a Global Emergency Headquarters will be established, which coordinate with relevant organizations affected by the incident in order to prevent and contain the crisis. Such response status is reported to Honda's Board of Directors and the Executive Council as necessary based on the judgment of the Risk Management Officer.

The North American Regional Risk Management Officer and Risk Management Officers of local companies in North America receive technical support from the Cyber Security, Risk & Architecture (CSRA) division of AHM when applying the procedures under the Honda Global Risk Management Policy at the regional and local company levels. The CSRA division includes the Office of the Chief Information Security Officer. The North American Cybersecurity Steering Committee (NACSC) has been established by the North American Regional Operating Board and is responsible for the oversight and monitoring of all North American cybersecurity activities including providing immediate direction and decision-making when threats or incidences of high severity occur. Roles supporting the NACSC include the North American Risk Management Officer who is the chair of the committee, the Chief Information Security Officer, and senior leaders representing various key business functions. The NACSC is also supported by the business through an Advisory Group.

AHFC’s and HCFI’s Company Operating Committees advise and support each company’s President on company operations and other matters of corporate importance which includes, among other things, matters regarding cybersecurity. The Company Operating Committees may report on certain matters directly to the North American Regional Operating Board. Confidentiality Committees have also been established at AHFC and HCFI whose roles includes, among other things, the safeguarding of personally identifiable information of our customers and associates from data security breaches. Members of our Confidentiality Committees include the Risk Management Officers, the Chief Information Security Officer or other information technology representative, and members from various areas throughout our companies.

Item 2. Properties

Our headquarters are located in Torrance, California. Our United States operations have three customer and dealer services centers located in California, Texas, and Georgia. HCFI’s headquarters are located in Markham, Ontario, Canada and our Canadian operations have regional offices and national servicing centers located in Quebec and Ontario. All premises are occupied pursuant to lease agreements.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

Dividends are declared and paid by AHFC if, when, and as determined by its Board of Directors. AHFC declared and paid cash dividends to its parent, AHM, of $1.5 billion and $1.3 billion during the fiscal years ended March 31, 2024, and 2023, respectively. We anticipate that we will continue to pay cash dividends to AHM in the future. However, the payment and amount of future dividends remain within the discretion of AHFC’s Board of Directors and will depend upon our future earnings, financial condition, capital requirements, and other factors.

Item 6. [Reserved]

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

Overview

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

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

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

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

We analyze our operations in two business segments defined by geography: the United States and Canada. We measure the performance of our United States and Canada segments on a pre-tax basis before the effect of valuation adjustments on derivative instruments and revaluations of foreign currency denominated debt. For additional information regarding our segments, see Note 14—Segment Information of *Notes to Consolidated Financial Statements*. The following tables and the related discussion are presented based on our geographically segmented consolidated financial statements.

References in this report to our “fiscal year 2024”, “fiscal year 2023” and “fiscal year 2022” refer to our fiscal years ended March 31, 2024, 2023 and 2022, respectively.

Results of Operations

Operating Environment Overview

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

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

Segment Results—Comparison of Fiscal Years Ended March 31, 2024 and 2023

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

	United States Segment				Canada Segment				Consolidated	
	Years ended March 31,		Difference		Years ended March 31,		Difference		Years ended March 31,	
	2024	2023	Amount	%	2024	2023	Amount	%	2024	2023
	(U.S. dollars in millions)									
Revenues:										
Retail	$ 1,855	$ 1,299	$ 556	43 %	$ 221	$ 169	$ 52	31 %	$ 2,076	$ 1,468
Dealer	206	104	102	98 %	24	12	12	100 %	230	116
Operating leases	5,192	5,535	(343)	(6)%	907	1,065	(158)	(15)%	6,099	6,600
Total revenues	7,253	6,938	315	5 %	1,152	1,246	(94)	(8)%	8,405	8,184
Leased vehicle expenses	3,641	4,059	(418)	(10)%	699	832	(133)	(16)%	4,340	4,891
Interest expense	1,464	723	741	102 %	239	164	75	46 %	1,703	887
Realized (gains)/losses on derivatives and foreign currency debt	(81)	(92)	11	(12)%	(60)	(42)	(18)	43 %	(141)	(134)
Net revenues	2,229	2,248	(19)	(1)%	274	292	(18)	(6)%	2,503	2,540
Other income, net	110	77	33	43 %	18	15	3	20 %	128	92
Total net revenues	2,339	2,325	14	1 %	292	307	(15)	(5)%	2,631	2,632
Expenses:										
General and administrative expenses	503	430	73	17 %	54	55	(1)	(2)%	557	485
Provision for credit losses	290	138	152	110 %	11	8	3	38 %	301	146
Early termination loss on operating leases	98	38	60	158 %	2	—	2	n/m	100	38
Income before income taxes	$ 1,448	$ 1,719	$ (271)	(16)%	$ 225	$ 244	$ (19)	(8)%	$ 1,673	$ 1,963

n/m = not meaningful

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

	United States Segment				Canada Segment			
	Years ended March 31,		Difference		Years ended March 31,		Difference	
	2024	2023	Amount	%	2024	2023	Amount	%
	(U.S. dollars in millions except as noted, units in thousands) (1)							
Retail loans:								
Average outstanding balance	$35,482	$30,319	$ 5,163	17 %	$4,217	$3,802	$ 415	11 %
Average outstanding units	1,994	1,905	89	5 %	273	268	5	2 %
Effective yield	5.2 %	4.3 %			5.2 %	4.4 %		
Dealer loans:								
Average outstanding balance	$2,863	$1,982	$ 881	44 %	$ 340	$ 226	$ 114	50 %
Effective yield	7.2 %	5.2 %			7.1 %	5.2 %		
Operating leases:								
Average outstanding balance	$23,655	$25,868	$ (2,213)	(9)%	$3,738	$4,355	$ (617)	(14)%
Average outstanding units	896	1,058	(162)	(15)%	189	224	(35)	(16)%
Average monthly rental income(2)	$ 483	$ 436	$ 47	11 %	$ 400	$ 397	$ 3	1 %
Average monthly depreciation(2),(3)	$ 349	$ 328	$ 21	6 %	$ 313	$ 314	$ (1)	— %
Debt:								
Average outstanding balance	$39,857	$36,294	$ 3,563	10 %	$5,444	$5,480	$ (36)	(1)%
Effective interest rate	3.7 %	2.0 %			4.4 %	3.0 %		

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

United States Segment

Revenues

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

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

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

Leased vehicle expenses

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

Interest expense

Interest expense increased due to higher average interest rates and higher average outstanding debt balances. See “*—Liquidity and Capital Resources*” below for more information.

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

Net realized gains during fiscal year 2024 consisted of gains on pay fixed interest rate swaps of $945 million, which were partially offset by losses on pay float interest rate swaps of $600 million, losses on cross currency swaps of $246 million and losses on foreign currency debt of $18 million.

Provision for credit losses

Provision for credit losses increased primarily due to the increase in acquisition of retail loans. The increase was also attributable to the increasing trend of delinquencies and net charge-offs. See “*—Financial Condition—Credit Risk*” below for more information.

Early termination loss on operating leases

Early termination losses on operating leases increased due to increases in realized losses, our estimate of early termination losses and acquisition volumes. See *—Financial Condition—Credit Risk*” below for more information.

Canada Segment

Revenues

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

Leased vehicle expenses

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

Interest expense

Interest expense increased primarily due to higher average interest rates. See “*—Liquidity and Capital Resources*” below for more information.

Realized (gains)/losses on derivative instruments

Net realized gains on interest rate swaps during fiscal year 2024 were attributable to realized gains on pay fixed interest rate swaps of $142 million, which were partially offset by realized losses on pay float interest rate swaps of $82 million.

Provision for credit losses

Provision for credit losses increased due to the increase in provision for retail loans as a result of higher expected losses due to an increase in the trend of delinquencies and charge-offs. See “*—Financial Condition—Credit Risk*” below for more information.

Early termination loss on operating leases

Early termination losses on operating leases increased due to increases in realized losses, our estimate of early termination losses and acquisition volumes. See “*—Financial Condition—Credit Risk*” below for more information.

Income tax expense

The consolidated effective tax rate was 28.6% for fiscal year 2024 and 26.1% for fiscal year 2023. The increase in the effective tax rate for fiscal year 2024 was primarily attributable to an increase in U.S. state taxes compared to the prior year. The Company's effective tax rate for fiscal year 2024 differs from the U.S. federal statutory tax rate primarily as a result of U.S. state taxes. For additional information regarding income taxes, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements*.

Financial Condition

Consumer Financing

Consumer Financing Acquisition Volumes

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

	Years ended March 31,					
	2024		2023		2022	
	Acquired	Sponsored [2]	Acquired	Sponsored [2]	Acquired	Sponsored [2]
	(Units [1] in thousands)					
United States Segment						
Retail loans:						
New automobile	557	342	301	165	416	344
Used automobile	156	38	113	30	68	16
Motorcycle and other	78	18	58	1	64	1
Total retail loans	791	398	472	196	548	361
Leases	366	333	229	196	403	378
Canada Segment						
Retail loans	86	14	64	23	68	45
Leases	42	16	37	28	61	58
Consolidated						
Retail loans	877	412	536	219	616	406
Leases	408	349	266	224	464	436

(1) A unit represents one retail loan or lease contract, as noted, that was originated in the United States and acquired by AHFC or its subsidiaries, or that was originated in Canada and acquired by HCFI, in each case, during the period shown.

(2) Represents the number of retail loans and leases acquired through incentive financing programs sponsored by AHM and/or HCI and only those contracts with subsidy payments. Excludes contracts where contractual rates met or exceeded AHFC's yield requirements and subsidy payments were not required.

Consumer Financing Penetration Rates

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

	Years ended March 31,		
	2024	**2023**	**2022**
United States Segment			
New automobile	68 %	53 %	59 %
Motorcycle	36 %	28 %	29 %
Canada Segment			
New automobile	68 %	75 %	77 %
Motorcycle	23 %	17 %	20 %
Consolidated			
New automobile	68 %	55 %	61 %
Motorcycle	35 %	27 %	28 %

Consumer Financing Asset Balances

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

	March 31,			March 31,		
	2024	2023	2022	2024	2023	2022
	(U.S. dollars in millions)			(Units [1] in thousands)		
United States Segment						
Retail loans:						
New automobile	$ 30,591	$ 24,564	$ 25,953	1,509	1,375	1,491
Used automobile	6,931	5,276	4,307	394	337	318
Motorcycle and other	1,245	1,137	1,229	189	176	186
Total retail loans	$ 38,767	$ 30,977	$ 31,489	2,092	1,888	1,995
Investment in operating leases	$ 23,805	$ 23,853	$ 28,691	853	954	1,191
Securitized retail loans [2]	$ 9,210	$ 6,770	$ 8,849	606	540	693
Canada Segment						
Retail loans	$ 4,429	$ 3,777	$ 3,931	279	264	276
Investment in operating leases	$ 3,573	$ 3,925	$ 4,933	175	207	242
Securitized retail loans [2]	$ 586	$ 446	$ 184	45	26	21
Securitized investment in operating leases [2]	$ —	$ 168	$ 294	—	14	18
Consolidated						
Retail loans	$ 43,196	$ 34,754	$ 35,420	2,371	2,152	2,271
Investment in operating leases	$ 27,378	$ 27,778	$ 33,624	1,028	1,161	1,433
Securitized retail loans [2]	$ 9,796	$ 7,216	$ 9,033	651	566	714
Securitized investment in operating leases [2]	$ —	$ 168	$ 294	—	14	18

(1) A unit represents one retail loan or lease contract, as noted, that was outstanding as of the date shown.
(2) Securitized retail loans and investments in operating leases represent the portion of total managed assets that have been sold in securitization transactions but continue to be recognized on our balance sheet.

In the United States segment, retail loan acquisition volumes increased by 68% and lease acquisition volumes increased by 60% during fiscal year 2024 compared to fiscal year 2023. The increase in availability of new vehicles and AHM sales, along with higher penetration rates, contributed to the increase in consumer financing acquisition volumes. The increase in both sponsored and non-sponsored volumes contributed to the increase in penetration rates and acquisition volumes. In the Canada segment, retail loan acquisition volumes increased by 34% and lease acquisition volumes increased by 14% during fiscal year 2024 compared to fiscal year 2023.

Dealer Financing

Wholesale Flooring Financing Penetration Rates

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

	March 31,		
	2024	**2023**	**2022**
United States Segment			
Automobile	28 %	28 %	28 %
Motorcycle	98 %	98 %	98 %
Other	18 %	16 %	17 %
Canada Segment			
Automobile	28 %	29 %	33 %
Motorcycle	95 %	95 %	95 %
Other	93 %	94 %	94 %
Consolidated			
Automobile	28 %	28 %	29 %
Motorcycle	97 %	97 %	97 %
Other	21 %	19 %	19 %

Wholesale Flooring Financing Percentage of Sales

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

	Years ended March 31,		
	2024	**2023**	**2022**
United States Segment			
Automobile	22 %	21 %	23 %
Motorcycle	98 %	98 %	98 %
Other	7 %	8 %	6 %
Canada Segment			
Automobile	24 %	26 %	29 %
Motorcycle	90 %	91 %	92 %
Other	97 %	96 %	96 %
Consolidated			
Automobile	22 %	22 %	23 %
Motorcycle	97 %	97 %	97 %
Other	14 %	12 %	9 %

Dealer Financing Asset Balances

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

	March 31,			March 31,		
	2024	2023	2022	2024	2023	2022
	(U.S. dollars in millions)			(Wholesale Flooring Units [(1)] in thousands)		
United States Segment						
Wholesale flooring loans:						
Automobile	$ 1,826	$ 1,193	$ 837	56	35	29
Motorcycle	549	428	192	66	58	30
Other	44	65	39	29	55	35
Total wholesale flooring loans	$ 2,419	$ 1,686	$ 1,068	151	148	94
Commercial loans	$ 1,233	$ 855	$ 763			
Canada Segment						
Wholesale flooring loans	$ 365	$ 258	$ 196	48	45	32
Commercial loans	$ 35	$ 32	$ 34			
Consolidated						
Wholesale flooring loans	$ 2,784	$ 1,944	$ 1,264	199	193	126
Commercial loans	$ 1,268	$ 887	$ 797			

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

Credit Risk

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

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

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

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

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

	United States Segment			Canada Segment			Consolidated		
	As of or for the years ended March 31,								
	2024	2023	2022	2024	2023	2022	2024	2023	2022
	(U.S. dollars in millions)								
Finance receivables:									
Allowance for credit losses at beginning of period	$242	$204	$279	$ 11	$ 7	$ 9	$253	$211	$288
Provision for credit losses	290	138	(22)	11	8	—	301	146	(22)
Charge-offs, net of recoveries	(192)	(100)	(53)	(9)	(3)	(2)	(201)	(103)	(55)
Effect of translation adjustment	—	—	—	—	(1)	—	—	(1)	—
Allowance for credit losses at end of period	$340	$242	$204	$ 13	$ 11	$ 7	$353	$253	$211
Charge-offs as a percentage of average receivable balance (1)	0.50 %	0.31 %	0.15 %	0.19 %	0.08 %	0.05 %	0.47 %	0.28 %	0.13 %
Allowance as a percentage of ending receivable balance (1)	0.79 %	0.71 %	0.60 %	0.30 %	0.29 %	0.19 %	0.74 %	0.67 %	0.55 %
Delinquencies (60 or more days past due):									
Delinquent amount (2)	$117	$ 90	$ 90	$ 6	$ 3	$ 4	$123	$ 93	$ 94
As a percentage of ending receivable balance (1),(2)	0.27 %	0.26 %	0.26 %	0.12 %	0.07 %	0.08 %	0.26 %	0.24 %	0.24 %
Operating leases:									
Early termination loss on operating leases	$ 98	$ 38	$ 16	$ 2	$ —	$ —	$100	$ 38	$ 16

(1) Ending and average receivable balances exclude the allowance for credit losses, unearned subvention income related to our incentive financing programs and deferred origination costs. Average receivable balances are calculated based on the average of each month's ending receivables balance for that fiscal year.

(2) For the purposes of determining whether a contract is delinquent, payment is generally considered to have been made, in the case of (i) dealer loans, upon receipt of 100% of the payment when due and (ii) consumer finance receivables, upon receipt of 90% of the sum of the current monthly payment plus any overdue monthly payments. Delinquent amounts presented are the aggregated principal balances of delinquent finance receivables. Payments that were granted deferrals are not considered delinquent during the deferral period.

In the United States segment, we recognized a provision for credit losses on our finance receivables of $290 million and $138 million during fiscal year 2024 and 2023, respectively. The increase in provision for credit losses was primarily attributable to higher retail loan acquisitions. Expected credit losses on our retail loans also increased due to the increasing trend of delinquencies and net charge-offs above the historical lows experienced during the COVID-19 pandemic and a slight decline in overall credit quality. The increase in used vehicle financing, 72 and 84 month loans, and loan-to-value ratios for loans acquired since fiscal year 2023 contributed to the slight decline in overall credit quality. Lower incentive volumes, particularly during fiscal year 2023, also contributed to the slight decline in overall credit quality. We recognized early termination losses on operating leases of $98 million and $38 million during fiscal year 2024 and 2023, respectively. Early termination losses on operating leases increased due to the increases in realized losses, our estimate of early termination losses, and acquisition volumes. The increase in operating lease delinquencies and forecasted unemployment rates contributed to the increase in our estimate of early termination losses.

In the Canada segment, we recognized a provision for credit losses on our finance receivables of $11 million and $8 million during fiscal year 2024 and 2023, respectively. We recognized early termination losses on operating leases of $2 million and less than $1 million during fiscal year 2024 and 2023, respectively.

Lease Residual Value Risk

Contractual residual values of lease vehicles are determined at lease inception based on our expectations of used vehicle values at the end of their lease term. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market-based price. Returned lease vehicles that are not purchased by the grounding dealers are sold through online and physical auctions. We are exposed to a risk of loss on the disposition of returned lease vehicles if the market values of leased vehicles at the end of their lease terms are less than their contractual residual values.

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

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

	Years ended March 31,		
	2024	**2023**	**2022**
	(Units [1] in thousands)		
United States Segment			
Termination units:			
Sales at outstanding contractual balances [2]	448	453	506
Sales through auctions and dealer direct programs [3]	3	1	6
Total termination units	451	454	512
Canada Segment			
Termination units:			
Sales at outstanding contractual balances [2]	74	71	90
Sales through auctions and dealer direct programs [3]	—	—	1
Total termination units	74	71	91
Consolidated			
Termination units:			
Sales at outstanding contractual balances [2]	522	524	596
Sales through auctions and dealer direct programs [3]	3	1	7
Total termination units	525	525	603

(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, various operating and funding costs, and dividend payments, 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 March 31, 2024, 2023 and 2022 includes foreign currency denominated debt, which was translated into U.S. dollars using the relevant exchange rates as of March 31, 2024, 2023 and 2022, 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 March 31, 2024. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or that they could be converted into U.S. dollars at the rates indicated.

Summary of Outstanding Debt

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

	March 31,			Weighted average contractual interest rate [1] March 31,		
	2024	**2023**	**2022**	**2024**	**2023**	**2022**
	(U.S. dollars in millions)					
United States Segment						
Unsecured debt:						
Commercial paper	$ 4,499	$ 5,609	$ 1,718	5.71 %	5.25 %	0.79 %
Bank loans	900	1,099	2,249	6.21 %	5.70 %	1.47 %
Public MTN program	31,151	21,962	28,659	3.58 %	1.99 %	1.53 %
Euro MTN programme	—	—	25	— %	— %	2.23 %
Total unsecured debt	36,550	28,670	32,651			
Secured debt	8,813	6,444	8,517	4.48 %	2.19 %	0.91 %
Total debt	$ 45,363	$ 35,114	$ 41,168			
Canada Segment						
Unsecured debt:						
Commercial paper	$ 794	$ 766	$ 589	5.20 %	4.70 %	0.57 %
Bank loans	904	795	859	5.89 %	5.59 %	1.64 %
Other debt	3,318	3,176	3,952	3.59 %	3.15 %	2.20 %
Total unsecured debt	5,016	4,737	5,400			
Secured debt	538	483	371	5.91 %	5.48 %	1.32 %
Total debt	$ 5,554	$ 5,220	$ 5,771			
Consolidated						
Unsecured debt:						
Commercial paper	$ 5,293	$ 6,375	$ 2,307	5.64 %	5.18 %	0.74 %
Bank loans	1,804	1,894	3,108	6.05 %	5.66 %	1.52 %
Public MTN program	31,151	21,962	28,659	3.58 %	1.99 %	1.53 %
Euro MTN programme	—	—	25	— %	— %	2.23 %
Other debt	3,318	3,176	3,952	3.59 %	3.15 %	2.20 %
Total unsecured debt	41,566	33,407	38,051			
Secured debt	9,351	6,927	8,888	4.56 %	2.42 %	0.93 %
Total debt	$ 50,917	$ 40,334	$ 46,939			

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

Commercial Paper

As of March 31, 2024, we had commercial paper programs in the United States of $7.0 billion and in Canada of C$2.5 billion ($1.8 billion). Interest rates on the commercial paper are fixed at the time of issuance. During fiscal year 2024, consolidated commercial paper month-end outstanding principal balances ranged from $5.3 billion to $7.2 billion.

Bank Loans

During fiscal year 2024, AHFC did not enter into any new loan agreements, but HCFI entered into a 2-year floating rate loan for C$250 million ($185 million). As of March 31, 2024, we had bank loans denominated in U.S. dollars and Canadian dollars with floating interest rates, in principal amounts ranging from $74 million to $500 million. As of March 31, 2024, the remaining maturities of all bank loans outstanding ranged from 173 days to approximately 3.0 years. The weighted average remaining maturity on all bank loans was 1.9 years as of March 31, 2024.

Our bank loans contain customary restrictive covenants, including limitations on liens, mergers, consolidations and asset sales, and a financial covenant that requires us to maintain positive consolidated tangible net worth. In addition to other customary events of default, the bank loans include cross-default provisions and provisions for default if HMC does not maintain ownership, whether directly or indirectly, of at least 80% of the outstanding capital stock of AHFC or HCFI, as applicable. All of these covenants and events of default are subject to important limitations and exceptions under the agreements governing the bank loans. As of March 31, 2024, management believes that AHFC and HCFI were in compliance with all covenants contained in our bank loan agreements.

Public MTN Program

AHFC is a well-known seasoned issuer under SEC rules and issues Public MTNs pursuant to a registration statement on Form S-3 filed with the SEC. In August 2022, AHFC renewed its Public MTN program by filing a registration statement with the SEC under which it may issue from time to time up to $30.0 billion aggregate principal amount of Public MTNs, which includes the issuance of foreign currency denominated notes into international markets. The aggregate principal amount of MTNs offered under this program may be increased from time to time.

The Public MTNs may have original maturities of 9 months or more from the date of issue, may be interest bearing with either fixed or floating interest rates, or may be discounted notes. During fiscal year 2024, AHFC issued $5.2 billion of floating rate notes ranging from 11 months to 3 years. AHFC also issued $11.2 billion of fixed rate notes ranging from 2 years to 10 years in USD, EUR and GBP. The weighted average remaining maturities of all Public MTNs was 2.6 years as of March 31, 2024.

The Public MTNs are issued pursuant to an indenture, which requires AHFC to comply with certain covenants, including negative pledge provisions and restrictions on AHFC's ability to merge, consolidate or transfer substantially all of its assets or the assets of its subsidiaries, and includes customary events of default. As of March 31, 2024, management believes that AHFC was in compliance with all covenants under the indenture.

Euro MTN Programme

AHFC no longer issues MTNs under its Rule 144A Euro MTN Programme. The last remaining note under the Euro MTN Programme matured on February 21, 2023.

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

	March 31,		
	2024	**2023**	**2022**
	(U.S. dollars in millions)		
U.S. dollar	$ 25,673	$ 17,868	$ 21,006
Euro	3,656	2,867	6,019
Sterling	1,822	1,227	1,634
Japanese yen	—	—	25
Total	$ 31,151	$ 21,962	$ 28,684

Other Debt

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During fiscal year 2024, HCFI issued C$800 million ($591 million) of fixed rate notes and C$200 million ($148 million) of floating rate notes. As of March 31, 2024, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 65 days to approximately 4.9 years. The weighted average remaining maturities of these notes was 2.5 years as of March 31, 2024.

The notes are issued pursuant to the terms of an indenture, which requires HCFI to comply with certain covenants, including negative pledge provisions, and includes customary events of default. As of March 31, 2024, management believes that HCFI was in compliance with all covenants contained in the privately placed notes.

Secured Debt

Asset-Backed Securities

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

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

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

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

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

During fiscal year 2024, we issued notes through asset-backed securitizations totaling $7.4 billion, which were secured by assets with an initial balance of $8.0 billion. There were no outstanding operating lease securitizations as of March 31, 2024.

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 21, 2025, a $2.1 billion credit agreement, which expires on February 25, 2026, and a $1.4 billion credit agreement, which expires on February 25, 2028. As of March 31, 2024, no amounts were drawn upon under the AHFC credit agreements. AHFC intends to renew or replace these credit agreements prior to or on their respective expiration dates.

HCFI maintains a C$2.0 billion ($1.5 billion) syndicated bank credit facility that includes a C$1.0 billion ($739 million) credit agreement, which expires on March 25, 2025, and a C$1.0 billion ($739 million) credit agreement, which expires March 25, 2027. As of March 31, 2024, no amounts were drawn upon under the HCFI credit agreements. HCFI intends to renew or replace the credit agreements prior to or on the expiration dates.

The credit agreements contain customary conditions to borrowing and customary restrictive covenants, including limitations on liens and limitations on mergers, consolidations and asset sales, and limitations on affiliate transactions. The credit agreements also require AHFC and HCFI to maintain a positive consolidated tangible net worth as defined in their respective credit agreements. The credit agreements, in addition to other customary events of default, include cross-default provisions and provisions for default if HMC does not maintain ownership, whether directly or indirectly, of at least 80% of the outstanding capital stock of AHFC or HCFI, as applicable. In addition, the AHFC and HCFI credit agreements contain provisions for default if HMC's obligations under the HMC-AHFC Keep Well Agreement or the HMC-HCFI Keep Well Agreement, as applicable, become invalid, voidable, or unenforceable. All of these conditions, covenants and events of default are subject to important limitations and exceptions under the agreements governing the credit agreements. As of March 31, 2024, management believes that AHFC and HCFI were in compliance with all covenants contained in the respective credit agreements.

Other Credit Agreements

AHFC maintains other committed lines of credit that allow the Company access to an additional $1.0 billion in unsecured funding with two banks. The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales and a requirement for AHFC to maintain a positive consolidated tangible net worth. As of March 31, 2024, no amounts were drawn upon under these agreements. These agreements expire in September 2024. The Company intends to renew or replace these credit agreements prior to or on their respective expiration dates.

Keep Well Agreements

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

As consideration for HMC's obligations under the Keep Well Agreements, we have agreed to pay HMC a quarterly fee based on the amount of outstanding debt pursuant to Support Compensation Agreements, dated April 1, 2019. We incurred expenses of $67 million, $63 million and $76 million during fiscal years 2024, 2023 and 2022, respectively, pursuant to these Support Compensation Agreements.

Indebtedness of Consolidated Subsidiaries

As of March 31, 2024, AHFC and its consolidated subsidiaries had $59.8 billion of outstanding indebtedness and other liabilities, including current liabilities, of which $16.0 billion consisted of indebtedness and liabilities of our consolidated subsidiaries. None of AHFC's consolidated subsidiaries had any outstanding preferred equity.

Material Cash Requirements

The following table summarizes our material cash requirements from contractual obligations, excluding lending commitments to dealers and derivative obligations, by fiscal year payment period, as of March 31, 2024:

	Payments due by period						
	Total	**2025**	**2026**	**2027**	**2028**	**2029**	**Thereafter**
	(U.S. dollars in millions)						
Unsecured debt obligations (1)	$ 41,676	$ 14,799	$ 8,718	$ 6,072	$ 4,187	$ 4,832	$ 3,068
Secured debt obligations (1)	9,366	4,873	2,747	1,515	231	—	—
Interest payments on debt (2)	4,446	1,609	1,099	650	430	284	374
Total	$ 55,488	$ 21,281	$ 12,564	$ 8,237	$ 4,848	$ 5,116	$ 3,442

(1) Debt obligations reflect the remaining principal obligations of our outstanding debt and do not reflect unamortized debt discounts and fees. Repayment schedule of secured debt reflects payment performance assumptions on underlying receivables. Foreign currency denominated debt principal is based on exchange rates as of March 31, 2024.

(2) Interest payments on floating rate and foreign currency denominated debt based on the applicable floating rates and/or exchange rates as of March 31, 2024.

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

Our contractual obligations on derivative instruments are also excluded from the table above because our future cash obligations under these contracts are inherently uncertain. We recognize all derivative instruments on our consolidated balance sheet at fair value. The amounts recognized as fair value do not represent the amounts that will be ultimately paid or received upon settlement under these contracts. Refer to Note 5—Derivative Instruments of *Notes to Consolidated Financial Statements* for additional information on derivative instruments.

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* for additional information about segment information and Note 5—Derivative Instruments of *Notes to Consolidated Financial Statements* for additional information on derivative instruments.

New Accounting Standards

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

Critical Accounting Estimates

The application of certain accounting policies may require management to make estimates that affect our financial condition and results of operations. Critical accounting estimates require our most difficult, subjective, or complex judgments, often requiring us to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period would have had a material impact on the presentation of our financial condition and results of operations. Actual results could differ from these estimates which could have a material effect on our financial condition and results of operations in subsequent periods. Refer to Note 1—Summary of Business and Significant Accounting Policies of *Notes to Consolidated Financial Statements* for information on our accounting policies related to our critical accounting estimates.

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

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

Sensitivity Analysis

We applied the baseline economic scenarios for the United States and Canada that were obtained from a third-party economic research firm in our models to determine our allowance for credit losses on retail loans and estimated early termination losses on operating lease assets as of March 31, 2024. These baseline economic scenarios represent forecasts of the most likely economic future, with an equal probability of economic conditions being better or worse than forecasted. Alternative economic scenarios were also obtained from the third-party economic research firm. As an example of the sensitivity of our accounting estimates, we applied upside and downside economic scenarios in our models. The peak unemployment rate over the next 24-month period under the upside and downside economic scenarios in the United States was 3.6% and 7.7%, respectively. The resulting allowance for credit losses on retail loans under the upside and downside economic scenarios was $315 million and $497 million, respectively. Similarly, the resulting estimated early termination losses on operating lease assets were $86 million and $130 million, respectively.

Estimated End of Term Residual Values

Estimated end of term residual values are dependent on the expected market values of leased vehicles at the end of their lease terms and the percentage of leased vehicles expected to be returned by lessees. Factors considered in this evaluation include, among other factors, economic conditions, external market information on new and used vehicles, historical trends, and recent auction values. Estimated return rates are dependent on expected market values of leased vehicles since declines in used vehicle prices generally increase the probability of vehicles being returned to us at the end of their lease terms. We also review our investment in operating leases for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If impairment conditions are met, impairment losses are measured by the amount the carrying values exceed their fair values.

Sensitivity Analysis

If future expected end of term market values for all outstanding operating leases as of March 31, 2024 were to decrease by $100 per unit from our current estimates, the total impact would be an increase of approximately $35 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 $8 million in depreciation expense, which would be recognized over the remaining lease terms. This sensitivity analysis is specific to the conditions in effect as of March 31, 2024 and does not consider the effect declines in estimated end of term market values may have on return rates.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

- Interest rate risk arising from changes in interest rates related to our funding, investing, and cash management activities. Our assets consist primarily of fixed rate receivables and operating lease assets, however, our liabilities consist of both floating and fixed rate debt. We utilize interest rate and basis swaps to mitigate the impact of interest rate movements on our cash flows and net interest margins.
- Foreign currency exchange rate risk arising from changes in value of our foreign currency denominated debt in response to fluctuations in exchange rates of various currencies. We enter into cross currency swaps concurrently with the issuance of this debt to convert all interest and principal payments to either of our functional currencies, which is United States dollars in the United States segment and Canadian dollars in the Canadian segment, which effectively eliminates our foreign currency exchange rate risks.
- Counterparty risk arising primarily with our derivative contracts. To manage this risk, we limit our exposure to counterparties in accordance with credit rating-based guidelines. We also enter into master netting agreements which help to mitigate our exposure to loss in the case of defaults. In Canada, HCFI is a party to credit support agreements that require posting of cash collateral to mitigate credit risk on derivative positions.
- Credit risk arising from actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, or other companies in the financial services industry, or concerns or rumors about any events of these kinds. We maintain cash held in deposit at financial institutions in the United States and Canada. Deposits in the United States are insured by the FDIC in an amount up to $250,000 for any depositor per institution. To the extent we hold cash deposits in amounts that exceed the FDIC insurance limitation, we may incur a loss in the event of a failure of any of the financial institutions where we maintain deposits. Management believes we are not exposed to significant risk due to the financial position of our depository institutions, but will continue to monitor regularly and adjust, if needed, to mitigate risk. To date, we have not experienced any losses associated with this credit risk and continue to believe that this exposure is not significant.

The table below provides a quantitative measure of the sensitivity of interest rate movements. The assumptions we used for this sensitivity analysis were changed in the current year and our estimate for the prior year comparative period was also updated accordingly. We have estimated the effect of a hypothetical instantaneous 100-basis point increase and decrease to benchmark interest rates on our pre-tax cash flows on our floating rate financial instruments for the forward looking 12-month periods as of March 31, 2024 and 2023. Although interest rates on commercial paper debt are fixed at the time of issuance, commercial paper debt was also included in the updated analysis given their short term nature and their sensitivity to interest rate movements for new issuances. The estimate was based on the outstanding balances of floating rate receivables, floating rate debt, commercial paper debt, and derivatives as of March 31, 2024 and 2023 and we assume these balances remain constant throughout the forward looking 12-month periods. The hypothetical 100-basis point changes in benchmark interest rates are presumed to have an immediate impact on the estimated cash flows without considering that in actuality the impact could be delayed until the rates on floating rate instruments are scheduled to reset in accordance with contractual terms of the instruments. The estimates also presume all impacted cash flows are made within the forward looking 12-month periods. This analysis is purely hypothetical and should not be regarded as our view of future interest rate movements. The actual impact on cash flows could differ from the estimates due to various reasons including, but not limited to, differences in actual reinvestments of maturing assets, actual refinancing of maturing debt, actual derivative transactions, and any actions management could take in response to interest rate changes.

Hypothetical change in interest rate	Net impact on pre-tax cash flows for the 12 months ending March 31,	
	2025	**2024**
100 basis point increase	$22 million increase	$50 million increase
100 basis point decrease	$22 million decrease	$50 million decrease

LIBOR Transition

Beginning in the fourth quarter of fiscal year 2022, we ceased entering into new transactions that reference U.S. Dollar LIBOR and began entering into transactions that reference SOFR. Contracts that referenced U.S. Dollar LIBOR, including our floating rate debt and derivative contracts, were transitioned to SOFR when relevant U.S. Dollar LIBOR rates ceased being published after June 2023. Similarly, we plan to transition contracts that reference the Canadian Dollar Reference Rate (CDOR) to an enhanced version of the Canadian Overnight Repo Rate Average (CORRA) when relevant tenors for CDOR are no longer published after June 2024. We ceased entering into new transactions that referenced CDOR after June 2023. See "*Item 1A, Risk Factors — Fluctuations in interest rates could have an adverse impact on our results of operations, cash flows, and financial condition.*"

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Principal Executive Officer and Principal Financial Officer have performed an evaluation of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Exchange Act, as of March 31, 2024, and each has concluded that such disclosure controls and procedures are effective, at the reasonable assurance level, to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and such information is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Annual Report on Internal Control over Financial Reporting

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

Management conducted, under the supervision of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria. Based on the assessment performed, management concluded that our internal control over financial reporting was effective as of March 31, 2024.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC applicable to non-accelerated filers.

Changes in Internal Control over Financial Reporting

There were no changes in the internal control over financial reporting during the fiscal year ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

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

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

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

Item 14. Principal Accounting Fees and Services

Our independent registered public accounting firm is KPMG LLP, Los Angeles, CA, Auditor Firm ID: 185.

The following table represents aggregate costs for fees and services provided to us by our independent registered public accounting firm.

	Years ended March 31,	
	2024	2023
	(U.S. dollars in thousands)	
Audit fees	$ 8,178	$ 8,240
Audit-related fees	446	343
Total	$ 8,624	$ 8,583

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

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

Auditor Pre-Approval Policy

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

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

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

(3) Exhibits

Exhibit Number	Description	Method of Filing
3.1	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.	Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, dated June 28, 2013.
3.2	Amended and Restated Bylaws of American Honda Finance Corporation, dated April 27, 2010.	Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, dated June 28, 2013.
4.1	Form of Specimen Common Stock of American Honda Finance Corporation.	Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, dated June 28, 2013.
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	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.	Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
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, as supplemented by supplemental indentures from time to time, and the Form of Debenture .	Incorporated herein by reference to Exhibit number 4.5 filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013. Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 12, 2015.
4.5	Indenture, dated September 5, 2013, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.	Incorporated herein by reference to Exhibit number 4.1 filed with our registration statement on Form S-3, dated September 5, 2013.
4.6	First Supplemental Indenture, dated February 8, 2018, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.	Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 8, 2018.
4.7	Form of Fixed Rate Medium-Term Note, Series A and Form of Floating Rate Medium-Term Note, Series A.	Incorporated herein by reference to Exhibit number 4.1 filed with our current report on Form 8-K, dated August 8, 2019. Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 8, 2019.
4.8	Description of 1.950% Medium-Term Notes, Series A, due October 18, 2024.	Incorporated herein by reference to Exhibit number 4.15 filed with our annual report on Form 10-K, dated June 22, 2020.

Exhibit Number	Description	Method of Filing
4.9	Description of 0.750% Medium-Term Notes, Series A, due November 25, 2026.	Incorporated herein by reference to Exhibit number 4.16 filed with our annual report on Form 10-K, dated June 24, 2021.
4.10	Description of 3.500% Medium-Term Notes, Series A, due April 24, 2026.	Filed herewith.
4.11	Description of 0.300% Medium-Term Notes, Series A, due July 27, 2028.	Incorporated herein by reference to Exhibit number 4.15 filed with our annual report on Form 10-K, dated June 23, 2022.
4.12	Description of 1.500% Medium-Term Notes, Series A, due October 19, 2027.	Incorporated herein by reference to Exhibit number 4.16 filed with our annual report on Form 10-K, dated June 23, 2022.
4.13	Description of 3.750% Medium-Term Notes, Series A, due October 25, 2027.	Filed herewith.
4.14	Description of 5.600% Medium-Term Notes, Series A, due September 6, 2030.	Filed herewith.
10.1	$1,300,000,000 Second Amended and Restated Credit Agreement, dated as of March 24, 2014, among HCFI, as the borrower, the lenders party thereto, and Canadian Imperial Bank of Commerce, as administrative agent, joint bookrunner and co-lead arranger, RBC Capital Markets, as joint bookrunner and co-lead arranger, BMO Capital Markets, as co-lead arranger, The Toronto-Dominion Bank, as co-arranger and co-syndication agent, Bank of Tokyo-Mitsubishi UFJ (Canada), as co-arranger and co-syndication agent, Bank of Montreal, as co-syndication agent, Royal Bank of Canada, as co-syndication agent, and Mizuho Corporate Bank, Ltd., Canada Branch, as documentation agent.	Incorporated herein by reference to the same numbered Exhibit filed with our current report on Form 8-K, dated March 24, 2014.
10.2	$2,000,000,000 Third Amended and Restated Credit Agreement, dated as of March 25, 2024, among HCFI, as the borrower, the lenders party thereto, and Canadian Imperial Bank of Commerce, as administrative agent, joint bookrunner and co-lead arranger, RBC Capital Markets, as joint bookrunner and co-lead arranger, BMO Capital Markets, as joint bookrunner and co-lead arranger, The Toronto-Dominion Bank, as co-arranger and co-syndication agent, MUFG Bank, Ltd., Canada Branch, as co-arranger and co-syndication agent, Bank of Montreal, as co-syndication agent, Royal Bank of Canada, as co-syndication agent, and Mizuho Bank, Ltd., Canada Branch, as documentation agent.	Incorporated herein by reference to exhibit number 10.1 filed with our current report on Form 8-K, dated March 25, 2024.
10.3	Amendment, dated as of June 30, 2014, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated June 30, 2014.
10.4	Second Amendment, dated as of March 13, 2015, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 13, 2015.
10.5	Third Amendment, dated as of March 23, 2016, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2016.
10.6	Fourth Amendment dated as of March 23, 2017 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2017.
10.7	Fifth Amendment dated as of March 13, 2018 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to the same numbered Exhibit filed with our annual report on Form 10-K, dated June 21, 2018.
10.8	Sixth Amendment, dated as of March 12, 2019 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to the same numbered Exhibit filed with our annual report on Form 10-K, dated June 21, 2019.
10.9	Seventh Amendment, dated as of March 19, 2020 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2020.

Exhibit Number	Description	Method of Filing
10.10	Eighth Amendment, dated as of March 15, 2021 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 17, 2021.
10.11	Ninth Amendment, dated as of March 21, 2022 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 25, 2022.
10.12	Tenth Amendment, dated as of March 20, 2023 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 24, 2023.
10.13	$3,500,000,000 364-Day Credit Agreement, dated February 25, 2022, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas, Citibank, N.A. and Mizuho Bank, Ltd., as documentation agents and MUFG Bank, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citibank, N.A. and Mizuho Bank, Ltd., as joint lead arrangers and joint bookrunners.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated February 25, 2022.
10.14	First Amendment, dated as of February 24, 2023 between AHFC and MUFG Bank Ltd., as administrative agent and auction agent, for and on behalf of the banks party to the 364-day Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated February 28, 2023.
10.15	Second Amendment, dated as of February 23, 2024 between AHFC and MUFG Bank Ltd., as administrative agent and auction agent, for and on behalf of the banks party to the 364-day Credit Agreement.	Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated February 23, 2024.
10.16	$2,100,000,000 Three-Year Credit Agreement, dated February 25, 2022, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank, Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas, Citibank, N.A. and Mizuho Bank, Ltd., as documentation agents and MUFG Bank, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citibank, N.A. and Mizuho Bank. Ltd., as joint lead arrangers and joint bookrunners.	Incorporated herein by reference to Exhibit number 10.2 filed with our current report on Form 8-K, dated February 25, 2022.
10.17	$1,400,000,000 Five-Year Credit Agreement, dated February 25, 2022, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank. Inc., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas, Citibank, N.A. and Mizuho Bank, Ltd., as documentation agents and MUFG Bank. Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citibank, N.A. and Mizuho Bank. Ltd., as joint lead arrangers and joint bookrunners.	Incorporated herein by reference to Exhibit number 10.3 filed with our current report on Form 8-K, dated February 25, 2022.
10.18	Keep Well Agreement between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated September 9, 2005.	Incorporated herein by reference to Exhibit 10.1 filed with our registration statement on Form 10, dated June 28, 2013.
10.19	Support Compensation Agreement, between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated as of April 1, 2019.	Incorporated herein by reference to Exhibit 10.15 filed with our annual report on Form 10-K, dated June 21, 2019.
10.20	Keep Well Agreement between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated September 26, 2005.	Incorporated herein by reference to Exhibit 10.3 filed with our registration statement on Form 10, dated June 28, 2013.
10.21	Support Compensation Agreement, between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated as of April 1, 2019.	Incorporated herein by reference to Exhibit 10.17 filed with our annual report on Form 10-K, dated June 21, 2019.
23.1	Consent of KPMG LLP	Filed herewith.
31.1	Certification of Principal Executive Officer	Filed herewith.
31.2	Certification of Principal Financial Officer	Filed herewith.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350	Furnished herewith.

Exhibit Number	Description	Method of Filing
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350	Furnished herewith.
97.1	American Honda Finance Corporation Recoupment of Incentive Compensation Policy	Filed herewith.
101.INS	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	Filed herewith.
101.SCH[(33)]	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL[(33)]	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.LAB[(33)]	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101.PRE[(33)]	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
101.DEF[(33)]	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	Filed herewith.

Item 16. Form 10-K Summary

None.

Signatures

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

Dated: June 20, 2024

AMERICAN HONDA FINANCE CORPORATION

By: /s/ Paul C. Honda

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

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

Signature	Title	Date
/s/ Masaharu Hirose Masaharu Hirose	President and Director (Principal Executive Officer)	June 20, 2024
/s/ Tetsuya Koibuchi Tetsuya Koibuchi	Vice President, Treasurer and Director (Principal Financial Officer)	June 20, 2024
/s/ Paul C. Honda Paul C. Honda	Vice President, Assistant Secretary and Compliance Officer (Principal Accounting Officer)	June 20, 2024
/s/ Petar Vucurevic Petar Vucurevic	Senior Vice President and Director	June 20, 2024
Masao Kawaguchi	Director	
Kazuhiro Takizawa	Director	

AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS
For the fiscal year ended March 31, 2024

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of American Honda Finance Corporation, a wholly owned subsidiary of American Honda Motor Co., Inc., and subsidiaries (the Company) as of March 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2024, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2024 and 2023, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2024, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the board of directors and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for expected credit losses on retail loans

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company's total allowance for credit losses on retail loans evaluated on a collective basis as of March 31, 2024 was $345 million, of which a substantial portion related to loans in the United States (the collective ACL). Retail loans are grouped into pools with similar risk characteristics such as origination quarter, internal credit grade at origination, product type, and original term. The collective ACL is measured using an econometric regression model that correlates vintage age, credit quality, economic, and other variables to historical vintage-level credit loss performance. Current and forecasted economic conditions are applied in the model to project monthly loss rates in terms of origination dollars and recovery rates in terms of cumulative loss dollars for the remaining contractual life of each vintage. The contractual term is the estimated lifetime of retail loans and is considered to be a reasonable and supportable forecast period of future economic conditions. Economic forecasts and macroeconomic variables are obtained from a third-party economic research firm that extend through the lifetime of retail loans and converge to long-run equilibrium trends. A baseline forecast that reflects the most likely economic outcome is the single forecasted 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.

We identified the assessment of the collective ACL estimate as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment due to measurement uncertainty. Specifically, the assessment encompassed the evaluation of the collective ACL methodology and model, including the selection of the forecasted economic scenario assumption and related macroeconomic variables. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the collective ACL estimate, including controls related to the:

- continued use and appropriateness of the collective ACL methodology and model, including the selection of the forecasted economic scenario assumption and related macroeconomic variables
- analysis of the collective ACL model results as compared to actual loss performance
- re-evaluation of the model used to estimate the collective ACL.

We evaluated the Company's process to develop the collective ACL estimate by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized skills and experience, who assisted in:

- evaluating the Company's collective ACL methodology for compliance with U.S. generally accepted accounting principles
- assessing the conceptual soundness and performance testing of the model by inspecting model documentation to determine whether the model is consistent with the model methodology and is suitable for its intended use
- evaluating model back-testing results to verify model output is consistent with actual loss performance
- assessing the selection of the forecasted economic scenario assumption and related macroeconomic variables by comparing the scenario to the Company's business environment and relevant industry practices.

We also assessed the sufficiency of the audit evidence obtained related to the collective ACL estimate by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

Estimated early termination losses on operating lease assets

As discussed in Note 1 to the consolidated financial statements, a portion of the Company's operating leases is expected to terminate prior to their scheduled maturities when lessees default on their contractual obligations. In such circumstances, losses are generally realized upon the disposition of the repossessed operating lease vehicles as a reduction to the carrying value of operating lease assets. The Company's investment in operating leases, net as of March 31, 2024 was $27,378 million, a substantial portion of which relates to leases in the United States. The estimate of early termination losses on operating lease assets is measured using an econometric regression model that correlates vintage age, credit quality, economic and other variables to historical vintage-level credit loss performance. Current and forecasted economic conditions are applied in the model to project monthly loss rates in terms of origination dollars and recovery rates in terms of cumulative loss dollars for the remaining contractual life of each vintage. A baseline forecast that reflects the most likely economic outcome is the single forecasted economic scenario applied in the model.

We identified the assessment of estimated early termination losses on operating lease assets in the United States as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved due to measurement uncertainty. Specifically, the assessment encompassed the evaluation of the collective methodology and model used to estimate the early termination losses on operating lease assets, including the selection of the forecasted economic scenario assumption and related macroeconomic variables. In addition, auditor judgement was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of estimated early termination losses on operating lease assets in the United States, including controls related to the:

- continued use and appropriateness of the methodology and model used to estimate early termination losses on operating lease assets, including the selection of the forecasted economic scenario assumption and related macroeconomic variables
- analysis of model results as compared to actual loss performance
- re-evaluation of the model used to estimate early termination losses on operating lease assets.

We evaluated the Company’s process to develop the estimated early termination losses on operating lease assets in the United States by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized skills and experience, who assisted in:

- evaluating the Company’s methodology for compliance with U.S. generally accepted accounting principles
- assessing the conceptual soundness and performance testing of the model by inspecting model documentation to determine whether the model is consistent with the model methodology and is suitable for their intended use
- evaluating model back-testing results to verify model output is consistent with actual loss performance
- assessing the selection of the forecasted economic scenario assumption and related macroeconomic variables by comparing the scenario to the Company’s business environment and relevant industry practices.

We also assessed the sufficiency of the audit evidence obtained related to the estimated early terminated losses on operating lease assets in the United States by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company’s accounting practices
- potential bias in the accounting estimates.

Estimated end of term residual values of leased vehicles

As discussed in Note 1 to the consolidated financial statements, depreciation of leased vehicles on operating leases is calculated on the straight-line method over the lease term to the lower of contract residual values or estimated end of term residual values. Adjustments to estimated end of term residual values are made prospectively on a straight-line basis over the remaining lease term. The Company's investment in operating leases, net as of March 31, 2024 was $27,378 million, a substantial portion of which relates to leases in the United States. Estimated end of term residual values of leased vehicles are dependent on the expected market values of leased vehicles at the end of their lease terms and the percentage of leased vehicles expected to be returned by lessees. Factors considered in this evaluation include, among other factors, economic conditions, external market information on new and used vehicles, historical trends, and recent auction values.

We identified the assessment of estimated end of term residual values of leased vehicles in the United States as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgement was involved in the assessment due to measurement uncertainty. Specifically, complex auditor judgment was required to assess the residual value methodology, the model used to estimate the percentage of leased vehicles expected to be returned by the lessee at the end of the lease term, and the expected market values of leased vehicles at the end of the lease term. In addition, auditor judgement was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of end of term residual values of leased vehicles in the United States estimate, including controls related to the:

- development of the residual value methodology, including identification and determination of the expected market values of leased vehicles at the end of the lease term assumption
- continued use and appropriateness of the model used to estimate the percentage of leased vehicles expected to be returned
- evaluation of the percentage of leased vehicles expected to be returned by the lessees as compared to actual vehicles returned
- analysis of the actual gain or loss recorded on the disposition of leased vehicles.

We evaluated the Company's process to develop the estimated end of term residual values of leased vehicles in the United States by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the Company's residual value methodology for compliance with U.S. generally accepted accounting principles
- assessing the conceptual soundness and performance testing of the model by inspecting model documentation to determine whether the model is consistent with the model methodology and is suitable for their intended use
- evaluating the Company's expected market values of leased vehicles at the end of the lease term assumption by comparing it to specific portfolio risk characteristics and trends.

We also assessed the sufficiency of the audit evidence obtained related to the estimated end of term residual values of leased vehicles in the United States by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

/s/ KPMG LLP

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

Los Angeles, California
June 20, 2024

AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES

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

	March 31, 2024	March 31, 2023
Assets		
Cash and cash equivalents	$ 1,670	$ 1,544
Finance receivables, net of allowance for credit losses of $353 and $253	47,248	37,585
Investment in operating leases, net	27,378	27,778
Due from Parent and affiliated companies	137	66
Income taxes receivable	79	28
Other assets	1,214	757
Derivative instruments	743	1,133
Total assets	$ 78,469	$ 68,891
Liabilities and Equity		
Debt	$ 50,917	$ 40,334
Due to Parent and affiliated companies	153	161
Income taxes payable	148	211
Deferred income taxes	5,701	6,287
Other liabilities	1,455	1,137
Derivative instruments	1,472	1,736
Total liabilities	$ 59,846	$ 49,866
Commitments and contingencies (Note 9)		
Shareholder’s equity:		
Common stock, $100 par value. Authorized 15,000,000 shares; issued and outstanding 13,660,000 shares as of March 31, 2024 and 2023	$ 1,366	$ 1,366
Retained earnings	16,254	16,688
Accumulated other comprehensive loss	(137)	(135)
Total shareholder’s equity	17,483	17,919
Noncontrolling interest in subsidiary	1,140	1,106
Total equity	18,623	19,025
Total liabilities and equity	$ 78,469	$ 68,891

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

	March 31, 2024	March 31, 2023
Finance receivables, net	$ 9,796	$ 7,216
Investment in operating leases, net	—	168
Other assets	740	433
Total assets	$ 10,536	$ 7,817
Secured debt	$ 9,351	$ 6,927
Other liabilities	17	7
Total liabilities	$ 9,368	$ 6,934

See accompanying notes to consolidated financial statements.

AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES

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

	Years ended March 31,		
	2024	**2023**	**2022**
Revenues:			
Retail	$ 2,076	$ 1,468	$ 1,599
Dealer	230	116	67
Operating leases	6,099	6,600	7,778
Total revenues	8,405	8,184	9,444
Leased vehicle expenses	4,340	4,891	5,630
Interest expense	1,703	887	713
Net revenues	2,362	2,406	3,101
Other income, net	128	92	50
Total net revenues	2,490	2,498	3,151
Expenses:			
General and administrative expenses	557	485	479
Provision for credit losses	301	146	(22)
Early termination loss on operating leases	100	38	16
Loss on derivative instruments	19	697	571
Gain on foreign currency revaluation of debt	(25)	(410)	(470)
Total expenses	952	956	574
Income before income taxes	1,538	1,542	2,577
Income tax expense	439	403	675
Net income	1,099	1,139	1,902
Less: Net income attributable to noncontrolling interest	70	86	134
Net income attributable to American Honda Finance Corporation	$ 1,029	$ 1,053	$ 1,768

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

	Years ended March 31,		
	2024	**2023**	**2022**
Net income	$ 1,099	$ 1,139	$ 1,902
Other comprehensive income:			
Foreign currency translation adjustment	(4)	(186)	11
Comprehensive income	1,095	953	1,913
Less: Comprehensive income/(loss) attributable to noncontrolling interest	68	(3)	139
Comprehensive income attributable to American Honda Finance Corporation	$ 1,027	$ 956	$ 1,774

See accompanying notes to consolidated financial statements.

AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES

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

	Total	Retained earnings	Accumulated other comprehensive income/(loss)	Common stock	Noncontrolling interest
Balance at March 31, 2021	$ 19,165	$ 16,626	$ (44)	$ 1,366	$ 1,217
Net income	1,902	1,768	—	—	134
Other comprehensive income	11	—	6	—	5
Dividends declared	(1,626)	(1,493)	—	—	(133)
Balance at March 31, 2022	$ 19,452	$ 16,901	$ (38)	$ 1,366	$ 1,223
Net income	1,139	1,053	—	—	86
Other comprehensive loss	(186)	—	(97)	—	(89)
Dividends declared	(1,380)	(1,266)	—	—	(114)
Balance at March 31, 2023	$ 19,025	$ 16,688	$ (135)	$ 1,366	$ 1,106
Net income	1,099	1,029	—	—	70
Other comprehensive loss	(4)	—	(2)	—	(2)
Dividends declared	(1,497)	(1,463)	—	—	(34)
Balance at March 31, 2024	$ 18,623	$ 16,254	$ (137)	$ 1,366	$ 1,140

See accompanying notes to consolidated financial statements.

AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES

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

	Years ended March 31,		
	2024	**2023**	**2022**
Cash flows from operating activities:			
Net income	$ 1,099	$ 1,139	$ 1,902
Adjustments to reconcile net income to net cash provided by operating activities:			
Debt and derivative instrument valuation adjustments	136	420	(42)
Provision for credit losses	301	146	(22)
Early termination loss on operating leases	100	38	16
Depreciation on leased vehicles	4,343	4,872	5,676
Accretion of unearned subsidy income	(934)	(1,042)	(1,418)
Amortization of deferred dealer participation and other deferred costs	367	319	375
Gain on disposition of lease vehicles	(122)	(115)	(197)
Deferred income taxes	(585)	(477)	(232)
Changes in operating assets and liabilities:			
Income taxes receivable/payable	(115)	(347)	325
Other assets	(51)	840	(558)
Accrued interest/discounts on debt	198	86	15
Other liabilities	166	20	(533)
Due to/from Parent and affiliated companies	(80)	34	149
Net cash provided by operating activities	4,823	5,933	5,456
Cash flows from investing activities:			
Finance receivables acquired	(28,239)	(17,297)	(18,162)
Principal collected on finance receivables	18,765	17,353	20,026
Net change in wholesale loans	(842)	(696)	1,942
Purchase of operating lease vehicles	(14,778)	(9,306)	(15,278)
Disposal of operating lease vehicles	10,511	10,123	11,746
Cash received for unearned subsidy income	1,105	640	1,054
Other investing activities, net	(9)	(8)	(10)
Net cash (used in)/provided by investing activities	(13,487)	809	1,318
Cash flows from financing activities:			
Proceeds from issuance of commercial paper	38,466	29,440	26,995
Paydown of commercial paper	(39,556)	(25,331)	(30,234)
Proceeds from issuance of short-term debt	600	—	350
Paydown of short-term debt	(74)	(350)	(440)
Proceeds from issuance of medium term notes and other debt	16,704	2,359	7,087
Paydown of medium term notes and other debt	(7,970)	(10,401)	(8,297)
Proceeds from issuance of secured debt	7,358	2,869	5,984
Paydown of secured debt	(4,947)	(4,821)	(6,005)
Dividends paid	(1,497)	(1,513)	(1,493)
Net cash provided by/(used in) financing activities	9,084	(7,748)	(6,053)
Effect of exchange rate changes on cash and cash equivalents	1	(2)	1
Net increase/(decrease) in cash and cash equivalents	421	(1,008)	722
Cash and cash equivalents and restricted cash at beginning of year	1,964	2,972	2,250
Cash and cash equivalents and restricted cash at end of year	$ 2,385	$ 1,964	$ 2,972
Supplemental disclosures of cash flow information:			
Interest paid	$ 1,455	$ 833	$ 535
Income taxes paid	1,125	1,230	590

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

	March 31,		
	2024	2023	2022
Cash and cash equivalents	$ 1,670	$ 1,544	$ 2,607
Restricted cash included in other assets [1]	715	420	365
	$ 2,385	$ 1,964	2,972

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

See accompanying notes to consolidated financial statements.

Note 1. Summary of Business and Significant Accounting Policies

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

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

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

> *Retail Loans* – The Company acquires retail installment contracts from dealers who originate the contracts with consumers. Retail loans are collateralized by liens on the related vehicles or equipment. Retail loan terms range primarily from two to seven years.
>
> *Retail Leases* – The Company acquires closed-end vehicle lease contracts between dealers and their customers. The dealer assigns all of its rights, title, and interest in the lease and motor vehicle to the Company upon acquisition. Lease terms range primarily from two to five years.
>
> *Dealer Loans* – The Company provides wholesale and commercial loans to dealers. Wholesale loans are used by dealers to finance the purchase of inventory. The Company retains purchase money security interest in all inventory financed; however, the Company has no right to recover a product sold to consumers in the ordinary course of business. The Company has agreements with AHM and HCI, which provide for their repurchase of new, unused, and unregistered vehicles or equipment that have been repossessed from a dealer who defaults on a wholesale loan. Commercial loans are used primarily for financing dealership property and working capital purposes. Commercial loans are generally secured by the associated properties, as well as corporate or personal guarantees from, or on behalf of, the related dealer's principals.

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

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

(a) Business Risks

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

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

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

(b) Principles of Consolidation

The consolidated financial statements include the accounts of AHFC and its subsidiaries. All subsidiaries are wholly-owned, except for HCFI, which is majority-owned (52.33% as of March 31, 2024 and 2023).

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

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

(c) Comprehensive Income

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

(d) Cash and Cash Equivalents

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

(e) Finance Receivables and Allowance for Credit Losses

Finance Receivables

Finance receivables include retail loan and dealer loan portfolio segments. The retail loan portfolio segment consists of retail installment contracts with consumers. The dealer loan portfolio segment consists of wholesale and commercial loans with dealers. Finance receivables are measured at amortized cost, less the allowance for credit losses. The amortized cost basis includes the unpaid principal balance, unearned origination fees, and deferred origination costs. Origination fees include payments received from AHM and HCI for incentive programs (refer to Note 6 regarding these related party transactions). Origination costs include payments made to dealers for rate participation and other initial direct costs (IDC). Accrued interest receivable balances are presented within other assets.

Revenue on finance receivables includes contractual interest income, accretion of origination fees, and amortization of origination costs. Contractual interest income is accrued using the simple interest method. Origination fees and costs are recognized in revenue using the interest method over the contractual life of the finance receivables. The recognition of finance revenue on retail loans is discontinued when the underlying collateral is repossessed, or accounts are charged off. The recognition of finance revenue on dealer loans is discontinued when they are 90 days or more past due or when it has been determined the Company will be unable to collect all principal and interest payments.

Retail loans are charged off when they become 120 days past due or earlier if they have been specifically identified as uncollectible. Dealer loans are charged off when they have been individually identified as uncollectible. Charge-offs of the amortized cost basis are recognized as a reduction to the allowance for credit losses. Subsequent recoveries are credited to the allowance. Charge-offs of accrued interest receivables are reversed against finance revenue.

Allowance for Credit Losses

The allowance for credit losses is management's estimate of lifetime expected credit losses on the amortized cost basis of finance receivables which is deducted from or, in the case of expected net recoveries, added to the amortized cost. The Company has elected not to measure an allowance for credit losses for accrued interest receivable. 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 models to project monthly gross loss rates in terms of origination dollars for the remaining contractual life of each vintage. Recoveries are projected as a percentage of the cumulative forecasted loss dollar of each vintage. The contractual term is the estimated lifetime of retail loans and is considered to be a reasonable and supportable forecast period of future economic conditions. Economic forecasts and macroeconomic variables are obtained from a third-party economic research firm that extend through the lifetime of retail loans and converge to long-run equilibrium trends. Baseline forecasts that reflect the most likely economic future is the single economic scenario applied in the models. Qualitative adjustments may also be applied if management believes the quantitative models do not reflect the best estimate of lifetime expected credit losses.

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 the Company will be unable to collect the amounts due according to the terms of the applicable contracts. The Company's determination of whether dealer loans are impaired is based on evaluations of the dealership's payment history, financial condition, ability to perform under the terms of the loan agreements, and collateral values, as applicable. 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.

(f) Investment in Operating Leases and Determination of Lease Residual Values

The investment in operating leases is reported at cost, less accumulated depreciation and impairment losses, and net of unearned origination fees and deferred origination costs. Origination fees include payments received from AHM and HCI for incentive programs (refer to Note 6 regarding these related party transactions). Origination costs include payments made for dealer participation. Operating lease revenue is recognized on a straight-line basis over the lease term. Operating lease revenue includes accretion of origination fees, net of dealer rate participation amortization, which are also recognized on a straight-line basis over the lease term. Operating lease vehicles are depreciated on a straight-line basis over the lease term to the lower of contract residual values or estimated end of term residual values. Adjustments to estimated end of term residual values are made prospectively on a straight-line basis over the remaining lease term.

Contractual residual values of lease vehicles are determined at lease inception based on the Company's expectations of used vehicle values at the end of their lease terms. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market-based price. Returned lease vehicles that are not purchased by the grounding dealers are sold through online and physical auctions. The Company is exposed to a risk of loss on the disposition of returned lease vehicles if the market values of leased vehicles at the end of their lease terms are less than their contractual residual values. Estimated end of term residual values are dependent on the expected market values of leased vehicles at the end of their lease terms and the percentage of leased vehicles expected to be returned by the lessees. Factors considered in this evaluation include, among other factors, economic conditions, external market information on new and used vehicles, historical trends, and recent auction values. The Company assesses the estimated end of term residual values at minimum on a quarterly basis.

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

A portion of the Company’s operating leases is expected to terminate prior to their scheduled maturities when lessees default on their contractual obligations. Losses are generally realized upon the disposition of the repossessed operating lease vehicles. Operating leases are collectively evaluated to determine the estimated losses incurred using modeling methodologies consistent with those used for retail loans. Estimated early termination losses are recognized as a reduction to the carrying value of operating lease assets.

(g) Vehicles Held for Disposition

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

(h) Securitizations and Variable Interest Entities

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

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

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

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

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

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

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

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

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

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

(i) Income Taxes

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

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

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

The Company has elected not to record deferred taxes for Global Intangible Low-Taxed Income (GILTI) related book-tax-differences and will treat taxes due to GILTI as a current period expense when incurred.

(j) Foreign Currency Translation

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

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

(k) Derivative Instruments

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

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

(l) Recently Adopted Accounting Standard

Effective April 1, 2023, the Company adopted Accounting Standards Update (ASU) 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted ASU 2016-13 and enhance the disclosure requirements for certain loan refinancings and restructurings when borrowers are experiencing financial difficulty. The adoption of this standard for this amended guidance did not have a material impact on the consolidated financial statements. In addition, the amendments require the disclosure of current-period gross write-offs for financing receivables by year of origination in the vintage disclosures. Refer to Note 2 for vintage disclosures.

(m) Recently Issued Accounting Standards

In November 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments are effective for the Company for fiscal years beginning April 1, 2024 and for interim periods beginning April 1, 2025. The Company is currently assessing the impact of this standard on the consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The amendments enhance the transparency and decision usefulness of income tax disclosures, including jurisdictional information, by requiring consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disclosures. The amendments also eliminate certain disclosure requirements related to uncertain tax positions and unrecognized deferred tax liabilities. The amendments are effective for the Company for fiscal years beginning April 1, 2025. The Company is currently assessing the impact of this standard on the consolidated financial statements.

Note 2. Finance Receivables

Finance receivables consisted of the following:

	March 31, 2024		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Finance receivables	$ 43,492	$ 4,060	$ 47,552
Allowance for credit losses	(345)	(8)	(353)
Deferred dealer participation and other deferred costs	600	—	600
Unearned subsidy income	(551)	—	(551)
Finance receivables, net	$ 43,196	$ 4,052	$ 47,248

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

Finance receivables include retail loans with a net carrying amount of $9.8 billion and $7.2 billion as of March 31, 2024 and 2023, respectively, which have been transferred to bankruptcy-remote Special Purpose Entities (SPEs) and are considered to be legally isolated but do not qualify for sale accounting treatment. These retail loans are restricted and serve as collateral for the payment of the related secured debt obligations. Refer to Note 10 for additional information.

Allowance for Credit Losses

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

	Year ended March 31, 2024		
	Retail	**Dealer**	**Total**
	(U.S. dollars in millions)		
Beginning balance	$ 248	$ 5	$ 253
Provision	298	3	301
Charge-offs	(293)	—	(293)
Recoveries	92	—	92
Effect of translation adjustment	—	—	—
Ending balance	$ 345	$ 8	$ 353

	Year ended March 31, 2023		
	Retail	**Dealer**	**Total**
	(U.S. dollars in millions)		
Beginning balance	$ 206	$ 5	$ 211
Provision	146	—	146
Charge-offs	(193)	—	(193)
Recoveries	90	—	90
Effect of translation adjustment	(1)	—	(1)
Ending balance	$ 248	$ 5	$ 253

	Year ended March 31, 2022		
	Retail	**Dealer**	**Total**
	(U.S. dollars in millions)		
Beginning balance	$ 280	$ 8	$ 288
Provision	(19)	(3)	(22)
Charge-offs	(145)	—	(145)
Recoveries	90	—	90
Effect of translation adjustment	—	—	—
Ending balance	$ 206	$ 5	$ 211

The allowance increased during the fiscal year ended March 31, 2024 primarily due to the expected credit losses recognized on the high volume of retail loan acquisitions during the period. The increase was also attributable to the increasing trend of delinquencies and net charge-offs.

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)					
March 31, 2024						
Retail loans:						
New automobile	$ 253	$ 59	$ 15	$ 327	$ 33,858	$ 34,185
Used and certified automobile	134	33	9	176	7,815	7,991
Motorcycle and other	15	6	3	24	1,341	1,365
Total retail	402	98	27	527	43,014	43,541
Dealer loans:						
Wholesale flooring	1	—	—	1	2,785	2,786
Commercial loans	—	—	—	—	1,274	1,274
Total dealer loans	1	—	—	1	4,059	4,060
Total finance receivables	$ 403	$ 98	$ 27	$ 528	$ 47,073	$ 47,601
March 31, 2023						
Retail loans:						
New automobile	$ 217	$ 44	$ 11	$ 272	$ 27,479	$ 27,751
Used and certified automobile	103	25	6	134	5,870	6,004
Motorcycle and other	14	5	2	21	1,226	1,247
Total retail	334	74	19	427	34,575	35,002
Dealer loans:						
Wholesale flooring	—	—	—	—	1,946	1,946
Commercial loans	—	—	—	—	890	890
Total dealer loans	—	—	—	—	2,836	2,836
Total finance receivables	$ 334	$ 74	$ 19	$ 427	$ 37,411	$ 37,838

Credit Quality Indicators

Credit losses are an expected cost of extending credit. The majority of our credit risk is with consumer financing and to a lesser extent with dealer financing. Exposure to credit risk in retail loans is managed through regular monitoring and adjusting of underwriting standards, pricing of contracts for expected losses, and focusing collection efforts to minimize losses. Exposure to credit risk for dealers is managed through ongoing reviews of their financial condition and payment performance.

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 year						
	2024	2023	2022	2021	2020	Prior	Total
March 31, 2024	(U.S. dollars in millions)						
Credit grade A	$ 14,094	$ 5,788	$ 3,713	$ 2,907	$ 597	$ 121	$ 27,220
Credit grade B	4,110	2,065	1,113	778	237	66	8,369
Credit grade C	2,853	1,338	758	526	200	61	5,736
Credit grade D	779	306	182	149	97	36	1,549
Others	338	142	96	57	22	12	667
Total retail loans	$ 22,174	$ 9,639	$ 5,862	$ 4,417	$ 1,153	$ 296	$ 43,541
Gross charge-offs for the fiscal year ended March 31, 2024	$ 58	$ 109	$ 61	$ 34	$ 19	$ 12	$ 293

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

Dealer Loan Segment

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

Dealerships have been divided into the following groups:

Group I - Dealerships in the strongest internal risk rating tier

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

Group III - Dealerships with impaired loans

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

	Commercial loans by vintage fiscal year								
	2024	2023	2022	2021	2020	Prior	Revolving loans	Wholesale Flooring	Total
March 31, 2024	(U.S. dollars in millions)								
Group I	$ 146	$ 55	$ 9	$ 114	$ 45	$ 84	$ 748	$ 1,874	$ 3,075
Group II	44	3	5	1	—	20	—	911	984
Group III	—	—	—	—	—	—	—	1	1
Total dealer loans	$ 190	$ 58	$ 14	$ 115	$ 45	$ 104	$ 748	$ 2,786	$ 4,060
Gross charge-offs for the fiscal year ended March 31, 2024	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

Loan Modifications

The contractual terms of loans may be modified when borrowers are experiencing financial difficulties in an effort to mitigate losses. There were no dealer loans that were modified for dealers experiencing financial difficulties during the fiscal year ended March 31, 2024. Payment deferrals are granted on retail loans, however the delays in payments are considered insignificant since the number of deferred payments are limited and interest continues to accrue during the deferral period. Starting in April 2023, the

Company began granting term extensions on retail loans in the United States. Term extensions extend the maturity date of the loan which reduces the monthly payments over the remaining extended term of the loan. Term extensions do not change the contractual interest rates or reduce the outstanding principal balances. During the fiscal year ended March 31, 2024, term extensions were not material to the Company’s consolidated financial statement. Retail loans may also be modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code which may include interest rate adjustments, term extensions, and principal forgiveness. Retail loans modified under bankruptcy protection were not material to the Company’s consolidated financial statements during the fiscal year ended March 31, 2024.

Prior to the adoption of ASU 2022-02, there were no dealer loans during the fiscal years ended March 31, 2023 and 2022 that were considered troubled debt restructurings. Retail loans modified under bankruptcy protection were considered troubled debt restructurings but were not material to the Company’s consolidated financial statements during the fiscal years ended March 31, 2023 and 2022.

Note 3. Investment in Operating Leases

Investment in operating leases consisted of the following:

	March 31, 2024	March 31, 2023
	(U.S. dollars in millions)	
Operating lease vehicles	$ 34,840	$ 36,412
Accumulated depreciation	(6,616)	(7,989)
Deferred dealer participation and initial direct costs	103	88
Unearned subsidy income	(854)	(656)
Estimated early termination losses	(95)	(77)
Investment in operating leases, net	$ 27,378	$ 27,778

Operating lease revenue consisted of the following:

	Years ended March 31, 2024	2023	2022
	(U.S. dollars in millions)		
Lease payments	$ 5,539	$ 5,976	$ 6,913
Subsidy income and dealer rate participation, net	507	561	798
Reimbursed lessor costs	53	63	67
Total operating lease revenue, net	$ 6,099	$ 6,600	$ 7,778

Leased vehicle expenses consisted of the following:

	Years ended March 31, 2024	2023	2022
	(U.S. dollars in millions)		
Depreciation expense	$ 4,343	$ 4,872	$ 5,676
Initial direct costs and other lessor costs	119	134	151
Gain on disposition of leased vehicles (1)	(122)	(115)	(197)
Total leased vehicle expenses, net	$ 4,340	$ 4,891	$ 5,630

(1) Included in the gain on disposition of leased vehicles are end of term charges of $6 million, $2 million, and $17 million for the fiscal years ended March 31, 2024, 2023 and 2022, respectively.

Investment in operating leases includes lease assets with a net carrying amount of $168 million as of March 31, 2023,which were transferred to SPEs and considered to be legally isolated but did not qualify for sale accounting treatment. These investments in operating leases were restricted and served as collateral for the payment of the related secured debt obligations. There were no outstanding operating lease securitizations as of March 31, 2024. Refer to Note 10 for additional information.

Contractual operating lease payments due as of March 31, 2024 are summarized below. Based on the Company's experience, it is expected that a portion of the Company's operating leases will terminate prior to the scheduled lease term. The summary below should not be regarded as a forecast of future cash collections.

Year ending March 31,		**(U.S. dollars in millions)**
2025	$	4,471
2026		3,203
2027		1,457
2028		313
2029		46
Total	$	9,490

The Company recognized early termination losses on operating leases of $100 million, $38 million, and $16 million for the fiscal years ended March 31, 2024, 2023 and 2022, respectively. Net realized losses for the fiscal years ended March 31, 2024, 2023 and 2022 totaled $82 million, $43 million, and $23 million, respectively.

The general allowance for uncollectible operating lease receivables was recorded through a reduction to revenue of $16 million, $4 million, and $2 million for the fiscal years ended March 31, 2024, 2023 and 2022, respectively.

No impairment losses due to declines in estimated residual values were recognized during the fiscal years ended March 31, 2024 and 2023.

Note 4. Debt

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

			Weighted average contractual interest rate [(1)]		**Contractual interest rate ranges**	
	March 31,		**March 31,**		**March 31,**	
	2024	**2023**	**2024**	**2023**	**2024**	**2023**
	(U.S. dollars in millions)					
Unsecured debt:						
Commercial paper	$ 5,293	$ 6,375	5.64 %	5.18 %	5.02 - 5.70%	4.30 - 5.93%
Bank loans	1,804	1,894	6.05 %	5.66 %	5.68 - 6.57%	5.38 - 6.14%
Public MTN program	31,151	21,962	3.58 %	1.99 %	0.30 - 6.06%	0.30 - 5.43%
Other debt	3,318	3,176	3.59 %	3.15 %	1.34 - 6.40%	1.34 - 5.88%
Total unsecured debt	41,566	33,407				
Secured debt	9,351	6,927	4.56 %	2.42 %	0.27 - 5.94%	0.20 - 5.50%
Total debt	$ 50,917	$ 40,334				

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

As of March 31, 2024, the outstanding principal balance of long-term debt with floating interest rates totaled $7.7 billion, long-term debt with fixed interest rates totaled $36.9 billion, and short-term debt with floating and fixed interest rates totaled $6.3 billion. As of March 31, 2023, the outstanding principal balance of long-term debt with floating interest rates totaled $4.1 billion, long-term debt with fixed interest rates totaled $29.5 billion, and short-term debt with floating and fixed interest rates totaled $6.7 billion.

The Company's secured debt is amortizing, and unsecured debt is non-amortizing. Scheduled and projected maturities of the Company's debt at March 31, 2024 are summarized below:

	2025	2026	2027	2028	2029	Thereafter	Total
				(U.S. dollars in millions)			
Unsecured debt:							
Commercial paper	$ 5,325	$ —	$ —	$ —	$ —	$ —	$ 5,325
Bank loans	566	295	758	185	—	—	1,804
Public MTN program	8,354	7,500	4,871	3,190	4,241	3,068	31,224
Other debt	554	923	443	812	591	—	3,323
Total unsecured debt	14,799	8,718	6,072	4,187	4,832	3,068	41,676
Secured debt (1)	4,873	2,747	1,515	231	—	—	9,366
Total debt (2)	$ 19,672	$ 11,465	$ 7,587	$ 4,418	$ 4,832	$ 3,068	$ 51,042
Unamortized discounts/fees							(125)
Total debt, net							$ 50,917

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

Commercial Paper

As of both March 31, 2024 and 2023, the Company had commercial paper programs that provide the Company with available funds of up to $8.8 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 $6.6 billion and $3.9 billion during the fiscal year ended March 31, 2024 and 2023, respectively. The maximum balance outstanding at any month-end was $7.2 billion and $6.4 billion during the fiscal year ended March 31, 2024 and 2023, respectively.

Bank Loans

Outstanding bank loans at March 31, 2024 and 2023 were long-term, with floating interest rates, and denominated in U.S. dollars or Canadian dollars. Outstanding bank loans have prepayment options. No outstanding bank loans as of March 31, 2024 and 2023 were supported by the Keep Well Agreements with HMC described in Note 6. Outstanding bank loans contain certain covenants, including limitations on liens, mergers, consolidations and asset sales.

Public MTN Program

In August 2022, AHFC renewed its Public MTN program by filing a registration statement with the SEC under which it may issue from time to time up to $30.0 billion aggregate principal amount of Public MTNs pursuant to the Public MTN program. The aggregate principal amount of MTNs offered under this program may be increased from time to time. Notes outstanding under the Public MTN program as of March 31, 2024 were short -term and 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.

The MTN program is supported by the Keep Well Agreement with HMC described in Note 6.

Other Debt

The outstanding balances as of March 31, 2024 and 2023 consisted of private placement debt issued by HCFI which are long-term, with either fixed or floating interest rates, and denominated in Canadian dollars. Private placement debt is supported by the Keep Well Agreement with HMC described in Note 6. The notes are issued pursuant to the terms of an indenture which contain certain covenants, including negative pledge provisions.

Secured Debt

The Company issues notes through financing transactions that are secured by assets held by issuing SPEs. Notes outstanding as of March 31, 2024 and 2023 were long-term and short-term, with either fixed or floating interest rates, and denominated in U.S. dollars or Canadian dollars. Repayment of the notes is dependent on the performance of the underlying retail loans. Refer to Note 10 for additional information on the Company's secured financing transactions.

Credit Agreements

Syndicated Bank Credit Facilities

AHFC maintains a $7.0 billion syndicated bank credit facility that includes a $3.5 billion credit agreement, which expires on February 21, 2025, a $2.1 billion credit agreement, which expires on February 25, 2026, and a $1.4 billion credit agreement, which expires on February 25, 2028. As of March 31, 2024, no amounts were drawn upon under the AHFC credit agreements. AHFC intends to renew or replace these credit agreements prior to or on their respective expiration dates.

HCFI maintains a $1.5 billion syndicated bank credit facility that includes a $739 million credit agreement, which expires on March 25, 2025 and $739 million credit agreement, which expires on March 25, 2027. As of March 31, 2024, no amounts were drawn upon under the HCFI credit agreements. HCFI intends to renew or replace the credit agreements prior to or on the expiration dates.

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

Other Credit Agreements

AHFC maintains other committed lines of credit that allow the Company access to an additional $1.0 billion in unsecured funding with two banks. The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales. As of March 31, 2024, no amounts were drawn upon under these agreements. These agreements expire in September 2024. The Company intends to renew or replace these credit agreements prior to or on their respective expiration dates.

Note 5. Derivative Instruments

The fair value of derivative instruments is subject to the fluctuations in market interest rates and foreign currency exchange rates. Since the Company has elected not to apply hedge accounting, the volatility in the changes in fair value of these derivative instruments is recognized in earnings. All periodic interest settlements of derivative instruments are presented within cash flows from operating activities in the consolidated statements of cash flows. The final notional exchange of cross currency swaps are presented within cash flows from financing activities along with the paydowns of the related foreign currency denominated debt.

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

The notional balances and fair values of the Company's derivatives are presented below. The derivative instruments are presented on a gross basis in the Company's consolidated balance sheets. Refer to Note 13 regarding the valuation of derivative instruments.

	March 31,					
	2024			2023		
	Notional balances	Assets	Liabilities	Notional balances	Assets	Liabilities
	(U.S. dollars in millions)					
Interest rate swaps	$ 64,146	$ 714	$ 881	$ 55,974	$ 1,133	$ 1,062
Cross currency swaps	5,755	29	591	4,328	—	674
Gross derivative assets/liabilities		743	1,472		1,133	1,736
Collateral posted/held		1	9		—	37
Counterparty netting adjustment		(701)	(701)		(1,000)	(1,000)
Net derivative assets/liabilities		$ 43	$ 780		$ 133	$ 773

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

	Years ended March 31,		
	2024	2023	2022
	(U.S. dollars in millions)		
Interest rate swaps	$ 132	$ 113	$ 140
Cross currency swaps	(151)	(810)	(711)
Total loss on derivative instruments	$ (19)	$ (697)	$ (571)

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:

	Years ended March 31,		
Income Statement	2024	2023	2022
	(U.S. dollars in millions)		
Revenue:			
Subsidy income	$ 928	$ 1,036	$ 1,410
General and administrative expenses:			
Support Compensation Agreement fees	67	63	76
Benefit plan expenses	7	8	8
Shared services	71	74	72
Lease expense	4	4	4

Balance Sheet	March 31, 2024	March 31, 2023
	(U.S. dollars in millions)	
Assets:		
Finance receivables, net:		
Unearned subsidy income	$ (542)	$ (573)
Investment in operating leases, net:		
Unearned subsidy income	(853)	(655)
Due from Parent and affiliated companies	137	66
Liabilities:		
Due to Parent and affiliated companies	153	161
Other liabilities:		
Accrued benefit expenses	64	63
Operating lease liabilities	11	11

Support Agreements

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

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

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

Incentive Financing Programs

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

Shared Services

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

Benefit Plans

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

Income taxes

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

Other

The majority of the amounts due from the Parent and affiliated companies at March 31, 2024 and 2023 were related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at March 31, 2024 and 2023 were related to wholesale flooring payable to the Parent. These receivable and payable accounts are non-interest-bearing and short-term in nature and are expected to be settled in the normal course of business.

AHFC leases its premises from AHM and HCFI leases its premises from HCI.

AHFC declared cash dividends to its parent, AHM, of $1.5 billion, $1.3 billion, and $1.5 billion during the fiscal years ended March 31, 2024, 2023 and 2022, respectively.

HCFI declared cash dividends to AHFC of $37 million, $125 million, and $146 million during the fiscal years ended March 31, 2024, 2023, and 2022, respectively.

HCFI declared cash dividends to HCI of $34 million, $114 million, and $133 million during the fiscal years ended March 31, 2024, 2023 and 2022, respectively.

Note 7. Income Taxes

On August 16, 2022, the Inflation Reduction Act of 2022 (IRA) was enacted into law. The IRA includes tax provisions for new corporate alternative minimum tax (CAMT) of 15% on adjusted financial statement income of corporations with profits greater than $1.0 billion, effective for taxable years beginning after December 31, 2022, in addition to a new tax credit for qualified commercial clean vehicles (QCCV) that applies to vehicles acquired after December 31, 2022. At March 31, 2024, based on proposed guidance and regulations issued to date, the Company does not expect to incur CAMT liability and no QCCV tax credits were generated or utilized during fiscal year 2024. The Company will continue to evaluate the effects of IRA as additional guidance and regulations are issued.

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

	Current	Deferred	Total
	(U.S. dollars in millions)		
Year ended March 31, 2024			
Federal	$ 809	$ (545)	$ 264
State and local	198	(78)	120
Foreign	17	38	55
Total	$ 1,024	$ (585)	$ 439
Year ended March 31, 2023			
Federal	$ 839	$ (575)	$ 264
State and local	35	39	74
Foreign	6	59	65
Total	$ 880	$ (477)	$ 403
Year ended March 31, 2022			
Federal	$ 643	$ (205)	$ 438
State and local	220	(84)	136
Foreign	44	57	101
Total	$ 907	$ (232)	$ 675

For the fiscal year ended March 31, 2024, the allocation of federal current and deferred tax expense reflects primarily the impact of the recognized tax gains on the sale of leased assets, as well as the effect of the mark-to-market gain related to certain finance receivables, offset by the impact of accelerated federal tax depreciation on lease acquisitions. For the fiscal years ended March 31, 2023 and 2022, the allocation of federal current and deferred tax expense reflects the impact of lower lease acquisitions due to the microchip shortage and the elimination of like-kind exchange for personal property under the Tax Cuts and Jobs Act on reversing taxable temporary differences, as well as the effect of a change in tax accounting method for mark-to-market for certain finance receivables.

Income tax expense differs from the expected income taxes by applying the statutory federal corporate rate of 21% to income before income taxes as follows:

	Years ended March 31,		
	2024	2023	2022
	(U.S. dollars in millions)		
Computed "expected" income taxes	$ 323	$ 324	$ 541
Foreign tax rate differential	12	13	21
State and local income taxes, net of federal income tax benefit	68	64	111
Change in estimated state tax rate, net of federal income tax benefit	23	(10)	(15)
Change in unrecognized tax benefit	5	4	5
Other	8	8	12
Income tax expense	$ 439	$ 403	$ 675

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

	March 31,	
	2024	2023
	(U.S. dollars in millions)	
Deferred tax assets:		
State income tax	$ 143	$ 134
Receivable allowance	88	77
Accrued postretirement benefits	14	14
State loss carryforwards	22	23
Other assets	86	73
Total gross deferred tax assets	353	321
Less valuation allowance	—	—
Net deferred tax assets	353	321
Deferred tax liabilities:		
HCFI leases	539	519
AHFC leases	4,891	5,418
Mark-to-market	481	540
Other	143	131
Total gross deferred tax liabilities	6,054	6,608
Net deferred tax liabilities	$ 5,701	$ 6,287

The decrease in the net deferred tax liability is mainly due to the impact of the recognized tax gain on the sale of leased assets, offset by the impact of accelerated federal tax depreciation on lease acquisitions. The effect of translating HCFI's net deferred tax liabilities to U.S. dollars upon consolidation resulted in a decrease of $1 million, a decrease of $39 million, and an increase of $2 million during the fiscal years ended March 31, 2024, 2023, and 2022, respectively. The translation adjustments have been recognized as a component of other comprehensive income.

Exception to Recognition of Deferred Tax Liabilities

The Company does not provide for income taxes on its share of the undistributed earnings of HCFI, which are intended to be indefinitely reinvested outside the United States. At March 31, 2024, $1.0 billion of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of March 31, 2024 were to be distributed, the tax liability associated with these indefinitely reinvested earnings would be $130 million, inclusive of currency translation adjustments.

Tax Attributes

Included in the Company's deferred tax assets are net operating loss (NOL) carryforwards with tax benefits resulting from operating losses incurred in various states in which the Company files tax returns in the amounts of $22 million, $23 million, and $33 million at March 31, 2024, 2023, and 2022, respectively. The expiration, if applicable, of these NOL carryforwards varies based on the statutes of each of the applicable states through March 31, 2042.

Valuation Allowance

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during those periods in which those temporary differences and carryforward deferred tax assets become deductible or utilized. The Company considers sources of income, including, where applicable, the reversal of taxable temporary differences and projected future taxable income, in making this assessment. The Company believes it is more likely than not the deferred tax assets of $353 million recognized as of March 31, 2024 will be realized.

Uncertain Tax Positions

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

	Years ended March 31,		
	2024	**2023**	**2022**
	(U.S. dollars in millions)		
Balance, beginning of year	$ 73	$ 81	$ 95
Additions for current year tax positions	—	—	—
Additions for prior year tax positions	—	—	—
Reductions for prior year tax positions	—	(8)	(14)
Settlements	—	—	—
Reductions related to a lapse in the statute of limitations	—	—	—
Balance, end of year	$ 73	$ 73	$ 81

Included in the balance of unrecognized tax benefits at both March 31, 2024 and 2023 are $72 million, and at March 31, 2022 of $80 million, net of the federal benefit of state taxes, respectively, the recognition of which would affect the Company's effective tax rate in future periods. Although it is reasonably possible that the total amounts of unrecognized tax benefits could change within the next twelve months, the Company does not believe such change would be significant. As a result of the above unrecognized tax benefits and various favorable uncertain positions, the Company has recorded a net liability for uncertain tax positions, inclusive of interest and penalties of $105 million and $92 million as of March 31, 2024 and 2023, respectively (Note 12).

The Company recognizes income tax-related interest income, interest expense and penalties as a component of income tax expense. The Company recognized interest expense of $6 million, $5 million and $4 million during the fiscal years ended March 31, 2024, 2023, and 2022, respectively. As a result of a state settlement for a favorable uncertain position during the fiscal year ended March 31, 2024, the Company is expected to receive interest of $2 million. As of March 31, 2024, 2023 and 2022, the Company's consolidated balance sheets reflect accrued interest payable of $33 million, $25 million, and $20 million, respectively.

As of March 31, 2024, the Company is subject to examination for U.S. federal returns filed for the taxable years ended March 31, 2014 through 2023, and for various U.S. state returns filed for the taxable years ended March 31, 2008 through 2023. The Company's Canadian subsidiary, HCFI, is subject to examination for federal and provincial and returns filed for the taxable years ended March 31, 2017 through 2023. The Company believes appropriate provision has been made for all outstanding issues for all open years.

Note 8. Benefit Plans

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

The Company participates in defined benefit retirement plans (the Pension Plans) maintained by the Sponsors. The names of the Pension Plans maintained by AHM are the Honda Retirement Plan and the Honda Pension Equalization Plan. The name of the Pension Plan maintained by HCI is the Pension Plan for Associates of Honda Canada Inc. Employees who commenced service after September 3, 2013 are not eligible to participate in the Pension Plans maintained by AHM. Under the amendments to the Pension Plan maintained by HCI, employees who commenced service after January 1, 2014 are not eligible to participate in HCI's Pension Plan. The Company pays for its share of the Pension Plan costs allocated by the Sponsors. The Pension Plans’ expense, included in general and administrative expenses was $4 million for fiscal year ended March 31, 2024, and $5 million for both fiscal years ended March 31, 2023 and 2022.

The Company participates in defined contribution savings plans (the Savings Plans) maintained by the Sponsors. Participants in these plans make contributions subject to Internal Revenue Service or Canada Revenue Agency limits. General and administrative expenses include the Company's portion of contributions to the Savings Plans of $9 million for both the fiscal years ended March 31, 2024 and 2023 and $8 million for the fiscal year ended March 31, 2022.

The Company participates in other postretirement plans maintained by the Sponsors primarily to provide certain healthcare benefits for retired employees. Substantially all employees become eligible for these benefits if they have met certain age and service requirements at retirement. The Company's expense for the postretirement plans included in the general and administrative expenses was $3 million for all fiscal years ended March 31, 2024, 2023, and 2022.

Note 9. Commitments and Contingencies

Operating Leases

The Company leases certain premises and equipment through operating leases. AHFC leases its premises and equipment from AHM and third parties, and HCFI leases its premises from HCI.

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

Operating lease liabilities are reported in other liabilities on the Company's consolidated balance sheets. At March 31, 2024, maturities of operating lease liabilities were as follows:

Year ending March 31:	**(U.S. dollars in millions)**
2025	$ 9
2026	9
2027	10
2028	10
2029	7
Thereafter	25
Total undiscounted future lease obligations	70
Less: imputed interest	(8)
Operating lease liabilities	$ 62

Lease expense under operating leases was $10 million for both the fiscal years ended March 31, 2024 and 2023, and $11 million for the fiscal year ended March 31, 2022. Lease expense is included within general and administrative expenses.

As of March 31, 2024, the weighted average remaining lease term for operating leases was 7.6 years and the weighted average remaining discount rate for operating leases was 3.0%.

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 $507 million as of March 31, 2024. The Company also has commitments to finance the construction of automobile dealership facilities. The remaining unfunded balance for these construction loans was $9 million as of March 31, 2024.

Legal Proceedings and Regulatory Matters

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

The Company is involved, in the ordinary course of business, in various legal proceedings including claims of individual customers and purported class action lawsuits. Certain of these actions are similar to suits filed against other financial institutions and captive finance companies concerning business practices and policies. The Company is also subject to regulation, supervision, and licensing under various federal, state, provincial, and local statutes, ordinances and regulations which involve governmental reviews and inquiries from time to time. Based on available information and established accruals, management does not believe it is reasonably possible that the results of these proceedings, in the aggregate, will have a material adverse effect on the Company’s consolidated financial statements.

In November 2023, the Company received a civil investigative demand issued by the Consumer Financial Protection Bureau (CFPB) in connection with the Company’s furnishing of credit reporting information on consumer credit accounts. The Company is cooperating with the CFPB and is responding to their information requests. Management cannot predict the eventual scope, duration or outcome of this investigation and is unable to estimate the amount or range of potential losses, if any, at this time.

Note 10. Securitizations and Variable Interest Entities (VIE)

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

During the fiscal years ended March 31, 2024 and 2023, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling $7.4 billion and $2.9 billion, respectively. The notes were secured by assets with an initial balance of $8.0 billion and $3.1 billion, for the fiscal years ended March 31, 2024 and 2023, 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. There were no outstanding operating lease securitizations as of March 31, 2024.

	March 31, 2024				
	Assets			Liabilities	
	(U.S. dollars in millions)				
	Securitized assets	Restricted cash [1]	Other	Secured debt	Other
Retail loan securitizations	$ 9,796	$ 715	$ 25	$ 9,351	$ 17

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

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

In their role as servicers, AHFC and HCFI collect payments on the underlying securitized assets on behalf of the SPEs. Cash collected during a calendar month is required to be remitted to the SPEs in the following month. AHFC and HCFI are not restricted from using the cash collected for their general purposes prior to the remittance to the SPEs. As of March 31, 2024 and 2023, AHFC and HCFI had combined cash collections of $476 million and $400 million, respectively, which were required to be remitted to the SPEs.

Note 11. Other Assets

Other assets consisted of the following:

	March 31,	
	2024	2023
	(U.S. dollars in millions)	
Accrued interest and fees on finance receivables	$ 163	$ 103
Accrued rental payments and fees on operating leases	64	62
Vehicles held for disposition	138	50
Restricted cash	715	420
Operating lease right-of-use assets	54	61
Other miscellaneous assets	80	61
Total	$ 1,214	$ 757

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

Note 12. Other Liabilities

Other liabilities consisted of the following:

	March 31,	
	2024	2023
	(U.S. dollars in millions)	
Dealer payables	$ 288	$ 188
Accrued interest expense	317	121
Accounts payable and accrued expenses	334	304
Lease security deposits	50	57
Unearned income, operating leases	250	269
Operating lease liabilities	62	69
Uncertain tax positions	105	92
Other liabilities	49	37
Total	$ 1,455	$ 1,137

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:

	March 31, 2024			
	Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)			
Assets:				
Derivative instruments:				
Interest rate swaps	$ —	$ 714	$ —	$ 714
Cross currency swaps	—	29	—	29
Total assets	$ —	$ 743	$ —	$ 743
Liabilities:				
Derivative instruments:				
Interest rate swaps	$ —	$ 881	$ —	$ 881
Cross currency swaps	—	591	—	591
Total liabilities	$ —	$ 1,472	$ —	$ 1,472

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

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

Derivative Instruments

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

The Company's derivative instruments are classified as Level 2 since all significant inputs are observable and do not require management judgment. There were no transfers between fair value hierarchy levels during the fiscal years ended March 31, 2024 and 2023. Refer to Notes 1(*k*) and 5 for additional information on derivative instruments.

Nonrecurring Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total	Lower-of-cost or fair value adjustment
			(U.S. dollars in millions)		
March 31, 2024					
Vehicles held for disposition	$ —	$ —	$ 100	$ 100	$ 28
March 31, 2023					
Vehicles held for disposition	$ —	$ —	$ 35	$ 35	$ 7

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

Vehicles Held for Disposition

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

Fair Value of Financial Instruments

The following tables summarize the carrying values and fair values of the Company's financial instruments except for those measured at fair value on a recurring basis. Certain financial instruments and all nonfinancial assets and liabilities are excluded from fair value disclosure requirements including the Company's investment in operating leases. The carrying values of cash and cash equivalents, restricted cash, and short-term investments approximate fair values due to the short-term nature and limited credit risk of the instruments.

	March 31, 2024				
		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)				
Assets:					
Dealer loans, net	4,052	—	—	3,700	3,700
Retail loans, net	43,196	—	—	42,280	42,280
Liabilities:					
Commercial paper	$ 5,293	$ —	$ 5,293	$ —	$ 5,293
Bank loans	1,804	—	1,811	—	1,811
Medium term note programs	31,151	—	30,387	—	30,387
Other debt	3,318	—	3,251	—	3,251
Secured debt	9,351	—	9,333	—	9,333

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

Fair value information presented in the tables above is based on information available at March 31, 2024 and 2023. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been updated since those dates, and therefore, the current estimates of fair value at dates subsequent to those dates may differ significantly from the amounts presented herein.

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

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
Year ended March 31, 2024				
Revenues:				
Retail	$ 1,855	$ 221	$ —	$ 2,076
Dealer	206	24	—	230
Operating leases	5,192	907	—	6,099
Total revenues	7,253	1,152	—	8,405
Leased vehicle expenses	3,641	699	—	4,340
Interest expense	1,464	239	—	1,703
Realized (gains)/losses on derivatives and foreign currency denominated debt	(81)	(60)	141	—
Net revenues	2,229	274	(141)	2,362
Other income, net	110	18	—	128
Total net revenues	2,339	292	(141)	2,490
Expenses:				
General and administrative expenses	503	54	—	557
Provision for credit losses	290	11	—	301
Early termination loss on operating leases	98	2	—	100
Loss on derivative instruments	—	—	19	19
Gain on foreign currency revaluation of debt	—	—	(25)	(25)
Income before income taxes	$ 1,448	$ 225	$ (135)	$ 1,538
March 31, 2024				
Finance receivables, net	$ 42,419	$ 4,829	$ —	$ 47,248
Investment in operating leases, net	23,805	3,573	—	27,378
Total assets	69,722	8,747	—	78,469

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
Year ended March 31, 2023				
Revenues:				
Retail	$ 1,299	$ 169	$ —	$ 1,468
Dealer	104	12	—	116
Operating leases	5,535	1,065	—	6,600
Total revenues	6,938	1,246	—	8,184
Leased vehicle expenses	4,059	832	—	4,891
Interest expense	723	164	—	887
Realized (gains)/losses on derivatives and foreign currency denominated debt	(92)	(42)	134	—
Net revenues	2,248	292	(134)	2,406
Other income, net	77	15	—	92
Total net revenues	2,325	307	(134)	2,498
Expenses:				
General and administrative expenses	430	55	—	485
Provision for credit losses	138	8	—	146
Early termination loss on operating leases	38	—	—	38
Loss on derivative instruments	—	—	697	697
Gain on foreign currency revaluation of debt	—	—	(410)	(410)
Income before income taxes	$ 1,719	$ 244	$ (421)	$ 1,542
March 31, 2023				
Finance receivables, net	$ 33,518	$ 4,067	$ —	$ 37,585
Investment in operating leases, net	23,853	3,925	—	27,778
Total assets	60,556	8,335	—	68,891

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
		(U.S. dollars in millions)		
Year ended March 31, 2022				
Revenues:				
Retail	$ 1,414	$ 185	$ —	$ 1,599
Dealer	58	9	—	67
Operating leases	6,489	1,289	—	7,778
Total revenues	7,961	1,483	—	9,444
Leased vehicle expenses	4,655	975	—	5,630
Interest expense	604	109	—	713
Realized (gains)/losses on derivatives and foreign currency denominated debt	121	22	(143)	—
Net revenues	2,581	377	143	3,101
Other income, net	36	14	—	50
Total net revenues	2,617	391	143	3,151
Expenses:				
General and administrative expenses	423	56	—	479
Provision for credit losses	(22)	—	—	(22)
Early termination loss on operating leases	16	—	—	16
Loss on derivative instruments	—	—	571	571
Gain on foreign currency revaluation of debt	—	—	(470)	(470)
Income before income taxes	$ 2,200	$ 335	$ 42	$ 2,577
March 31, 2022				
Finance receivables, net	$ 33,320	$ 4,161	$ —	$ 37,481
Investment in operating leases, net	28,691	4,933	—	33,624
Total assets	66,877	9,401	—	76,278