

**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, 2021**

OR

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

For the transition period from to

Commission File Number 001-36111

AMERICAN HONDA FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation or organization)

1919 Torrance Blvd., Torrance, California

(Address of principal executive offices)

95-3472715

(IRS Employer Identification No.)

90501

(Zip Code)

(310) 972-2555

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
1.300% Medium-Term Notes, Series A Due March 21, 2022	N/A	New York Stock Exchange
2.625% Medium-Term Notes, Series A Due October 14, 2022	N/A	New York Stock Exchange
1.375% Medium-Term Notes, Series A Due November 10, 2022	N/A	New York Stock Exchange
0.550% Medium-Term Notes, Series A Due March 17, 2023	N/A	New York Stock Exchange
0.750% Medium-Term Notes, Series A Due January 17, 2024	N/A	New York Stock Exchange
0.350% Medium-Term Notes, Series A Due August 26, 2022	N/A	New York Stock Exchange
1.600% Medium-Term Notes, Series A Due April 20, 2022	N/A	New York Stock Exchange
1.950% Medium-Term Notes, Series A Due October 18, 2024	N/A	New York Stock Exchange
0.750% Medium-Term Notes, Series A Due November 25, 2026	N/A	New York Stock Exchange

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

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

As of May 31, 2021, 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, 2021

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Cautionary Statement Regarding Forward-Looking Statements

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

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

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

PART I

Item 1. Business

Overview

American Honda Finance Corporation (AHFC) is a California corporation that was incorporated on February 6, 1980. Unless otherwise indicated by the context, all references to the “Company”, “we”, “us”, and “our” in this report include AHFC and its consolidated subsidiaries, and references to “AHFC” refer solely to American Honda Finance Corporation (excluding its subsidiaries). AHFC is a wholly-owned subsidiary of American Honda Motor Co., Inc. (AHM). Honda Canada Finance Inc. (HCFI) is a majority-owned subsidiary of AHFC. Noncontrolling interest in HCFI is held by Honda Canada Inc. (HCI), an affiliate of AHFC. AHM is a wholly-owned subsidiary and HCI is an indirect wholly-owned subsidiary of Honda Motor Co., Ltd. (HMC). AHM and HCI are the sole authorized distributors of Honda and Acura products, including motor vehicles, parts, and accessories in the United States and Canada. AHFC’s principal executive offices are located at 1919 Torrance Boulevard, Torrance, California 90501.

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

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

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

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

Public Filings

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

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

Consumer Financing

Retail Loans

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

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

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

Retail Leases

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

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

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

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

Underwriting and Pricing of Consumer Financing

Dealers submit customer credit applications electronically through our online system. In addition, 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 regional offices, who will evaluate and make purchase decisions within the framework of our purchase policy and legal requirements.

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

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

Servicing of Consumer Financing

We have eight regional offices in the United States that are responsible for the acquisition, servicing, collection, and customer service activities related to our automobile retail loans and leases. These offices are located in California, Texas, Massachusetts, Illinois, North Carolina, Delaware, and Georgia. We also have one office in Georgia that is responsible for the underwriting of motorcycle, power equipment, and marine engine loans, customer service related to those contracts and collection efforts for past due accounts on a national basis. In November 2020, we finalized plans to consolidate our regional offices in the United States into three customer and dealer services centers located in California, Texas, and Georgia. The consolidation is to take place in stages through the fall of 2022 starting with the consolidation of our California offices in June 2021.

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

- *National Processing Center.* The National Processing Center is responsible for processing customer payments that cannot be processed through our automated servicing system, providing service to our regional offices and other services.
- *Lease Maturity Center.* Lease accounts are transferred from our regional offices to the Lease Maturity Center six months prior to the end of the 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 dealer accepting return of the leased vehicle (also referred to as the grounding dealer) initially has the exclusive right to purchase the vehicle at the contractual residual value or a market-based price. If the vehicle is not purchased by the grounding dealer, it then becomes available to Honda and Acura vehicle dealers through the VIPS online auction. If the vehicle is not sold to a Honda or Acura dealer, the auction is opened to any dealer. Off-lease vehicles that are not purchased through a VIPS auction and all repossessed vehicles are sold at physical auction sites throughout the United States. When deemed necessary, we recondition used vehicles prior to sale in order to enhance the vehicle values at auction. Additionally, vehicles to be sold at public auctions may be relocated in accordance with our goal to minimize oversupply at any given location and maximize sales proceeds.
- *Recovery and Bankruptcy Center.* The Recovery and Bankruptcy Center is responsible for collecting the deficiency balances of charged-off accounts using outside collection agencies, locating and securing the collateral of charged-off accounts, and collecting lease end of term fees. Consumer financing contracts are transferred from our regional offices to the Recovery and Bankruptcy Center after charge-off, which occurs when they become 120 days contractually past due, payments due are no longer expected to be received, or the underlying product is sold or has been held in unsold repossessed inventory for 90 days, whichever occurs first. In addition, accounts subject to bankruptcy proceedings are assigned to the Recovery and Bankruptcy Center for tracking, monitoring and handling through the life of the loan or until the related customer is discharged from bankruptcy. If the customer is discharged or dismissed from bankruptcy, the account will return to the original regional office for servicing.

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

Recovery Policies and Procedures

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

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

Incentive Financing Programs for Retail Loans and Leases

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

Honda Aviation Financing

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

Dealer Financing

Wholesale Flooring Loans

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

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

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

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

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

A wholesale flooring loan is considered delinquent when any payment is contractually past due. Collection efforts are initiated 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 serviced at AHFC's regional offices in California, Texas, Massachusetts, Illinois, North Carolina, Delaware, and Georgia. In Canada, wholesale flooring loans are serviced at HCFI's headquarters in Ontario.

Commercial Loans

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

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

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

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

Competition

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

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

Relationships with HMC and Other Affiliates

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

HMC and AHFC Keep Well Agreement

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

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

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

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

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

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

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

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

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

HMC and HCFI Keep Well Agreement

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

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

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

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

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

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

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

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

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

Incentive Financing Programs

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

Related Party Debt

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

Vehicle Service Contract Administration

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

Our Consumer Assurance Products and Service Group was responsible for the administration of vehicle service contracts issued by certain subsidiaries of AHM. As the administrator, we approved claims and provided customer service to purchasers of vehicle service contracts. We did not provide the maintenance or roadside assistance provided by the vehicle service contracts. We received fees to perform administrative services. Effective April 1, 2021, the administration of vehicle service contracts has been transferred to AHM.

HCFI performs marketing services for vehicle service contracts issued by HCI and receives fees for these services.

Shared Services

AHM provides services to Honda's North American operations. AHM provides us with information technology, legal, internal audit, 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.

Benefit Plans

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

Income taxes

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

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

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

Repurchase Agreements

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

Seasonality

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

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, especially during the COVID-19 pandemic.

Employees

At March 31, 2021, we had 1,241 employees in the United States and 177 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.

Canada

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

Item 1A. Risk Factors

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

Risks Relating To The COVID-19 Pandemic

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

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

The COVID-19 pandemic and the related restrictions have also adversely affected the business of our parent, AHM, and our ultimate parent, HMC, in a number of ways, including the temporary suspension of production at all plants in North America, which continued through the start of May 2020, and selected plants in countries outside of North America. There is a possibility of additional suspensions of production depending on whether there is a resurgence of COVID-19 in a given area. Disruption in the supply chain of the vehicles we finance may contribute to a significant decline in the sale of Honda and Acura products and our financing of those products. In addition, disruptions in the sales operations of dealerships and declines in consumer demand have and may continue to negatively impact the sale of Honda and Acura products.

The COVID-19 pandemic and the related restrictions also caused an economic slowdown, an increase in unemployment claims, and resulted and are expected to continue to result in decreased consumer spending. Similar to relief options we have previously offered to customers and dealers impacted by natural disasters, we offered payment relief options to those customers and dealers impacted by COVID-19, including payment deferrals, contract extensions, waiver of late charges, interest deferments for dealer floorplans, and interest only payments for dealer commercial loans. Unlike the relief options we have historically offered for natural disasters, which were limited to the affected geographies, the relief was offered through March 2021 across the United States and Canada due to the widespread impact of the COVID-19 pandemic. These relief options may not be sufficient to avoid defaults for many of our customers.

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

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

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, supply chain shortages, a reduction of incentive financing programs, volatility in fuel prices, sustained economic stagnation or the occurrence of a recession, a financial crisis, a work stoppage, governmental action, including a change in regulation, trade policies, adverse publicity, a recall, a war, a use of force by foreign countries, a terrorist attack, a multinational conflict, a natural disaster, a pandemic, or similar events could have a substantially unfavorable effect on us.

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

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

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

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

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

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

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

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

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

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

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.

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

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 applicable.

The availability of these financing sources at the prices we desire may depend on factors outside of our control, including our credit ratings, disruptions to the capital markets, the fiscal and monetary policies of government, government regulations and industry standards. In the event that we are unable to raise the funds we require at reasonable rates, we may curtail our various loan originations or incur the effects of increased costs of operation. Reducing loan originations or increasing the rates we charge consumers and dealers may adversely affect our ability to remain a preferred source of financing for consumers and dealers for Honda and Acura products and will have an adverse effect on our results of operations, cash flows, and financial condition. See “—*Fluctuations in interest rates could have an adverse impact on our results of operations, cash flows, and financial condition*” 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 liabilities used for funding. We provide consumer financing, dealer financing, incentive financing, originations and servicing, all of which are exposed, in varying degrees, to changes in value due to movements in interest rates. Furthermore, an increase in interest rates could increase our costs of providing dealer and consumer financing originations, which could, in turn, adversely affect our financing volumes because financing can be less attractive to our dealers and customers and qualifying for financing may be more difficult.

We monitor the interest rate environment and enter into various financial instruments, including interest rate and basis swaps, to manage our exposure to the risk of interest rate fluctuations. However, our hedging strategies may not fully mitigate the impact of changes in interest rates. Further, these instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. For example, in July 2017, the U.K. Financial Conduct Authority (FCA), which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. On March 5, 2021, the FCA further announced that LIBOR will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, in the case of 1-week and 2-month U.S. dollar LIBOR, and immediately after June 30, 2023, in the case of the remaining U.S. dollar LIBOR settings. The potential impact of changes to LIBOR is unknown and could adversely affect the market valuation of LIBOR-linked securities, loans and other financial obligations, the interest rates on our current or future cost of funds and/or access to capital markets. See “—*The failure or commercial soundness of our counterparties and other financial institutions may have an adverse effect on our results of operations, cash flows, or financial condition*” below.

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

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

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

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

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

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

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

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

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

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

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

We have exposure to many different financial institutions, and we routinely execute transactions with counterparties in the financial industry. Our debt, derivative and investment transactions, and our ability to borrow under committed and uncommitted credit facilities, could be adversely affected by the creditworthiness, actions, and commercial soundness of these financial institutions. Deterioration of social, political, labor, or economic conditions along with increased regulation in a specific country or region may also adversely affect the ability of financial institutions, including our derivative counterparties and lenders, to perform their contractual obligations. Financial institutions are interrelated because of trading, clearing, lending, and other relationships, and as a result, financial and political difficulties in one country or region may adversely affect financial institutions in other jurisdictions, including those with which we have relationships. The failure of any financial institution and other counterparty to which we have exposure, directly or indirectly, to perform their contractual obligations, and any losses resulting from that failure, could have a material adverse effect on our results of operations, cash flows, or financial condition.

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

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. Any change in such laws and regulations, whether in the form of new or amended laws or regulations, regulatory policies, supervisory action, or the application of any of the above, may adversely affect our business, results of operations, cash flows, and financial condition by increasing our costs to comply with the new laws, prohibiting or limiting the amount of certain revenues we currently receive, or constraining certain collection or collateral recovery action which are currently available to us. See "*Risks Relating To The COVID-19 Pandemic—The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations, cash flows and financial condition*" above.

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

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

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

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

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

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

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

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. For example, in November 2020, we finalized plans to consolidate our nine regional offices in the United States into three customer and dealer services centers located in California, Texas, and Georgia. The consolidation is to take place in stages through the fall of 2022 starting with the consolidation of our California offices in June 2021. Although steps are being taken to mitigate the operational risks related to the consolidation of our regional offices, there is no guarantee that we will not experience any business interruptions.

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

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

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

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

We may not be able to anticipate or implement effective preventative measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. It is also possible that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. The occurrence of any of these events could have a material adverse effect on our business. For example, in June 2020, HMC and its subsidiaries, including AHFC and HCFI, experienced a cyber-attack. As a result, certain business operations were temporarily suspended but have since resumed. 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. Compliance with current and future privacy, data protection and information security laws affecting customer or employee data to which we are subject could result in higher compliance and technology costs. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions, damage to our reputation and could materially and adversely affect our profitability.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are located in Torrance, California. Our United States operations have regional offices and national servicing centers located in California, Georgia, Texas, Massachusetts, Illinois, North Carolina, and Delaware. In November 2020, we finalized plans to consolidate our regional offices in the United States into three customer and dealer services centers located in California, Texas, and Georgia. The consolidation is to take place in stages through the fall of 2022 starting with the consolidation of our California offices in June 2021. HCFI's headquarters are located in Markham, Ontario, Canada and our Canadian operations have regional offices and national servicing centers located in Quebec and Ontario. All premises are occupied pursuant to lease agreements.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

Dividends are declared and paid by AHFC if, when, and as determined by its Board of Directors. AHFC declared and paid semi-annual cash dividends to its parent, AHM, of \$143 million and \$465 million during the fiscal year ended March 31, 2021 and \$292 million and \$313 million during the fiscal year ended March 31, 2020.

Item 6. Selected Financial Data

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

We derived the consolidated balance sheet data as of March 31, 2021 and 2020 and the consolidated statements of income data for the fiscal years ended March 31, 2021, 2020 and 2019 from our audited consolidated financial statements included elsewhere in this annual report. We derived the consolidated balance sheet data as of March 31, 2019 from our audited consolidated financial statements that are not included in this annual report. Our historical results are not necessarily indicative of the results to be expected in any future period.

	Years ended March 31,		
	2021	2020	2019
(U.S. dollars in millions)			
Consolidated Statement of Income Data			
Revenues:			
Retail loans	\$ 1,664	\$ 1,737	\$ 1,614
Dealer loans	107	222	232
Operating leases	7,765	7,749	7,253
Total revenues	9,536	9,708	9,099
Leased vehicle expenses ⁽¹⁾	5,580	5,693	5,389
Interest expense	893	1,241	1,190
Net revenues	3,063	2,774	2,520
Other income	64	88	71
Total net revenues	3,127	2,862	2,591
Expenses:			
General and administrative expenses	471	498	456
Provision for credit losses	(69)	402	249
Impairment loss on operating leases	—	—	14
Early termination loss on operating leases	(156)	331	101
(Gain)/Loss on derivative instruments	(229)	305	509
(Gain)/Loss on foreign currency revaluation of debt	430	(107)	(407)
Total expenses	447	1,429	922
Income before income taxes	2,680	1,433	1,669
Income tax expense	647	424	428
Net income	2,033	1,009	1,241
Less: Net income attributable to noncontrolling interest	121	97	96
Net income attributable to American Honda Finance Corporation	\$ 1,912	\$ 912	\$ 1,145

March 31,		
2021	2020	2019

(U.S. dollars in millions)

Consolidated Balance Sheet Data

Finance receivables, net ⁽²⁾ :			
Retail loans	\$ 37,636	\$ 34,318	\$ 34,790
Dealer loans	4,085	5,606	5,835
Allowance for credit losses	(288)	(370)	(201)
Total finance receivables, net	\$ 41,433	\$ 39,554	\$ 40,424
Investment in operating leases, net	\$ 35,345	\$ 33,843	\$ 32,606
Total assets	\$ 80,802	\$ 77,256	\$ 75,964
Debt:			
Commercial paper	\$ 5,542	\$ 5,490	\$ 5,755
Related party debt	—	533	749
Bank loans	4,052	4,938	4,962
Medium term note programs	29,470	26,157	25,984
Other debt	3,973	3,266	3,514
Secured debt	8,890	9,748	8,790
Total debt	\$ 51,927	\$ 50,132	\$ 49,754
Total shareholder's equity ⁽³⁾	\$ 17,948	\$ 16,586	\$ 16,336

As of or for the years ended March 31,

	2021	2020	2019
Other Key Consolidated Financial Data			
Ratio of debt to shareholder's equity	2.89x	3.02x	3.05x

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

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

Overview

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

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

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

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

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

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

COVID-19 Pandemic

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

We have modified certain business practices, including remote work arrangements, and we may take further action as may be required by government authorities, or that we determine are in the best interest of our employees, customers and dealers. We also established procedures to protect the safety of our employees who have returned to work. As of the date of this report, our remote work arrangements have not caused material adverse disruptions to our business operations or financial reporting functions. In an effort to reduce expenses, we also implemented temporary furloughs and salary reductions, which were lifted during May 2020 and September 2020, respectively.

To assist our existing retail loan and lease customers who may have been impacted by COVID-19, payment deferrals were granted to those customers who requested assistance. The granting of payment deferrals began in mid-March 2020 and ended in March 2021. Through the end of March 2021, a cumulative total of approximately 266,000 retail loans and 204,000 retail leases were granted payment deferrals, which represented approximately 11% and 13% of outstanding retail loans and retail leases as of March 31, 2021, respectively. By the end of March 2021, approximately 99% of these customers were required to resume making their payments. The deferral periods were up to a maximum of 3 months in the United States and 4 months in Canada, generally from the date the customer was initially granted the deferral. Customers taking advantage of the deferrals were not considered delinquent during such deferral periods and therefore were not reflected in our delinquency measures. In the United States, approximately 20% of the customers that were required to resume making their payments after the expiration of their deferral period were delinquent as of May 31, 2021, of which approximately 4% were 30 days or more past due and approximately 4% were repossessed or charged-off.

Many Honda and Acura dealerships temporarily suspended their sales operations beginning in mid-March 2020. To help support the dealers during this period of disruption to their operations, we have granted deferrals of interest payments on floorplans and principal payments on commercial loans generally for a period of 3 months. The granting of interest payment deferrals began in mid-March 2020 and ended in June 2020. Interest continued to accrue during the deferral period.

The suspension of sales operations at Honda and Acura dealerships and the decline in consumer demand had an impact on the sale of Honda and Acura vehicles. As a result, our consumer financing acquisition volumes also declined. Most dealerships resumed their sales operations beginning in May 2020 and with the support of incentive financing programs, our consumer financing acquisition volumes recovered to pre-COVID-19 levels by June 2020.

Sales of returned vehicles were limited during April 2020 as most physical auctions temporarily suspended operations. Used vehicle prices were negatively impacted during the suspension of auctions but recovered to pre-COVID-19 levels by June 2020.

The COVID-19 pandemic initially led to disruptions and volatility in the global capital markets. To improve our liquidity position for potential disruptions in funding sources, we increased our cash balances in part through additional medium-term note issuances. Our overall ability to access funding sources has not been negatively impacted.

The near-and-long term impact of COVID-19 to our business remains highly uncertain and cannot be accurately predicted. Although some of the governmental measures that were enacted to control the spread of COVID-19 have begun to be scaled back and the vaccine rollout has expanded, surges in the spread of COVID-19 due to the emergence of new strains or the ineffectiveness of the vaccines against such strains, may result in the reimplementing of certain restrictions, which could adversely impact our business.

Results of Operations

The following table presents our income before income taxes:

	Years ended March 31,		
	2021	2020	2019
(U.S. dollars in millions)			
Income before income taxes:			
United States segment	\$ 2,334	\$ 1,157	\$ 1,396
Canada segment	346	276	273
Total income before income taxes	<u>\$ 2,680</u>	<u>\$ 1,433</u>	<u>\$ 1,669</u>

Comparison of Fiscal Years Ended March 31, 2021 and 2020

Our consolidated income before income taxes was \$2,680 million in fiscal year 2021 compared to \$1,433 million in fiscal year 2020. This increase of \$1,247 million, or 87%, was due to the following differences:

	Years ended March 31,			
	2021	2020	Difference	% Change
(U.S. dollars in millions)				
Net revenues:				
Retail	\$ 1,664	\$ 1,737	\$ (73)	(4)%
Dealer	107	222	(115)	(52)%
Operating leases, net of leased vehicle expenses	2,185	2,056	129	6 %
Interest expense	(893)	(1,241)	348	(28)%
Other income	64	88	(24)	(27)%
Total net revenues	<u>3,127</u>	<u>2,862</u>	<u>265</u>	<u>9 %</u>
Expenses:				
General and administrative expenses	471	498	(27)	(5)%
Provision for credit losses	(69)	402	(471)	(117)%
Impairment loss on operating leases	—	—	—	n/m
Early termination loss on operating leases	(156)	331	(487)	(147)%
(Gain)/Loss on derivative instruments	(229)	305	(534)	(175)%
(Gain)/Loss on foreign currency revaluation of debt	430	(107)	537	(502)%
Total expenses	<u>447</u>	<u>1,429</u>	<u>(982)</u>	<u>(69)%</u>
Total income before income taxes	<u>\$ 2,680</u>	<u>\$ 1,433</u>	<u>\$ 1,247</u>	<u>87 %</u>

n/m= not meaningful

Segment Results—Comparison of Fiscal Years Ended March 31, 2021 and 2020

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

	United States Segment			Canada Segment			Consolidated		
	Years ended March 31,			Years ended March 31,			Years ended March 31,		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
(U.S. dollars in millions)									
Revenues:									
Retail	\$ 1,474	\$ 1,533	\$ 1,406	\$ 190	\$ 204	\$ 208	\$ 1,664	\$ 1,737	\$ 1,614
Dealer	94	198	211	13	24	21	107	222	232
Operating leases	6,437	6,402	6,001	1,328	1,347	1,252	7,765	7,749	7,253
Total revenues	8,005	8,133	7,618	1,531	1,575	1,481	9,536	9,708	9,099
Leased vehicle expenses	4,576	4,667	4,420	1,004	1,026	969	5,580	5,693	5,389
Interest expense	772	1,063	1,015	121	178	175	893	1,241	1,190
Net revenues	2,657	2,403	2,183	406	371	337	3,063	2,774	2,520
Other income	51	77	63	13	11	8	64	88	71
Total net revenues	2,708	2,480	2,246	419	382	345	3,127	2,862	2,591
Expenses:									
General and administrative expenses	418	439	403	53	59	53	471	498	456
Provision for credit losses	(65)	393	242	(4)	9	7	(69)	402	249
Impairment loss on operating leases	—	—	14	—	—	—	—	—	14
Early termination loss on operating leases	(157)	327	98	1	4	3	(156)	331	101
(Gain)/Loss on derivative instruments	(252)	271	500	23	34	9	(229)	305	509
(Gain)/Loss on foreign currency revaluation of debt	430	(107)	(407)	—	—	—	430	(107)	(407)
Income before income taxes	<u>\$ 2,334</u>	<u>\$ 1,157</u>	<u>\$ 1,396</u>	<u>\$ 346</u>	<u>\$ 276</u>	<u>\$ 273</u>	<u>\$ 2,680</u>	<u>\$ 1,433</u>	<u>\$ 1,669</u>

Revenues

Revenue from retail loans in the United States segment decreased by \$59 million, or 4%, during fiscal year 2021 compared to fiscal year 2020. The decrease in revenue was primarily attributable to lower yields due to the declining interest rate environment which was partially offset by higher average outstanding balances. Revenue from retail loans in the Canada segment decreased by \$14 million, or 7%, during fiscal year 2021 compared to fiscal year 2020. The decrease in revenue was attributable to lower yields due to the declining interest rate environment and lower average outstanding balances.

Operating lease revenue in the United States segment increased by \$35 million, or 1%, during fiscal year 2021 compared to fiscal year 2020. The increase in revenue was primarily attributable to higher average outstanding operating leases. Operating lease revenue in the Canada segment decreased by \$19 million, or 1%, during fiscal year 2021 compared to fiscal year 2020. The decrease in revenue was primarily attributable to lower average outstanding operating leases.

In the United States segment, revenue from dealer loans decreased by \$104 million, or 53%, during fiscal year 2021 compared to fiscal year 2020 and in the Canada segment, revenue from dealer loans decreased by \$11 million, or 46%, during fiscal year 2021 compared to fiscal year 2020. The decreases in revenue were attributable to lower yields due to the declining interest rate environment and lower average outstanding balances.

Consolidated subsidy income from AHM and HCI sponsored incentive programs decreased by \$163 million to \$1,476 million during fiscal year 2021 compared to \$1,639 million during fiscal year 2020. The average subsidy payment received for incentive leases and retail loans that were outstanding during fiscal year 2021 was lower compared to those outstanding during fiscal year 2020, resulting in a decline in average subsidy income earned per incentive lease and retail loan. This decline in subsidy income was partially offset by an increase in the average number of incentive retail loans that were outstanding during fiscal year 2021 compared to fiscal year 2020. The average number of incentive leases outstanding was slightly lower during fiscal year 2021 compared to fiscal year 2020 which also contributed to the decline in subsidy income.

Leased vehicle expenses

Leased vehicle expense in the United States segment decreased by \$91 million, or 2%, during fiscal year 2021 compared to fiscal year 2020. The decrease was attributable to higher gains on disposition of leased vehicles due to strong used vehicle prices during fiscal year 2021. Leased vehicle expenses in the Canada segment decreased by \$22 million, or 2%, during fiscal year 2021 compared to fiscal year 2020. The decrease was attributable to the decrease in depreciation on operating leases due to lower average outstanding operating leases and higher gains on disposition of leased vehicles due to strong used vehicle prices during fiscal year 2021.

Interest expense

Interest expense in the United States segment decreased by \$291 million, or 27%, during fiscal year 2021 compared to fiscal year 2020 primarily due to lower average interest rates. Interest expense in the Canada segment decreased by \$57 million, or 32%, primarily due to lower average interest rates and lower average outstanding debt. See “—*Liquidity and Capital Resources*” below for more information.

Provision for credit losses

In the United States segment, we recognized a negative provision for credit losses of \$65 million during fiscal year 2021 compared to a provision for credit losses of \$393 million during fiscal year 2020 and in the Canada segment, we recognized a negative provision for credit losses of \$4 million during fiscal year 2021 compared to a provision for credit losses of \$9 million during fiscal year 2020. The negative provision for credit losses were attributable to the reduction in the allowance for credit losses and lower than expected net charge-offs of retail loans during fiscal year 2021. See “—*COVID-19 Pandemic*” above and “—*Financial Condition—Credit Risk*” below for more information.

Early termination loss on operating leases

In the United States segment, we recognized a reversal of early termination losses on operating leases of \$157 million during fiscal year 2021 compared to early termination losses of \$327 million during fiscal year 2020. The reversal of early termination loss was the result of lower than expected realized losses during fiscal year 2021 and a reduction in the estimated impact that COVID-19 will have on lease default rates. Early termination losses on operating leases in the Canada segment decreased by \$3 million during fiscal year 2021 compared to fiscal year 2020. The decrease was the result of lower than expected realized losses during fiscal year 2021. See “—*COVID-19 Pandemic*” above and “—*Financial Condition—Credit Risk*” below for more information.

Gain/loss on derivative instruments

In the United States segment, we recognized a gain on derivative instruments of \$252 million during fiscal year 2021 compared to a loss of \$271 million during fiscal year 2020. The gain in fiscal year 2021 was attributable to gains on cross currency swaps of \$377 million, partially offset by losses on pay float interest rate swaps of \$113 million and pay fixed interest rate swaps of \$12 million. The gains on cross currency swaps during fiscal year 2021 were attributable to the U.S. dollar weakening against the Euro and Sterling. The losses on pay float interest rate swaps during fiscal year 2021 were primarily due to increases in applicable swap rates during the period. The net loss on pay fixed interest rates swaps during fiscal year 2021 was due to a decline in swap rates during the first nine months of the year, which was partially offset by gains during the fourth quarter of fiscal year 2021 as a result of the rise in swap rates during the quarter. In the Canada segment, we recognized a loss on derivative instruments of \$23 million during fiscal year 2021 compared to a loss of \$34 million during fiscal year 2020. The losses during fiscal year 2021 were due to declines in applicable swap rates during the period. See “—*Derivatives*” below for more information.

Gain/loss on foreign currency revaluation of debt

In the United States segment, we recognized a loss on the revaluation of foreign currency denominated debt of \$430 million during fiscal year 2021 compared to a gain of \$107 million during fiscal year 2020. The loss during fiscal year 2021 was primarily due to the U.S. dollar weakening against the Euro and Sterling during the period.

Income tax expense

Our consolidated effective tax rate was 24.2% for fiscal year 2021 and 29.6% for fiscal year 2020. The decrease in the effective tax rate for fiscal year 2021 was primarily due to a decrease in uncertain tax positions, offset by an increase in 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,					
	2021		2020		2019	
	Acquired	Sponsored ⁽²⁾	Acquired	Sponsored ⁽²⁾	Acquired	Sponsored ⁽²⁾
	(Units ⁽¹⁾ in thousands)					
United States Segment						
Retail loans:						
New auto	556	471	414	229	486	332
Used auto	104	36	125	21	123	26
Motorcycle and other	87	3	70	1	69	4
Total retail loans	<u>747</u>	<u>510</u>	<u>609</u>	<u>251</u>	<u>678</u>	<u>362</u>
Leases	470	416	549	436	495	438
Canada Segment						
Retail loans:						
New auto	51	45	58	51	63	61
Used auto	11	—	5	1	5	1
Motorcycle and other	10	9	8	7	8	6
Total retail loans	<u>72</u>	<u>54</u>	<u>71</u>	<u>59</u>	<u>76</u>	<u>68</u>
Leases	67	66	88	83	92	91
Consolidated						
Retail loans:						
New auto	607	516	472	280	549	393
Used auto	115	36	130	22	128	27
Motorcycle and other	97	12	78	8	77	10
Total retail loans	<u>819</u>	<u>564</u>	<u>680</u>	<u>310</u>	<u>754</u>	<u>430</u>
Leases	537	482	637	519	587	529

- (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, 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,		
	2021	2020	2019
United States Segment			
New auto	74 %	63 %	61 %
Motorcycle	33 %	34 %	36 %
Canada Segment			
New auto	84 %	83 %	79 %
Motorcycle	29 %	30 %	29 %
Consolidated			
New auto	74 %	65 %	63 %
Motorcycle	33 %	33 %	35 %

Consumer Financing Asset Balances

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

	March 31,			March 31,		
	2021	2020	2019	2021	2020	2019
	(U.S. dollars in millions)			(Units ⁽¹⁾ in thousands)		
United States Segment						
Retail loans:						
New auto	\$ 27,200	\$ 24,353	\$ 25,201	1,587	1,510	1,569
Used auto	4,915	4,999	4,522	359	356	318
Motorcycle and other	1,328	1,145	1,104	196	192	193
Total retail loans	<u>\$ 33,443</u>	<u>\$ 30,497</u>	<u>\$ 30,827</u>	<u>2,142</u>	<u>2,058</u>	<u>2,080</u>
Investment in operating leases	\$ 30,036	\$ 28,809	\$ 27,493	1,311	1,318	1,300
Securitized retail loans ⁽²⁾	\$ 8,368	\$ 8,977	\$ 7,896	686	703	665
Canada Segment						
Retail loans:						
New auto	\$ 3,502	\$ 3,195	\$ 3,458	244	258	263
Used auto	290	178	226	26	24	29
Motorcycle and other	121	84	86	22	20	21
Total retail loans	<u>\$ 3,913</u>	<u>\$ 3,457</u>	<u>\$ 3,770</u>	<u>292</u>	<u>302</u>	<u>313</u>
Investment in operating leases	\$ 5,309	\$ 5,034	\$ 5,113	272	296	289
Securitized retail loans ⁽²⁾	\$ 415	\$ 668	\$ 1,177	38	58	92
Securitized investment in operating leases ⁽²⁾	\$ 440	\$ 493	\$ —	23	24	—
Consolidated						
Retail loans:						
New auto	\$ 30,702	\$ 27,548	\$ 28,659	1,831	1,768	1,832
Used auto	5,205	5,177	4,748	385	380	347
Motorcycle and other	1,449	1,229	1,190	218	212	214
Total retail loans	<u>\$ 37,356</u>	<u>\$ 33,954</u>	<u>\$ 34,597</u>	<u>2,434</u>	<u>2,360</u>	<u>2,393</u>
Investment in operating leases	\$ 35,345	\$ 33,843	\$ 32,606	1,583	1,614	1,589
Securitized retail loans ⁽²⁾	\$ 8,783	\$ 9,645	\$ 9,073	724	761	757
Securitized investment in operating leases ⁽²⁾	\$ 440	\$ 493	\$ —	23	24	—

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

(2) Securitized retail loans and investments in operating leases represent the portion of total managed assets that have been sold in securitization transactions but continue to be recognized on our balance sheet.

In the United States segment, retail loan acquisition volumes increased by 23% during fiscal year 2021 compared to fiscal year 2020 primarily due to an increase in penetration rates in new auto loans with the support of incentive programs sponsored by AHM. Lease acquisition volumes decreased by 14% during fiscal year 2021 compared to fiscal year 2020 primarily due to lower AHM sales volumes. In the Canada segment, retail loan acquisition volumes increased by 1% during fiscal year 2021 compared to fiscal year 2020 primarily due to the increase in non-sponsored used auto loan acquisition volumes. Lease acquisition volumes decreased by 24% during fiscal year 2021 compared to fiscal year 2020 primarily due to the decrease in sponsored program volumes.

Dealer Financing

Wholesale Flooring Financing Penetration Rates

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

	March 31,		
	2021	2020	2019
United States Segment			
Automobile	28 %	29 %	30 %
Motorcycle	97 %	97 %	97 %
Other	18 %	16 %	20 %
Canada Segment			
Automobile	33 %	36 %	35 %
Motorcycle	95 %	96 %	95 %
Other	92 %	93 %	95 %
Consolidated			
Automobile	29 %	30 %	31 %
Motorcycle	97 %	97 %	97 %
Other	20 %	19 %	22 %

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,		
	2021	2020	2019
United States Segment			
Automobile	24 %	26 %	27 %
Motorcycle	98 %	98 %	97 %
Other	7 %	6 %	7 %
Canada Segment			
Automobile	31 %	32 %	32 %
Motorcycle	90 %	94 %	92 %
Other	96 %	96 %	96 %
Consolidated			
Automobile	25 %	27 %	27 %
Motorcycle	97 %	97 %	96 %
Other	10 %	9 %	9 %

Dealer Financing Asset Balances

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

	March 31,			March 31,		
	2021	2020	2019	2021	2020	2019
	(U.S. dollars in millions)			(Units ⁽¹⁾ in thousands)		
United States Segment						
Wholesale flooring loans:						
Automobile	\$ 2,396	\$ 3,049	\$ 3,308	83	109	121
Motorcycle	216	760	750	26	96	101
Other	39	55	59	37	56	63
Total wholesale flooring loans	<u>\$ 2,651</u>	<u>\$ 3,864</u>	<u>\$ 4,117</u>	<u>146</u>	<u>261</u>	<u>285</u>
Commercial loans	\$ 812	\$ 1,020	\$ 1,084			
Canada Segment						
Wholesale flooring loans:						
Automobile	\$ 488	\$ 547	\$ 441	17	21	17
Motorcycle	45	91	95	5	13	13
Other	20	24	25	18	27	28
Total wholesale flooring loans	<u>\$ 553</u>	<u>\$ 662</u>	<u>\$ 561</u>	<u>40</u>	<u>61</u>	<u>58</u>
Commercial loans	\$ 61	\$ 54	\$ 65			
Consolidated						
Wholesale flooring loans:						
Automobile	\$ 2,884	\$ 3,596	\$ 3,749	100	130	138
Motorcycle	261	851	845	31	109	114
Other	59	79	84	55	83	91
Total wholesale flooring loans	<u>\$ 3,204</u>	<u>\$ 4,526</u>	<u>\$ 4,678</u>	<u>186</u>	<u>322</u>	<u>343</u>
Commercial loans	\$ 873	\$ 1,074	\$ 1,149			

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

Credit Risk

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

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

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

With the adoption of ASU 2016-13, the allowance for credit losses is management's estimate of lifetime expected credit losses on the amortized cost basis of finance receivables. Additional information regarding credit losses is provided in the discussion of "*—Critical Accounting Policies—Credit Losses*" below.

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

	As of or for the years ended March 31,		
	2021	2020	2019
(U.S. dollars in millions)			
United States Segment			
Finance receivables:			
Allowance for credit losses at beginning of period ⁽³⁾	\$ 456	\$ 194	\$ 173
Provision for credit losses	(65)	393	203
Charge-offs, net of recoveries	(112)	(228)	(182)
Allowance for credit losses at end of period	<u>\$ 279</u>	<u>\$ 359</u>	<u>\$ 194</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.74 %	1.01 %	0.53 %
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.31 %	0.63 %	0.51 %
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 58	\$ 91	\$ 104
As a percentage of ending receivable balance ^{(1),(2)}	0.15 %	0.25 %	0.28 %
Operating leases:			
Early termination loss on operating leases	\$ (157)	\$ 327	\$ 98
Canada Segment			
Finance receivables:			
Allowance for credit losses at beginning of period ⁽³⁾	\$ 15	\$ 7	\$ 6
Provision for credit losses	(4)	9	6
Charge-offs, net of recoveries	(3)	(5)	(5)
Effect of translation adjustment	1	—	—
Allowance for credit losses at end of period	<u>\$ 9</u>	<u>\$ 11</u>	<u>\$ 7</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.21 %	0.22 %	0.14 %
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.06 %	0.12 %	0.12 %
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 2	\$ 3	\$ 4
As a percentage of ending receivable balance ^{(1),(2)}	0.04 %	0.08 %	0.09 %
Operating leases:			
Early termination loss on operating leases	\$ 1	\$ 4	\$ 3
Consolidated			
Finance receivables:			
Allowance for credit losses at beginning of period ⁽³⁾	\$ 471	\$ 201	\$ 179
Provision for credit losses	(69)	402	209
Charge-offs, net of recoveries	(115)	(233)	(187)
Effect of translation adjustment	1	—	—
Allowance for credit losses at end of period	<u>\$ 288</u>	<u>\$ 370</u>	<u>\$ 201</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.68 %	0.92 %	0.49 %
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.29 %	0.57 %	0.47 %
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 60	\$ 94	\$ 108
As a percentage of ending receivable balance ^{(1),(2)}	0.14 %	0.23 %	0.26 %
Operating leases:			
Early termination loss on operating leases	\$ (156)	\$ 331	\$ 101

- (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. See above under "*COVID-19 Pandemic*" for additional information.
- (3) Beginning allowance includes the \$101 million cumulative effect of adopting ASU 2016-13.

In the United States segment, we recognized a negative provision for credit losses on our finance receivables of \$65 million during fiscal year 2021 compared to a provision for credit losses of \$393 million during fiscal year 2020. The negative provision for credit losses was attributable to the reduction in the allowance for credit losses and lower than expected net charge-offs of retail loans. The allowance for retail loans at the beginning of the fiscal year ended March 31, 2021 reflected a significant increase in expected credit losses on retail loans due to the impact of COVID-19. Government measures that were enacted in an effort to slow down and control the spread of COVID-19 had a severe adverse impact on economic conditions, including a significant increase in unemployment. As a result, forecasts of weaker economic factors were reflected in this estimate, including a sharp rise in unemployment rates. However, the economic outlook improved during the fiscal year ended March 31, 2021 resulting in a reduction in the allowance for retail loans. Net charge-offs of retail loans during the fiscal year ended March 31, 2021 were favorable relative to the charge-offs that were expected at the beginning of the period, due in part to the positive effect of payment deferrals that were granted for COVID-19 related relief and various government support programs. We recognized a reversal of early termination losses on operating leases of \$157 million during fiscal year 2021 compared to losses of \$327 million during fiscal year 2020. The reversal of early termination losses was the result of lower than expected realized losses during fiscal year 2021 and a reduction in the estimated impact that COVID-19 will have on lessee default rates. The effect of higher unemployment rate was reduced in the modeling of estimated termination losses. See above under "*COVID-19 Pandemic*" for additional information.

In the Canada segment, we recognized a negative provision for credit losses on our finance receivables of \$4 million during fiscal year 2021 compared to a provision for credit losses of \$9 million during fiscal year 2020. The negative provision for credit losses is primarily attributable to lower than expected net charge-offs of retail loans during fiscal year 2021. Early termination losses on operating lease assets was \$1 million during fiscal year 2021 compared to \$4 million during fiscal year 2020. The decrease was the result of lower than expected realized losses during fiscal year 2021.

Lease Residual Value Risk

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

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

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

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

	Years ended March 31,		
	2021	2020	2019
(Units ⁽¹⁾ in thousands)			
United States Segment			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	379	359	319
Sales through auctions and dealer direct programs ⁽³⁾	89	156	155
Total termination units	<u>468</u>	<u>515</u>	<u>474</u>
Canada Segment			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	84	78	65
Sales through auctions and dealer direct programs ⁽³⁾	7	7	6
Total termination units	<u>91</u>	<u>85</u>	<u>71</u>
Consolidated			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	463	437	384
Sales through auctions and dealer direct programs ⁽³⁾	96	163	161
Total termination units	<u>559</u>	<u>600</u>	<u>545</u>

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

Liquidity and Capital Resources

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

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

The summary of outstanding debt presented in the tables and discussion below in this section “—*Liquidity and Capital Resources*” as of March 31, 2021, 2020 and 2019 includes foreign currency denominated debt which was translated into U.S. dollars using the relevant exchange rates as of March 31, 2021, 2020 and 2019, as applicable. Additionally, the amounts in this section that are presented in “C\$” (Canadian dollar), “€” (Euro), “£” (Sterling) and “¥” (Yen) were converted into U.S. dollars solely for convenience based on the exchange rate on March 31, 2021 of 1.2562, 1.1727, 1.3779 and 110.74, respectively, per U.S. dollar. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or that they could be converted into U.S. dollars at the rates indicated.

Summary of Outstanding Debt

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

	March 31,			Weighted average contractual interest rate		
	March 31,			March 31,		
	2021	2020	2019	2021	2020	2019
(U.S. dollars in millions)						
United States Segment						
Unsecured debt:						
Commercial paper	\$ 4,615	\$ 4,486	\$ 5,029	0.29 %	1.83 %	2.67 %
Bank loans	2,799	3,797	3,896	0.95 %	2.21 %	3.30 %
Private MTN program	500	999	999	3.80 %	3.84 %	3.84 %
Public MTN program	28,943	25,130	24,117	1.53 %	2.07 %	2.35 %
Euro MTN programme	27	28	868	2.23 %	2.23 %	1.89 %
Total unsecured debt	36,884	34,440	34,909			
Secured debt	8,149	8,710	7,671	1.37 %	2.26 %	2.41 %
Total debt	<u>\$ 45,033</u>	<u>\$ 43,150</u>	<u>\$ 42,580</u>			
Canada Segment						
Unsecured debt:						
Commercial paper	\$ 927	\$ 1,004	\$ 726	0.42 %	1.73 %	2.06 %
Related party debt	—	533	749	— %	1.76 %	2.18 %
Bank loans	1,253	1,141	1,066	1.15 %	2.01 %	2.62 %
Other debt	3,973	3,266	3,514	2.11 %	2.47 %	2.50 %
Total unsecured debt	6,153	5,944	6,055			
Secured debt	741	1,038	1,119	0.95 %	2.13 %	2.49 %
Total debt	<u>\$ 6,894</u>	<u>\$ 6,982</u>	<u>\$ 7,174</u>			
Consolidated						
Unsecured debt:						
Commercial paper	\$ 5,542	\$ 5,490	\$ 5,755	0.31 %	1.81 %	2.60 %
Related party debt	—	533	749	— %	1.76 %	2.18 %
Bank loans	4,052	4,938	4,962	1.01 %	2.16 %	3.16 %
Private MTN program	500	999	999	3.80 %	3.84 %	3.84 %
Public MTN program	28,943	25,130	24,117	1.53 %	2.07 %	2.35 %
Euro MTN programme	27	28	868	2.23 %	2.23 %	1.89 %
Other debt	3,973	3,266	3,514	2.11 %	2.47 %	2.50 %
Total unsecured debt	43,037	40,384	40,964			
Secured debt	8,890	9,748	8,790	1.34 %	2.25 %	2.42 %
Total debt	<u>\$ 51,927</u>	<u>\$ 50,132</u>	<u>\$ 49,754</u>			

Commercial Paper

As of March 31, 2021, we had commercial paper programs in the United States of \$7.0 billion and in Canada of C\$2.5 billion (\$2.0 billion). Interest rates on the commercial paper are fixed at the time of issuance. During fiscal year 2021, consolidated commercial paper month-end outstanding principal balances ranged from \$3.7 billion to \$6.8 billion.

Related Party Debt

HCFI no longer issues fixed rate notes to HCI to help fund HCFI's general corporate operations. Interest rates were based on prevailing rates of debt with comparable terms. Generally, the term of these notes were less than 120 days. As of the end of March 31, 2021, there were no outstanding notes.

Bank Loans

During fiscal year 2021, AHFC entered into one fixed rate term loan agreement for a total of \$200 million. HCFI entered into two floating rate term loan agreements for a total of C\$600 million (\$478 million). As of March 31, 2021, we had bank loans denominated in U.S. dollars and Canadian dollars with floating and fixed interest rates, in principal amounts ranging from \$40 million to \$600 million. As of March 31, 2021, the remaining maturities of all bank loans outstanding ranged from 15 days to approximately 4.0 years. The weighted average remaining maturity on all bank loans was 1.4 years as of March 31, 2021.

Our bank loans contain customary restrictive covenants, including limitations on liens, mergers, consolidations and asset sales, and a financial covenant that requires us to maintain positive consolidated tangible net worth. In addition to other customary events of default, the bank loans include cross-default provisions and provisions for default if HMC does not maintain ownership, whether directly or indirectly, of at least 80% of the outstanding capital stock of AHFC or HCFI, as applicable. All of these covenants and events of default are subject to important limitations and exceptions under the agreements governing the bank loans. As of March 31, 2021, management believes that AHFC and HCFI were in compliance with all covenants contained in our bank loans.

Medium Term Note (MTN) Programs

Private MTN Program

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. As of March 31, 2021, AHFC has one note outstanding under the Private MTN program. The note has a maturity date of September 20, 2021 and has a fixed interest rate. The note was issued pursuant to the terms of an issuing and paying agency agreement, which requires AHFC to comply with certain covenants, including negative pledge provisions, and includes customary events of defaults. As of March 31, 2021, management believes that AHFC was in compliance with all covenants contained in the Private MTN.

Public MTN Program

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

The Public MTNs may have original maturities of 9 months or more from the date of issue, may be interest bearing with either fixed or floating interest rates, or may be discounted notes. During fiscal year 2021, AHFC issued €1.5 billion aggregate principal amount of Euro denominated fixed rate MTNs, with an original maturity range from 2.0 years to 4.5 years, £500 million aggregate principal amount of Sterling denominated fixed rate MTNs, with an original maturity of 6 years, \$6.3 billion aggregate principal amount of U.S. dollar denominated fixed rate notes with an original maturity range from 2.0 to 10.0 years, and \$1.6 billion aggregate principal amount of U.S. dollar denominated floating rate notes, with an original maturity range from 15 months to 3.0 years. The weighted average remaining maturities of all Public MTNs was 2.5 years as of March 31, 2021.

The Public MTNs are issued pursuant to an indenture, which requires AHFC to comply with certain covenants, including negative pledge provisions and restrictions on AHFC's ability to merge, consolidate or transfer substantially all of its assets or the assets of its subsidiaries, and includes customary events of default. As of March 31, 2021, management believes that AHFC was in compliance with all covenants under the indenture.

Euro MTN Programme

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

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

	March 31,		
	2021	2020	2019
(U.S. dollars in millions)			
U.S. dollar	\$ 22,902	\$ 22,309	\$ 21,210
Euro	5,032	3,076	3,969
Sterling	1,509	744	778
Japanese yen	27	28	27
Total	<u>\$ 29,470</u>	<u>\$ 26,157</u>	<u>\$ 25,984</u>

Other Debt

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During fiscal year 2021, HCFI entered into C\$1.1 billion (\$876 million) fixed rate notes with an original maturity ranging from 5.5 years to 7.0 years and C\$450 million (\$358 million) floating rate notes with an original maturity ranging from 2.0 years to 3.0 years. As of March 31, 2021, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 166 days to approximately 6.9 years. The weighted average remaining maturities of these notes was 3.0 years as of March 31, 2021.

The notes are issued pursuant to the terms of an indenture, which requires HCFI to comply with certain covenants, including negative pledge provisions, and includes customary events of default. As of March 31, 2021, management believes that HCFI was in compliance with all covenants contained in the privately placed notes.

Secured Debt

Asset-Backed Securities

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

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

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

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

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

During fiscal year 2021, we issued notes through asset-backed securitizations totaling \$4.8 billion, which were secured by assets with an initial balance of \$5.1 billion.

Credit Agreements

Syndicated Bank Credit Facilities

AHFC maintains a \$3.5 billion 364-day credit agreement, which expires on February 25, 2022, a \$2.1 billion credit agreement, which expires on February 28, 2023, and a \$1.4 billion credit agreement, which expires on February 28, 2025. As of March 31, 2021, no amounts were drawn upon under the AHFC credit agreements. AHFC intends to renew or replace these credit agreements prior to or on their respective expiration dates.

HCFI maintains a C\$2.0 billion (\$1.6 billion) credit facility that includes a C\$1.0 billion (\$796 million) credit agreement, which expires on March 25, 2022 and a C\$1.0 billion (\$796 million) credit agreement, which expires March 25, 2025. As of March 31, 2021, no amounts were drawn upon under the HCFI credit agreement. HCFI intends to renew or replace the credit agreement prior to or on the expiration 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, 2021, management believes that AHFC and HCFI were in compliance with all covenants contained in the respective credit agreements.

Other Credit Agreements

AHFC maintains other committed lines of credit that allow the Company access to an additional \$1.0 billion in unsecured funding with two banks. The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales and a requirement for AHFC to maintain a positive consolidated tangible net worth. As of March 31, 2021, no amounts were drawn upon under these agreements. These agreements expire in September 2021. 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 \$72 million, \$68 million and \$23 million during fiscal years 2021, 2020 and 2019, respectively, pursuant to these Support Compensation Agreements and the predecessor agreements.

Indebtedness of Consolidated Subsidiaries

As of March 31, 2021, AHFC and its consolidated subsidiaries had \$61.6 billion of outstanding indebtedness and other liabilities, including current liabilities, of which \$16.7 billion consisted of indebtedness and liabilities of our consolidated subsidiaries. None of AHFC's consolidated subsidiaries had any outstanding preferred equity.

Derivatives

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table summarizes our contractual obligations, excluding lending commitments to dealers and derivative obligations, by fiscal year payment period, as of March 31, 2021:

	Payments due by period						
	Total	2022	2023	2024	2025	2026	Thereafter
	(U.S. dollars in millions)						
Unsecured debt obligations ⁽¹⁾	\$ 43,113	\$ 14,420	\$ 10,556	\$ 7,673	\$ 4,201	\$ 2,296	\$ 3,967
Secured debt obligations ⁽¹⁾	8,902	4,918	2,776	1,074	134	—	—
Interest payments on debt ⁽²⁾	1,811	635	465	296	163	99	153
Operating lease obligations	74	9	8	8	8	8	33
Total	<u>\$ 53,900</u>	<u>\$ 19,982</u>	<u>\$ 13,805</u>	<u>\$ 9,051</u>	<u>\$ 4,506</u>	<u>\$ 2,403</u>	<u>\$ 4,153</u>

(1) Debt obligations reflect the remaining principal obligations of our outstanding debt and do not reflect unamortized debt discounts and fees. Repayment schedule of secured debt reflects payment performance assumptions on underlying receivables. Foreign currency denominated debt principal is based on exchange rates as of March 31, 2021.

(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, 2021.

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

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

New Accounting Standards

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

Critical Accounting Policies

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

Credit Losses

With the adoption of ASU 2016-13, the allowance for credit losses is management’s estimate of lifetime expected credit losses on the amortized cost basis of finance receivables. We have elected not to measure an allowance for credit losses for accrued interest receivables. The allowance is measured on an undiscounted basis. Management evaluates the allowance, at minimum, on a quarterly basis.

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

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

Estimated losses on operating leases expected to terminate early due to lessee defaults are also determined collectively using modeling methodologies consistent with those used for retail loans.

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

Sensitivity Analysis

Our allowance for credit losses and early termination losses on operating leases requires significant judgment about inherently uncertain factors. The estimates are based on management’s evaluation of many factors, including our historical credit loss experience, the value of the underlying collateral, delinquency trends, and economic conditions. The estimates are based on information available as of each reporting date. Actual losses may differ from the original estimates due to actual results varying from those assumed in our estimates. 10% and 20% increases in estimated lifetime expected credit losses on our consumer finance receivables would have resulted in increases to the allowance for credit losses as of March 31, 2021 of \$28 million and \$56 million, respectively. Similarly, 10% and 20% increases in estimated incurred losses due to defaults on operating leases would have resulted in increases to estimated early termination losses as of March 31, 2021 of \$9 million and \$18 million, respectively.

Determination of Lease Residual Values

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

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

Sensitivity Analysis

If future estimated auction values for all outstanding operating leases as of March 31, 2021 were to decrease by \$100 per unit from our current estimates, the total impact would be an increase of approximately \$73 million in depreciation expense, which would be recognized over the remaining lease terms. If future return rates for all operating leases were to increase by one percentage point from our current estimates, the total impact would be an increase of approximately \$13 million in depreciation expense, which would be recognized over the remaining lease terms. This sensitivity analysis may be asymmetric and is specific to the conditions in effect as of March 31, 2021. Additionally, any declines in auction values are likely to have a negative effect on return rates which could affect the severity of the impact on our results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

To provide a quantitative measure of the sensitivity of interest rate movements on our pre-tax cash flows, we have estimated the effect of a hypothetical 100 basis point increase and decrease to benchmark interest rates on our floating rate financial instruments for the 12-month periods ending March 31, 2022 and 2021 below. Our estimates were based upon our existing receivables, debt, and derivatives as of March 31, 2021 and 2020. We do not include any assumptions for reinvestment of maturing assets and refinancing of maturing debt. The estimates for a 100 basis point decrease assume that rates cannot fall below zero percent.

Hypothetical change in interest rate	Impact on pre-tax cash flows for the 12 months ending March 31,	
	2022	2021
100 basis point increase	\$68 million decrease	\$17 million decrease
100 basis point decrease	\$23 million increase	\$17 million increase

The net impact on pre-tax cash flows of a hypothetical increase or decrease in interest rates was higher for the period ending March 31, 2022 compared to the period ending March 31, 2021 due to the decrease in the mix of pay float relative to receive float instruments.

Item 8. Financial Statements and Supplementary Data

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

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Principal Executive Officer and Principal Financial Officer have performed an evaluation of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Exchange Act, as of March 31, 2021, and each has concluded that such disclosure controls and procedures are effective, at the reasonable assurance level, to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and such information is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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, 2021.

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

Changes in Internal Control over Financial Reporting

There were no changes in the internal control over financial reporting during the quarter ended March 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

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

	Years ended March 31,	
	2021	2020
	(U.S. dollars in thousands)	
Audit fees	\$ 6,940	\$ 6,653
Audit-related fees	366	428
Tax fees	—	—
All other fees	—	—
Total	<u>\$ 7,306</u>	<u>\$ 7,081</u>

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

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

Auditor Pre-Approval Policy

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

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

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

(3) Exhibits

Exhibit Number	Description
3.1 ⁽¹⁾	Articles of Incorporation of American Honda Finance Corporation, dated February 6, 1980, and Certificates of Amendment to the Articles of Incorporation, dated March 29, 1984, November 13, 1988, December 4, 1989, July 2, 1991, April 3, 1997, November 30, 1999, and December 17, 2003.
3.2 ⁽¹⁾	Amended and Restated Bylaws of American Honda Finance Corporation, dated April 27, 2010.
4.1 ⁽¹⁾	Form of Specimen Common Stock of American Honda Finance Corporation.
4.2	American Honda Finance Corporation agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of American Honda Finance Corporation and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the American Honda Finance Corporation and its subsidiaries.
4.3 ⁽²⁾	Amended and Restated Issuing and Paying Agency Agreement between American Honda Finance Corporation and The Bank of New York Mellon, dated as of August 27, 2012.
4.4	Trust Indenture between Honda Canada Finance Inc., as issuer, and BNY Trust Company of Canada (as successor to CIBC Mellon Trust Company), as trustee, dated as of September 26, 2005⁽³⁾, as supplemented by supplemental indentures from time to time, and the Form of Debenture⁽⁴⁾.
4.5 ⁽⁵⁾	Indenture, dated September 5, 2013, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.6 ⁽⁶⁾	First Supplemental Indenture, dated February 8, 2018, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.7	Form of Fixed Rate Medium-Term Note, Series A⁽⁷⁾ and Form of Floating Rate Medium-Term Note, Series A⁽⁸⁾.
4.8 ⁽⁹⁾	Description of 1.300% Medium-Term Notes, Series A, due March 21, 2022
4.9 ⁽⁹⁾	Description of 2.625% Medium-Term Notes, Series A, due October 14, 2022
4.10 ⁽⁹⁾	Description of 1.375% Medium-Term Notes, Series A, due November 10, 2022
4.11 ⁽⁹⁾	Description of 0.550% Medium-Term Notes, Series A, due March 17, 2023
4.12 ⁽⁹⁾	Description of 0.750% Medium-Term Notes, Series A, due January 17, 2024
4.13 ⁽⁹⁾	Description of 0.350% Medium-Term Notes, Series A, due August 26, 2022
4.14 ⁽²⁶⁾	Description of 1.600% Medium-Term Notes, Series A, due April 20, 2022
4.15 ⁽²⁶⁾	Description of 1.950% Medium-Term Notes, Series A, due October 18, 2024
4.16 ⁽²⁷⁾	Description of 0.750% Medium-Term Notes, Series A, due November 25, 2026

Exhibit Number	Description
10.1 ⁽¹⁰⁾	<u>\$1,300,000,000 Second Amended and Restated Credit Agreement, dated as of March 24, 2014, among HCFI, as the borrower, the lenders party thereto, and Canadian Imperial Bank of Commerce, as administrative agent, joint bookrunner and co-lead arranger, RBC Capital Markets, as joint bookrunner and co-lead arranger, BMO Capital Markets, as co-lead arranger, The Toronto-Dominion Bank, as co-arranger and co-syndication agent, Bank of Tokyo-Mitsubishi UFJ (Canada), as co-arranger and co-syndication agent, Bank of Montreal, as co-syndication agent, Royal Bank of Canada, as co-syndication agent, and Mizuho Corporate Bank, Ltd., Canada Branch, as documentation agent.</u>
10.2 ⁽¹¹⁾	<u>Amendment, dated as of June 30, 2014, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.</u>
10.3 ⁽¹²⁾	<u>Second Amendment, dated as of March 13, 2015, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.</u>
10.4 ⁽¹³⁾	<u>Third Amendment, dated as of March 23, 2016, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.</u>
10.5 ⁽¹⁴⁾	<u>Fourth Amendment dated as of March 23, 2017 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.</u>
10.6 ⁽¹⁵⁾	<u>Fifth Amendment dated as of March 13, 2018 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.</u>
10.7 ⁽⁹⁾	<u>Sixth Amendment, dated as of March 12, 2019 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.</u>
10.8 ⁽¹⁶⁾	<u>Seventh Amendment, dated as of March 19, 2020 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.</u>
10.9 ⁽¹⁷⁾	<u>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.</u>
10.10 ⁽¹⁸⁾	<u>\$3,500,000,000 364-Day Credit Agreement, dated February 28, 2020, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and MUFG Bank, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citigroup Global Markets Inc. and Mizuho Bank, Ltd., as joint lead arrangers and joint bookrunners.</u>
10.11 ⁽¹⁹⁾	<u>First Amendment, dated as of February 26, 2021, 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.</u>
10.12 ⁽²⁰⁾	<u>\$2,100,000,000 Three-Year Credit Agreement, dated February 28, 2020, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank, Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and MUFG Bank, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citigroup Global Markets Inc. and Mizuho Bank, Ltd., as joint lead arrangers and joint bookrunners.</u>
10.13 ⁽²¹⁾	<u>\$1,400,000,000 Five-Year Credit Agreement, dated February 28, 2020, among American Honda Finance Corporation, as the borrower, the lenders from time to time party thereto, MUFG Bank, Inc., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and MUFG Bank, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, BofA Securities, Inc., Citigroup Global Markets Inc. and Mizuho Bank, Ltd., as joint lead arrangers and joint bookrunners.</u>
10.14 ⁽²²⁾	<u>Keep Well Agreement between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated September 9, 2005.</u>
10.15 ⁽²³⁾	<u>Support Compensation Agreement, between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated as of April 1, 2019.</u>

Exhibit Number	Description
10.16 ⁽²⁴⁾	Keep Well Agreement between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated September 26, 2005.
10.17 ⁽²⁵⁾	Support Compensation Agreement, between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated as of April 1, 2019.
23.1 ⁽²⁷⁾	Consent of KPMG LLP
31.1 ⁽²⁷⁾	Certification of Principal Executive Officer
31.2 ⁽²⁷⁾	Certification of Principal Financial Officer
32.1 ⁽²⁸⁾	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2 ⁽²⁸⁾	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS ⁽²⁷⁾	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH ⁽²⁷⁾	XBRL Taxonomy Extension Schema Document
101.CAL ⁽²⁷⁾	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB ⁽²⁷⁾	XBRL Taxonomy Extension Label Linkbase Document
101.PRE ⁽²⁷⁾	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF ⁽²⁷⁾	XBRL Taxonomy Extension Definition Linkbase Document
104. ⁽²⁷⁾	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

- (1) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, dated June 28, 2013.
- (2) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
- (3) Incorporated herein by reference to Exhibit number 4.5 filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
- (4) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 12, 2015.
- (5) Incorporated herein by reference to Exhibit number 4.1 filed with our registration statement on Form S-3, dated September 5, 2013.
- (6) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 8, 2018.
- (7) Incorporated herein by reference to Exhibit number 4.1 filed with our current report on Form 8-K, dated August 8, 2019.
- (8) Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 8, 2019.
- (9) Incorporated herein by reference to the same numbered Exhibit filed with our annual report on Form 10-K, dated June 21, 2019.
- (10) Incorporated herein by reference to the same numbered Exhibit filed with our current report on Form 8-K, dated March 24, 2014.
- (11) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated June 30, 2014.
- (12) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 13, 2015.
- (13) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2016.
- (14) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2017.
- (15) Incorporated herein by reference to the same numbered Exhibit filed with our annual report on Form 10-K, dated June 21, 2018.
- (16) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2020.
- (17) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 17, 2021.
- (18) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 4, 2020.
- (19) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 1, 2021.
- (20) Incorporated herein by reference to Exhibit number 10.2 filed with our current report on Form 8-K, dated March 4, 2020.
- (21) Incorporated herein by reference to Exhibit number 10.3 filed with our current report on Form 8-K, dated March 4, 2020.
- (22) Incorporated herein by reference to Exhibit 10.1 filed with our registration statement on Form 10, dated June 28, 2013.
- (23) Incorporated herein by reference to Exhibit 10.15 filed with our annual report on Form 10-K, dated June 21, 2019.
- (24) Incorporated herein by reference to Exhibit 10.3 filed with our registration statement on Form 10, dated June 28, 2013.
- (25) Incorporated herein by reference to Exhibit 10.17 filed with our annual report on Form 10-K, dated June 21, 2019.
- (26) Incorporated herein by reference to the same numbered Exhibit filed with our annual report on Form 10-K, dated June 22, 2020.
- (27) Filed herewith.
- (28) Furnished herewith.

Item 16. Form 10-K Summary

None.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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For the fiscal year ended March 31, 2021

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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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2021, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of April 1, 2020 due to the adoption of ASU 2016-13, *Financial Instruments — Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*.

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 Note 1 to the consolidated financial statements, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses* (ASC Topic 326), as of April 1, 2020. The total allowance for credit losses as of April 1, 2020 was \$471 million, of which \$462 million related to the allowance for credit losses on retail loans evaluated on a collective basis (the April 1, 2020 collective ACL). As discussed in Note 2 to the consolidated financial statements, the Company's total allowance for credit losses as of March 31, 2021 was \$288 million, of which \$280 million related to the allowance for credit losses on retail loans evaluated on a collective basis (the March 31, 2021 collective ACL). The April 1, 2020 collective ACL and March 31, 2021 collective ACL are measured by grouping retail receivables into pools with similar risk characteristics such as origination quarter, internal credit grade at origination, product type, and original term. In addition, the collective ACL is measured using econometric regression models that correlate 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 April 1, 2020 collective ACL and the March 31, 2021 collective ACL 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 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 the collective ACL estimates, including controls related to the:

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

We evaluated the Company's process to develop the collective ACL estimates 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 are 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 macroeconomic variables by comparing the scenario to the Company's business environment and publicly available forecasts.

We also assessed the sufficiency of the audit evidence obtained 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 receivables

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, 2021 was \$35,345 million. The estimate of early termination losses on operating lease assets is measured using econometric regression models that correlate 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 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 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, including controls related to the:

- development 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 macroeconomic variables
- re- evaluation of the model used to estimate early termination losses on operating lease assets
- analysis of model results as compared to actual loss performance.

We evaluated the Company's process to develop the estimated early termination losses on operating lease assets 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 macroeconomic variables by comparing the scenario to the Company's business environment and publicly available forecasts.

We also assessed the sufficiency of the audit evidence obtained 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 lease vehicles

As discussed in Note 1 to the consolidated financial statements, depreciation of lease vehicles on operating leases is calculated on the straight-line method over the lease term. The depreciable amount is the cost of the leased vehicle less its estimated end of term residual value. The Company's investment in operating leases, net as of March 31, 2021 was \$35,345 million. The Company assesses estimated end of term residual values of lease vehicles, taking into consideration external industry data and the Company's historical experience. Estimates for end of term market values of lease vehicles are evaluated by the Company on a quarterly basis at a minimum, and adjustments to estimated end of term residual values are made on a straight-line basis over the remaining term of the lease and are recognized within accumulated depreciation on investment in operating leases. The primary factors that affect estimated end of term residual values of lease vehicles are the percentage of leased vehicles expected to be returned by the lessee at the end of the lease term and expected loss severities based on end of term market values of lease vehicles.

We identified the assessment of estimated end of term residual values of lease vehicles 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 loss severities based on the end of term market values of lease vehicles. 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 the end of term residual values of lease vehicles estimate, including controls related to the:

- development of the residual value methodology, including identification and determination of the expected loss severities based on the end of term market values of lease vehicles assumption
- development 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 lease vehicles 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 loss severities based on the end of term market values of lease vehicles assumption by comparing it to specific portfolio risk characteristics and trends.

We also assessed the sufficiency of the audit evidence obtained 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 24, 2021

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	March 31,	
	2021	2020
Assets		
Cash and cash equivalents	\$ 1,870	\$ 1,503
Finance receivables, net	41,433	39,554
Investment in operating leases, net	35,345	33,843
Due from Parent and affiliated companies	194	93
Income taxes receivable	—	137
Other assets	1,042	1,378
Derivative instruments	918	748
Total assets	<u>\$ 80,802</u>	<u>\$ 77,256</u>
Liabilities and Equity		
Debt	\$ 51,927	\$ 50,132
Due to Parent and affiliated companies	106	72
Income taxes payable	205	239
Deferred income taxes	7,033	6,589
Other liabilities	1,734	1,689
Derivative instruments	632	972
Total liabilities	<u>\$ 61,637</u>	<u>\$ 59,693</u>
Commitments and contingencies (Note 9)		
Shareholder's equity:		
Common stock, \$100 par value. Authorized 15,000,000 shares; issued and outstanding 13,660,000 shares as of March 31, 2021 and 2020	\$ 1,366	\$ 1,366
Retained earnings	16,626	15,395
Accumulated other comprehensive loss	(44)	(175)
Total shareholder's equity	<u>17,948</u>	<u>16,586</u>
Noncontrolling interest in subsidiary	1,217	977
Total equity	<u>19,165</u>	<u>17,563</u>
Total liabilities and equity	<u>\$ 80,802</u>	<u>\$ 77,256</u>

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

	March 31,	
	2021	2020
Finance receivables, net	\$ 8,783	\$ 9,645
Investment in operating leases, net	440	493
Other assets	397	598
Total assets	<u>\$ 9,620</u>	<u>\$ 10,736</u>
Secured debt	\$ 8,890	\$ 9,748
Other liabilities	6	9
Total liabilities	<u>\$ 8,896</u>	<u>\$ 9,757</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	Years ended March 31,		
	2021	2020	2019
Revenues:			
Retail	\$ 1,664	\$ 1,737	\$ 1,614
Dealer	107	222	232
Operating leases	7,765	7,749	7,253
Total revenues	9,536	9,708	9,099
Leased vehicle expenses	5,580	5,693	5,389
Interest expense	893	1,241	1,190
Net revenues	3,063	2,774	2,520
Other income	64	88	71
Total net revenues	3,127	2,862	2,591
Expenses:			
General and administrative expenses	471	498	456
Provision for credit losses	(69)	402	249
Impairment loss on operating leases	—	—	14
Early termination loss on operating leases	(156)	331	101
(Gain)/Loss on derivative instruments	(229)	305	509
(Gain)/Loss on foreign currency revaluation of debt	430	(107)	(407)
Total expenses	447	1,429	922
Income before income taxes	2,680	1,433	1,669
Income tax expense	647	424	428
Net income	2,033	1,009	1,241
Less: Net income attributable to noncontrolling interest	121	97	96
Net income attributable to American Honda Finance Corporation	<u>\$ 1,912</u>	<u>\$ 912</u>	<u>\$ 1,145</u>

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

	Years ended March 31,		
	2021	2020	2019
Net income	\$ 2,033	\$ 1,009	\$ 1,241
Other comprehensive income/(loss):			
Foreign currency translation adjustment	252	(109)	(63)
Comprehensive income	2,285	900	1,178
Less: Comprehensive income attributable to noncontrolling interest	242	45	66
Comprehensive income attributable to American Honda Finance Corporation	<u>\$ 2,043</u>	<u>\$ 855</u>	<u>\$ 1,112</u>

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, 2018	\$ 16,596	\$ 14,449	\$ (85)	\$ 1,366	\$ 866
Net income	1,241	1,145	—	—	96
Other comprehensive loss	(63)	—	(33)	—	(30)
Dividends paid	(506)	(506)	—	—	—
Balance at March 31, 2019	\$ 17,268	\$ 15,088	\$ (118)	\$ 1,366	\$ 932
Net income	1,009	912	—	—	97
Other comprehensive loss	(109)	—	(57)	—	(52)
Dividends paid	\$ (605)	\$ (605)	\$ —	\$ —	\$ —
Balance at March 31, 2020	\$ 17,563	\$ 15,395	\$ (175)	\$ 1,366	\$ 977
Adoption of accounting standard (Note 1)	(75)	(73)	—	—	(2)
Net income	2,033	1,912	—	—	121
Other comprehensive income	252	—	131	—	121
Dividends paid	(608)	(608)	—	—	—
Balance at March 31, 2021	<u>\$ 19,165</u>	<u>\$ 16,626</u>	<u>\$ (44)</u>	<u>\$ 1,366</u>	<u>\$ 1,217</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	Years ended March 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 2,033	\$ 1,009	\$ 1,241
Adjustments to reconcile net income to net cash provided by operating activities:			
Debt and derivative instrument valuation adjustments	(85)	97	104
Provision for credit losses	(69)	402	249
Early termination loss on operating leases and impairment on operating leases	(156)	331	115
Depreciation on leased vehicles	5,669	5,705	5,520
Accretion of unearned subsidy income	(1,484)	(1,648)	(1,642)
Amortization of deferred dealer participation and other deferred costs	367	367	339
Gain on disposition of lease vehicles	(229)	(153)	(131)
Deferred income taxes	427	209	374
Changes in operating assets and liabilities:			
Income taxes receivable/payable	103	178	(166)
Other assets	38	(36)	(51)
Accrued interest/discounts on debt	32	32	64
Other liabilities	55	(31)	218
Due to/from Parent and affiliated companies	(66)	34	(4)
Net cash provided by operating activities	<u>6,635</u>	<u>6,496</u>	<u>6,230</u>
Cash flows from investing activities:			
Finance receivables acquired	(21,778)	(17,221)	(19,058)
Principal collected on finance receivables	18,526	17,386	16,140
Net change in wholesale loans	1,394	112	(252)
Purchase of operating lease vehicles	(16,023)	(17,775)	(16,389)
Disposal of operating lease vehicles	10,128	10,548	9,534
Cash received for unearned subsidy income	1,333	1,134	1,966
Other investing activities, net	(12)	(6)	(7)
Net cash used in investing activities	<u>(6,432)</u>	<u>(5,822)</u>	<u>(8,066)</u>
Cash flows from financing activities:			
Proceeds from issuance of commercial paper	39,628	37,084	33,697
Paydown of commercial paper	(39,665)	(37,282)	(33,083)
Proceeds from issuance of short-term debt	414	629	1,099
Paydown of short-term debt	(633)	(1,100)	(300)
Proceeds from issuance of related party debt	1,510	3,004	3,812
Paydown of related party debt	(2,082)	(3,193)	(4,121)
Proceeds from issuance of medium term notes and other debt	11,472	8,633	9,278
Paydown of medium term notes and other debt	(9,121)	(8,144)	(7,949)
Proceeds from issuance of secured debt	4,737	6,188	4,764
Paydown of secured debt	(5,713)	(5,187)	(4,689)
Dividends paid	(608)	(605)	(506)
Net cash (used in) provided by financing activities	<u>(61)</u>	<u>27</u>	<u>2,002</u>
Effect of exchange rate changes on cash and cash equivalents	23	1	(9)
Net increase in cash and cash equivalents	165	702	157
Cash and cash equivalents at beginning of year	2,085	1,383	1,226
Cash and cash equivalents at end of year	<u>\$ 2,250</u>	<u>\$ 2,085</u>	<u>\$ 1,383</u>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 718	\$ 1,080	\$ 985
Income taxes paid/(received)	209	(69)	141

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	March 31,		
	2021	2020	2019
Cash and cash equivalents	\$ 1,870	\$ 1,503	\$ 795
Restricted cash included in other assets ⁽¹⁾	380	582	588
	<u>\$ 2,250</u>	<u>\$ 2,085</u>	<u>1,383</u>

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

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

(a) Business Risks

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

Higher than expected credit losses and lower than anticipated lease residual values due to prolonged periods of negative economic and market conditions can adversely affect the Company's financial position, results of operations, and related cash flows. The Company manages these risks with purchasing and residual value setting standards, collection efforts, and lease remarketing programs. Refer to Note 1(e) for additional discussion on the allowance for credit losses and Note 1(g) 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(m) 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, 2021 and 2020).

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 model to project monthly gross loss rates in terms of origination dollars for the remaining contractual life of each vintage. Recoveries are projected as a percentage of the cumulative forecasted loss dollar of each vintage. The contractual term is the estimated lifetime of retail loans and is considered to be a reasonable and supportable forecast period of future economic conditions. Economic forecasts are obtained from a third party economic research firm that extend through the lifetime of retail loans and converge to long-run equilibrium trends. Baseline forecasts that reflect the most likely economic future is the single economic scenario applied in the model. Qualitative adjustments may also be applied if management believes the quantitative models do not reflect the best estimate of lifetime expected credit losses.

Dealer loans are evaluated on a collective basis if they have not been specifically identified as impaired. Collectively evaluated dealer loans are grouped by loan type and internal risk ratings and the allowance is measured primarily using historical loss rates. Dealer loans that have been specifically identified as impaired are excluded from the collective assessment and the allowance is measured at the individual dealer level. Dealer loans are considered impaired when it is probable that 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.

Prior to April 1, 2020, the allowance for credit losses was management's estimate of probable losses incurred on finance receivables. The allowance was based on management's evaluation of many factors, including the Company's historical credit loss experience, the value of the underlying collateral, delinquency trends, and economic conditions. Retail loans were collectively evaluated for impairment. Dealer loans that had not been specifically identified as impaired were collectively evaluated for impairment. Dealer loans were individually evaluated for impairment when specifically identified as impaired.

(f) *Investment in Operating Leases*

The investment in operating leases is reported at cost, less accumulated depreciation and net of unearned origination fees and deferred origination costs. Origination fees include payments received from AHM for incentive programs (refer to Note 6 regarding these related party transactions). 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 estimated residual value. Refer to Note 1(g) regarding the determination of lease residual values.

A portion of the Company's operating leases is expected to terminate prior to their scheduled maturities when lessees default on their contractual obligations. Losses are generally realized upon the disposition of the repossessed operating lease vehicles. 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.

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

(g) *Determination of Lease Residual Values*

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

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

(h) *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.

(i) *Vehicle Service Contract Administration*

AHFC performed administrative services for vehicle service contracts (VSC) issued by certain subsidiaries of AHM. AHFC received fees for performing the services when the contracts were acquired, which was recognized in other income over the lives of the underlying contracts, proportionate to the anticipated amount of service to be performed. Effective April 1, 2021, the administration of vehicle service contracts has been transferred to AHM. HCFI performs marketing services for vehicle service contracts issued by HCI. HCFI receives fees as the services are performed, which is recognized in other income.

(j) *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.

(k) *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.

(l) 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.

(m) 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.

(n) Recently Adopted Accounting Standards

Effective April 1, 2020, the Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and the related amendments on a modified retrospective basis. The amendments replace the previous incurred loss impairment methodology with a methodology that reflects lifetime expected credit losses. The adoption of ASU 2016-13 resulted in an increase to the allowance for credit loss of \$101 million along with an after-tax cumulative-effect reduction to opening retained earnings and noncontrolling interest of \$75 million. Comparative information has not been restated and continues to be presented under previous accounting standards.

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

Effective January 1, 2021, the Company adopted ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, as amended, on a prospective basis. The guidance provides optional expedients and exceptions for applying GAAP to contracts or other transactions affected by reference rate reform if certain criteria are met. The adoption of ASU 2020-04 did not have an impact on the consolidated financial statements. Future elections for contract modifications are not expected to have a material impact on the consolidated financial statements. The Company does not apply hedge accounting and does not have held to maturity debt securities.

(o) **Recently Issued Accounting Standards**

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This standard is not expected to have a material impact on the consolidated financial statements. The Company adopted the new guidance effective April 1, 2021.

Note 2. Finance Receivables

Finance receivables consisted of the following:

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

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

Finance receivables include retail loans with a net carrying amount of \$8.8 billion and \$9.6 billion as of March 31, 2021 and 2020, respectively, which have been transferred to bankruptcy-remote SPEs and are considered to be legally isolated but do not qualify for sale accounting treatment. These retail loans are restricted 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, 2021		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Beginning balance	\$ 364	\$ 6	\$ 370
Cumulative effective of adopting ASU 2016-13	98	3	101
Beginning balance as of April 1, 2020	462	9	471
Provision	(67)	(2)	(69)
Charge-offs	(232)	(1)	(233)
Recoveries	116	2	118
Effect of translation adjustment	1	—	1
Ending balance	<u>\$ 280</u>	<u>\$ 8</u>	<u>\$ 288</u>
	Year ended March 31, 2020		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Beginning balance	\$ 193	\$ 8	\$ 201
Provision	388	14	402
Charge-offs	(317)	(17)	(334)
Recoveries	100	1	101
Effect of translation adjustment	—	—	—
Ending balance	<u>\$ 364</u>	<u>\$ 6</u>	<u>\$ 370</u>
	Year ended March 31, 2019		
	Retail	Dealer	Total
	(U.S. dollars in millions)		
Beginning balance	\$ 179	\$ —	\$ 179
Provision	202	7	209
Charge-offs	(279)	(1)	(280)
Recoveries	91	2	93
Effect of translation adjustment	—	—	—
Ending balance	<u>\$ 193</u>	<u>\$ 8</u>	<u>\$ 201</u>

The adoption of ASU 2016-13 resulted in an increase to the allowance for credit loss of \$101 million, primarily for retail loans. The allowance for retail loans at the beginning of the fiscal year ended March 31, 2021 reflected a significant increase in expected credit losses on retail loans due to the impact of COVID-19. Government measures that were enacted in an effort to slow down and control the spread of COVID-19 had a severe adverse impact on economic conditions, including a significant increase in unemployment. Forecasts of weaker economic factors were reflected in this estimate, including a sharp rise in unemployment rates. The economic outlook improved during the fiscal year ended March 31, 2021 resulting in a reduction in the allowance for retail loans. Net charge-offs of retail loans during the fiscal year ended March 31, 2021 were favorable relative to the charge-offs that were expected at the beginning of the period, due in part to the positive effect of payment deferrals that were granted for COVID-19 related relief and various government support programs.

There were no modifications to the terms of dealer loan contracts that constituted troubled debt restructurings during the fiscal years ended March 31, 2021, 2020 and 2019.

The Company generally does not grant concessions on consumer finance receivables that are considered troubled debt restructurings other than modifications of retail loans in reorganization proceedings pursuant to the U.S. Bankruptcy Code. Retail loans modified under bankruptcy protection were not material to the Company's consolidated financial statements during the fiscal years ended March 31, 2021, 2020 and 2019. The Company does allow limited payment deferrals on consumer finance receivables. These payment deferrals are not treated as troubled debt restructurings since the deferrals are deemed insignificant and interest continues to accrue during the deferral period. Payment deferrals were also granted to certain customers impacted by COVID-19 beginning in mid-March 2020. Through the end of March 2021, a cumulative total of approximately 266,000 retail loans were granted payment deferrals. As of March 31, 2021, approximately 2,900 outstanding retail loans were still within their deferral periods. The deferral period is up to a maximum of 3 months in the United States and 4 months in Canada, generally from the date the customer was initially granted the deferral. Customers taking advantage of the deferrals were not considered delinquent during such deferral periods and therefore were not reflected in delinquency measures. As of March 1, 2021, we were no longer granting deferrals for COVID-19 related relief.

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, 2021						
Retail loans:						
New auto	\$ 145	\$ 33	\$ 7	\$ 185	\$ 30,715	\$ 30,900
Used and certified auto	50	12	3	65	5,202	5,267
Motorcycle and other	10	3	2	15	1,454	1,469
Total retail	<u>205</u>	<u>48</u>	<u>12</u>	<u>265</u>	<u>37,371</u>	<u>37,636</u>
Dealer loans:						
Wholesale flooring	1	—	—	1	3,205	3,206
Commercial loans	—	—	—	—	879	879
Total dealer loans	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>4,084</u>	<u>4,085</u>
Total finance receivables	<u>\$ 206</u>	<u>\$ 48</u>	<u>\$ 12</u>	<u>\$ 266</u>	<u>\$ 41,455</u>	<u>\$ 41,721</u>
March 31, 2020						
Retail loans:						
New auto	\$ 222	\$ 50	\$ 13	\$ 285	\$ 27,495	\$ 27,780
Used and certified auto	84	20	5	109	5,174	5,283
Motorcycle and other	12	4	2	18	1,237	1,255
Total retail	<u>318</u>	<u>74</u>	<u>20</u>	<u>412</u>	<u>33,906</u>	<u>34,318</u>
Dealer loans:						
Wholesale flooring	1	—	—	1	4,529	4,530
Commercial loans	—	—	—	—	1,076	1,076
Total dealer loans	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>5,605</u>	<u>5,606</u>
Total finance receivables	<u>\$ 319</u>	<u>\$ 74</u>	<u>\$ 20</u>	<u>\$ 413</u>	<u>\$ 39,511</u>	<u>\$ 39,924</u>

Credit Quality Indicators

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

Retail Loan Segment

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

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

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

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

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

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

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

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

Dealer Loan Portfolio Segment

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

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

Note 3. Investment in Operating Leases

Investment in operating leases consisted of the following:

	March 31,	
	2021	2020
	(U.S. dollars in millions)	
Operating lease vehicles	\$ 45,153	\$ 43,624
Accumulated depreciation	(8,726)	(8,219)
Deferred dealer participation and initial direct costs	130	131
Unearned subsidy income	(1,123)	(1,376)
Estimated early termination losses	(89)	(317)
Investment in operating leases, net	<u>\$ 35,345</u>	<u>\$ 33,843</u>

Operating lease revenue consisted of the following:

	Years ended March 31,		
	2021	2020	2019
	(U.S. dollars in millions)		
Lease payments	\$ 6,808	\$ 6,713	\$ 6,395
Subsidy income and dealer rate participation, net ⁽¹⁾	894	968	858
Reimbursed lessor costs ⁽²⁾	63	68	—
Total operating lease revenue, net	<u>\$ 7,765</u>	<u>\$ 7,749</u>	<u>\$ 7,253</u>

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

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

Leased vehicle expenses consisted of the following:

	Years ended March 31,		
	2021	2020	2019
	(U.S. dollars in millions)		
Depreciation expense	\$ 5,669	\$ 5,705	\$ 5,520
Initial direct costs and other lessor costs ⁽¹⁾	140	141	—
Gain on disposition of leased vehicles ⁽²⁾	(229)	(153)	(131)
Total leased vehicle expenses, net	<u>\$ 5,580</u>	<u>\$ 5,693</u>	<u>\$ 5,389</u>

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

(2) Included in the gain on disposition of leased vehicles are end of term charges of \$54 million, \$73 million, and \$70 million for the fiscal years ended March 31, 2021, 2020 and 2019, respectively.

Investment in operating leases includes lease assets with a net carrying amount of \$440 million as of March 31, 2021, which have been transferred to SPEs and are considered to be legally isolated but do not qualify for sale accounting treatment. These investments in operating leases are restricted and serve as collateral for the payment of the related secured debt obligations. Refer to Note 10 for additional information.

Contractual operating lease payments due as of March 31, 2021 are summarized below. Based on the Company's experience, it is expected that a portion of the Company's operating leases will terminate prior to the scheduled lease term. The summary below should not be regarded as a forecast of future cash collections.

Year ending March 31,		(U.S. dollars in millions)	
2022		\$	5,979
2023			3,852
2024			1,519
2025			247
2026			58
Total		<u>\$</u>	<u>11,655</u>

The Company recognized a reversal of early termination losses on operating leases of \$156 million for the fiscal years ended March 31, 2021, and \$331 million and \$101 million early termination losses due to lessee defaults for the fiscal years ended March 31, 2020 and 2019, respectively. Actual net losses realized for the fiscal years ended March 31, 2021, 2020 and 2019 totaled \$72 million, \$129 million, and \$85 million, respectively.

The general allowance for uncollectible operating lease receivables was recorded through a reduction to revenue of \$31 million and \$28 million for the fiscal year ended March 31, 2021 and 2020, respectively. The general allowance for uncollectible operating lease receivables was recorded through a provision for credit losses of \$40 million for the fiscal years ended March 31, 2019.

During the fiscal year ended March 31, 2021, the Company considered the impact of COVID-19 on estimated residual values and determined that impairment conditions were not met. No impairment losses due to declines in estimated residual values were recognized during the fiscal year ended March 31, 2021 and 2020. The Company recognized \$14 million of impairment losses on operating leases due to lower estimated residual values of certain models of leased vehicles for the fiscal year ended March 31, 2019.

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:

	<u>March 31,</u>		<u>Weighted average contractual interest rate</u>		<u>Contractual interest rate ranges</u>	
	<u>2021</u>	<u>2020</u>	<u>March 31,</u>	<u>2020</u>	<u>March 31,</u>	<u>2020</u>
	(U.S. dollars in millions)					
Unsecured debt:						
Commercial paper	\$ 5,542	\$ 5,490	0.31 %	1.81 %	0.20 - 0.67%	1.01 - 2.31%
Related party debt	—	533	— %	1.76 %	— - —%	1.45 - 2.06%
Bank loans	4,052	4,938	1.01 %	2.16 %	0.56 - 1.29%	1.44 - 2.55%
Private MTN program	500	999	3.80 %	3.84 %	3.80 - 3.80%	3.80 - 3.88%
Public MTN program	28,943	25,130	1.53 %	2.07 %	0.33 - 3.63%	0.35 - 3.63%
Euro MTN programme	27	28	2.23 %	2.23 %	2.23 - 2.23%	2.23 - 2.23%
Other debt	3,973	3,266	2.11 %	2.47 %	0.53 - 3.44%	1.73 - 3.44%
Total unsecured debt	<u>43,037</u>	<u>40,384</u>				
Secured debt	8,890	9,748	1.34 %	2.25 %	0.12 - 3.30%	1.36 - 3.30%
Total debt	<u>\$ 51,927</u>	<u>\$ 50,132</u>				

As of March 31, 2021, the outstanding principal balance of long-term debt with floating interest rates totaled \$9.9 billion, long-term debt with fixed interest rates totaled \$35.6 billion, and short-term debt with floating and fixed interest rates totaled \$6.4 billion. As of March 31, 2020, the outstanding principal balance of long-term debt with floating interest rates totaled \$13.0 billion, long-term debt with fixed interest rates totaled \$30.0 billion, and short-term debt with floating and fixed interest rates totaled \$7.3 billion.

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, 2021 are summarized below:

	2022	2023	2024	2025	2026	Thereafter	Total
(U.S. dollars in millions)							
Unsecured debt:							
Commercial paper	\$ 5,544	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,544
Related party debt	—	—	—	—	—	—	—
Bank loans	2,037	1,337	200	480	—	—	4,054
Private MTN program	500	—	—	—	—	—	500
Public MTN program	5,782	8,078	6,836	3,323	1,500	3,489	29,008
Euro MTN programme	—	27	—	—	—	—	27
Other debt	557	1,114	637	398	796	478	3,980
Total unsecured debt	14,420	10,556	7,673	4,201	2,296	3,967	43,113
Secured debt ⁽¹⁾	4,918	2,776	1,074	134	—	—	8,902
Total debt ⁽²⁾	\$ 19,338	\$ 13,332	\$ 8,747	\$ 4,335	\$ 2,296	\$ 3,967	\$ 52,015
Unamortized discounts/fees							(88)
Total debt, net							\$ 51,927

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

(2) Principal amounts.

Commercial Paper

As of March 31, 2021 and 2020, the Company had commercial paper programs that provide the Company with available funds of up to \$9.0 billion and \$8.8 billion, respectively, at prevailing market interest rates for terms up to one year. The commercial paper programs are supported by the Keep Well Agreements with HMC described in Note 6.

Outstanding commercial paper averaged \$5.3 billion during fiscal year 2021 and \$5.5 billion during fiscal year 2020. The maximum balance outstanding at any month-end during fiscal years 2021 was \$6.8 billion and during fiscal year 2020 was \$6.2 billion.

Related Party Debt

HCFI no longer issues fixed rate short-term notes to HCI to help fund HCFI's general corporate operations and has paid the remaining balance as of March 31, 2021. HCFI incurred interest expense on these notes totaling \$2 million, \$14 million and \$16 million for the fiscal years ended March 31, 2021, 2020 and 2019, respectively.

Bank Loans

Outstanding bank loans at March 31, 2021 and 2020 were either short-term or long-term, with floating or fixed interest rates, and denominated in U.S. dollars or Canadian dollars. Outstanding bank loans have prepayment options. No outstanding bank loans as of March 31, 2021 and 2020 were supported by the Keep Well Agreements with HMC described in Note 6. Outstanding bank loans contain certain covenants, including limitations on liens, mergers, consolidations and asset sales.

Medium Term Note (MTN) Programs

Private MTN Program

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. AHFC has one note outstanding under the Private MTN Program as of March 31, 2021. The note is long-term, with a fixed interest rate, a maturity date of September 20, 2021, and is denominated in U.S. dollars. Notes under this program were issued pursuant to the terms of an issuing and paying agency agreement which contains certain covenants, including negative pledge provisions.

Public MTN Program

In August 2019, AHFC renewed its Public MTN program by filing a registration statement with the SEC under which it may issue from time to time up to \$30.0 billion aggregate principal amount of Public MTNs pursuant to the Public MTN program. The aggregate principal amount of MTNs offered under this program may be increased from time to time. Notes outstanding under the Public MTN program as of March 31, 2021 were long-term, with either fixed or floating interest rates, and denominated in U.S. dollars, Euro or Sterling. Notes under this program are issued pursuant to an indenture which contains certain covenants, including negative pledge provisions and limitations on mergers, consolidations and asset sales.

Euro MTN Programme

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

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

Other Debt

The outstanding balances as of March 31, 2021 and 2020 consisted of private placement debt issued by HCFI which are long-term, with either fixed or floating interest rates, and denominated in Canadian dollars. Private placement debt is supported by the Keep Well Agreement with HMC described in Note 6. The notes are issued pursuant to the terms of an indenture which contains certain covenants, including negative pledge provisions.

Secured Debt

The Company issues notes through financing transactions that are secured by assets held by issuing SPEs. Notes outstanding as of March 31, 2021 and 2020 were long-term and short-term, with either fixed or floating interest rates, and denominated in U.S. dollars or Canadian dollars. Repayment of the notes is dependent on the performance of the underlying retail loans and operating leases. Refer to Note 10 for additional information on the Company's secured financing transactions.

Credit Agreements

Syndicated Bank Credit Facilities

AHFC maintains a \$7.0 billion syndicated bank credit facility that includes a \$3.5 billion credit agreement, which expires on February 25, 2022, a \$2.1 billion credit agreement, which expires on February 28, 2023, and a \$1.4 billion credit agreement, which expires on February 28, 2025. As of March 31, 2021, no amounts were drawn upon under the AHFC credit agreements. AHFC intends to renew or replace these credit agreements prior to or on their respective expiration dates.

HCFI maintains a \$1.6 billion syndicated bank credit facility that includes a \$796 million credit agreement, which expires on March 25, 2022 and a \$796 million credit agreement, which expires on March 25, 2025. As of March 31, 2021, no amounts were drawn upon under the HCFI credit agreement. HCFI intends to renew or replace the credit agreement prior to or on the expiration 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, 2021, no amounts were drawn upon under these agreements. These agreements expire in September 2021. 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 settlements of derivative instruments are presented within cash flows from operating activities in the consolidated statements of cash flows.

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

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

	March 31,					
	2021			2020		
	Notional balances	Assets	Liabilities	Notional balances	Assets	Liabilities
	(U.S. dollars in millions)					
Interest rate swaps	\$ 64,088	\$ 545	\$ 586	\$ 57,379	\$ 704	\$ 830
Cross currency swaps	6,303	373	46	4,001	44	142
Gross derivative assets/liabilities		918	632		748	972
Collateral posted/held		37	5		45	9
Counterparty netting adjustment		(591)	(591)		(764)	(764)
Net derivative assets/liabilities		<u>\$ 364</u>	<u>\$ 46</u>		<u>\$ 29</u>	<u>\$ 217</u>

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

	Years ended March 31,		
	2021	2020	2019
	(U.S. dollars in millions)		
Interest rate swaps	\$ (148)	\$ (127)	\$ (23)
Cross currency swaps	377	(178)	(486)
Total gain/(loss) on derivative instruments	<u>\$ 229</u>	<u>\$ (305)</u>	<u>\$ (509)</u>

Note 6. Transactions Involving Related Parties

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

Income Statement	Years ended March 31,		
	2021	2020	2019
(U.S. dollars in millions)			
Revenue:			
Subsidy income	\$ 1,476	\$ 1,639	\$ 1,633
Interest expense:			
Related party debt	2	14	16
Other income, net:			
VSC administration fees	106	109	109
Support Service Fee	(45)	(36)	(34)
General and administrative expenses:			
Support Compensation Agreement fees	72	68	23
Benefit plan expenses	9	10	11
Shared services	69	70	67
Lease expense	2	—	—

Balance Sheet	March 31,	
	2021	2020
(U.S. dollars in millions)		
Assets:		
Finance receivables, net:		
Unearned subsidy income	\$ (891)	\$ (738)
Investment in operating leases, net:		
Unearned subsidy income	(1,120)	(1,372)
Due from Parent and affiliated companies	194	93
Liabilities:		
Debt:		
Related party debt	\$ —	\$ 533
Due to Parent and affiliated companies	106	72
Other liabilities:		
Accrued interest expense	—	1
Unearned VSC administrative fees	333	363
Accrued benefit expenses	60	69
Operating lease liabilities	17	—

Support Agreements

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

this Keep Well Agreement, in accordance with its terms, or where necessary make available to AHFC, or HMC shall procure for AHFC, sufficient funds to enable AHFC to meet such obligations in accordance with such terms. This Keep Well Agreement is not a guarantee by HMC.

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

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

Incentive Financing Programs

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

Related Party Debt

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

Vehicle Service Contract (VSC) Administration

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

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

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

Shared Services

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

Benefit Plans

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

Income taxes

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

Other

AHM periodically sponsors programs that allow lessees to terminate their lease contracts prior to the contractual maturity date. AHM compensates the Company for rental payments that were waived under these programs. During the fiscal years ended March 31, 2021 and 2020, the Company recognized \$8 million and \$13 million, respectively, under these programs which were reflected as proceeds on the disposition of the returned lease vehicles.

The majority of the amounts due from the Parent and affiliated companies at March 31, 2021 and 2020 related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at March 31, 2021 and 2020 related to wholesale flooring payable to the Parent. These receivable and payable accounts are non-interest-bearing and short-term in nature and are expected to be settled in the normal course of business.

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

AHFC declared and paid semi-annual cash dividends to its parent, AHM, \$143 million and \$465 million during the fiscal year ended March 31, 2021, \$292 million and \$313 million during the fiscal year ended March 31, 2020, and \$235 million and \$271 million during the fiscal year ended March 31, 2019.

Note 7. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Act primarily provided for a reduction of the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018, and a one-time deemed repatriation transition tax (Transition Tax). In the period ended March 31, 2019, the Company completed its accounting for the Transition Tax based on the availability of new information in the period. As a result, the Company's effective tax rate was reduced by approximately 1.2% for the fiscal year ended March 31, 2019.

The Company has elected not to record deferred taxes for a Global Intangible Low-Taxed Income (GILTI) related book-tax differences, and will treat taxes due on further U.S. inclusions in taxable income related to GILTI as a current period expense when incurred.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which provides economic relief in response to the coronavirus pandemic. The CARES Act, among other things, includes provisions to allow certain net operating losses to be carried-back up to five years, to increase interest deduction limitations, and to make technical corrections to tax depreciation methods for qualified improvement property. During the fiscal year 2021, various U.S. states enacted legislation to respond to various provisions of the CARES Act.

On December 27, 2020, and March 11, 2021, the U.S. government enacted the Consolidated Appropriations Act (CAA) and American Rescue Plan Act (ARPA), respectively, both of which provide additional economic relief in response to the ongoing coronavirus pandemic. The Company evaluated the impact of the provisions of the CARES Act, CAA and ARPA, and concluded there was no material impact on the Company's March 31, 2021 income tax accounts.

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

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	(U.S. dollars in millions)		
<u>Year ended March 31, 2021</u>			
Federal	\$ 36	\$ 378	\$ 414
State and local	146	(5)	141
Foreign	38	54	92
Total	<u>\$ 220</u>	<u>\$ 427</u>	<u>\$ 647</u>
<u>Year ended March 31, 2020</u>			
Federal	\$ (46)	\$ 333	\$ 287
State and local	231	(166)	65
Foreign	30	42	72
Total	<u>\$ 215</u>	<u>\$ 209</u>	<u>\$ 424</u>
<u>Year ended March 31, 2019</u>			
Federal	\$ (216)	\$ 432	\$ 216
State and local	246	(107)	139
Foreign	24	49	73
Total	<u>\$ 54</u>	<u>\$ 374</u>	<u>\$ 428</u>

The allocation of federal tax expense between current and deferred tax expense reflects primarily the impact of accelerated federal depreciation offset by the elimination of like-kind exchange for personal property due to the Tax Act for the fiscal years ended March 31, 2021, 2020, and 2019.

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:

	<u>Years ended March 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(U.S. dollars in millions)		
Computed "expected" income taxes	\$ 563	\$ 301	\$ 351
Foreign tax rate differential	19	14	15
State and local income taxes, net of federal income tax benefit	112	62	68
Change in estimated state tax rate, net of federal income tax benefit	(6)	(16)	39
Change in unrecognized tax benefit	(47)	64	48
Income tax credits	(3)	(6)	(52)
Effect of Tax Act	—	—	(49)
Other	9	5	8
Income tax expense	<u>\$ 647</u>	<u>\$ 424</u>	<u>\$ 428</u>

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

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

	March 31,	
	2021	2020
(U.S. dollars in millions)		
Deferred tax assets:		
State income tax	\$ 163	\$ 177
Receivable allowance	111	135
Accrued postretirement	12	16
State loss carryforwards	36	48
Income tax credits	80	76
Derivatives	—	19
Other assets	67	65
Total gross deferred tax assets	469	536
Less valuation allowance	—	—
Net deferred tax assets	469	536
Deferred tax liabilities:		
HCFI leases	466	369
AHFC leases	6,950	6,679
Other	86	77
Total gross deferred tax liabilities	7,502	7,125
Net deferred tax liabilities	\$ 7,033	\$ 6,589

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

For the fiscal year ended March 31, 2021, the Company reflected a \$24 million increase in the deferred tax assets offset to retained earnings to account for the adoption of ASU 2016-13.

The effect of translating HCFI's net deferred tax liabilities to U.S. dollars upon consolidation resulted in an increase of \$41 million, a decrease of \$19 million, and a decrease of \$10 million during the fiscal years ended March 31, 2021, 2020, and 2019, 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, 2021, \$1.1 billion of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of March 31, 2021 were to be distributed, the tax liability associated with these indefinitely reinvested earnings would be \$52 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 \$36 million, \$48 million, and \$47 million at March 31, 2021, 2020, and 2019, respectively. The expiration, if applicable, of these NOL carryforwards varies based on the statutes of each of the applicable states through March 31, 2040. The deferred tax asset related to a federal income tax credit in the amount of \$80 million at March 31, 2021 will expire in the fiscal years ending March 31, 2038 through 2041, if unused.

Uncertain Tax Positions

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

	Years ended March 31,		
	2021	2020	2019
	(U.S. dollars in millions)		
Balance, beginning of year	\$ 169	\$ 86	\$ 22
Additions for current year tax positions	—	—	—
Additions for prior year tax positions	—	98	64
Reductions for prior year tax positions	(21)	(15)	—
Settlements	(4)	—	—
Reductions related to a lapse in the statute of limitations	(49)	—	—
Foreign currency translation	—	—	—
Balance, end of year	<u>\$ 95</u>	<u>\$ 169</u>	<u>\$ 86</u>

Included in the balance of unrecognized tax benefits at March 31, 2021, 2020 and 2019 are \$94 million, \$166 million and \$84 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 \$103 million and \$195 million as of March 31, 2021 and 2020, 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 income of \$20 million during the fiscal year ended March 31, 2021, and interest expense of \$25 million and \$9 million during the fiscal years ended March 31, 2020 and 2019, respectively. As of March 31, 2021, 2020 and 2019, the Company's consolidated balance sheets reflect accrued interest payable of \$16 million, \$36 million, and \$11 million, respectively.

During the fiscal year ended March 31, 2021, the Company reduced previously unrecognized tax benefits as a result of a change in tax accounting method filed with the Internal Revenue Service to change the timing of certain income recognition items. This reduction had no material net impact on the Company's total tax expense for the period.

As of March 31, 2021, the Company is subject to examination for U.S. federal returns filed for the taxable years ended March 31, 2014 through 2020, and returns filed for the taxable years ended March 31, 2008 through 2020 in various U.S. states. The Company's Canadian subsidiary, HCFI, is subject to examination for returns filed for the taxable years ended March 31, 2014 through 2020 federally, and returns filed for the taxable years ended March 31, 2008 through 2020, except for 2011 and 2012, provincially. 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 their Pension Plan. The Company pays for its share of the Pension Plan costs allocated by the Sponsors. The Pension Plans' expense, included in general and administrative expenses, was \$21 million for the fiscal year ended March 31, 2021, \$6 million for the fiscal year ended March 31, 2020 and \$7 million for the fiscal year ended March 31, 2019.

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 \$8 million for the fiscal years ended March 31, 2021, 2020, and 2019.

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. Included in the general and administrative expenses was a benefit for the postretirement plans of \$12 million for the fiscal year ended March 31, 2021, and an expense for postretirement plans of \$4 million for both the fiscal years ended March 31, 2020 and 2019.

Note 9. Commitments and Contingencies

Operating Leases

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

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

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

Year ending March 31:	(U.S. dollars in millions)
2022	\$ 9
2023	8
2024	8
2025	8
2026	8
Thereafter	33
Total undiscounted future lease obligations	74
Less: imputed interest	(9)
Operating lease liabilities	<u>\$ 65</u>

Lease expense under operating leases was \$10 million for the fiscal years ended March 31, 2021, 2020, and 2019. Rent expense is included within general and administrative expenses.

As of March 31, 2021, the weighted average remaining lease term for operating leases was 8.6 years and the weighted average remaining discount rate for operating leases was 2.88%.

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 \$563 million as of March 31, 2021. The Company also has commitments to finance the construction of auto dealership facilities. The remaining unfunded balance for these construction loans was \$5 million as of March 31, 2021.

Legal Proceedings and Regulatory Matters

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

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

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, 2021 and 2020, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling \$4.8 billion and \$6.2 billion, respectively. The notes were secured by assets with an initial balance of \$5.1 billion and \$6.8 billion, for the fiscal years ended March 31, 2021 and 2020, respectively.

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

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

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

(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, 2021 and 2020, AHFC and HCFI had combined cash collections of \$581 million and \$468 million, respectively, which were required to be remitted to the SPEs.

Note 11. Other Assets

Other assets consisted of the following:

	March 31,	
	2021	2020
	(U.S. dollars in millions)	
Interest receivable and other assets	\$ 92	\$ 107
Vehicles held for disposition	94	228
Other receivables	194	172
Deferred expense	93	105
Software, net of accumulated amortization of \$168 and \$156 as of March 31, 2021, and 2020, respectively	24	23
Property and equipment, net of accumulated depreciation of \$19 and \$23 as of March 31, 2021, and 2020, respectively	3	4
Restricted cash	380	582
Operating lease assets	62	48
Like-kind exchange assets	89	91
Other miscellaneous assets	11	18
Total	<u>\$ 1,042</u>	<u>\$ 1,378</u>

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to five years. General and administrative expenses include depreciation and amortization expense of \$11 million for the fiscal years ended March 31, 2021 and 2020, and 2019.

Note 12. Other Liabilities

Other liabilities consisted of the following:

	March 31,	
	2021	2020
	(U.S. dollars in millions)	
Dealer payables	\$ 175	\$ 68
Accrued interest expense	138	138
Accounts payable and accrued expenses	484	408
Lease security deposits	81	84
Unearned VSC administrative fees (Note 6)	333	363
Unearned income, operating leases	340	358
Operating lease liabilities	65	55
Uncertain tax positions	103	195
Other liabilities	15	20
Total	<u>\$ 1,734</u>	<u>\$ 1,689</u>

Note 13. Other Income, net

Other income consisted of the following:

	Years ended March 31,		
	2021	2020	2019
	(U.S. dollars in millions)		
VSC administration (Note 6)	\$ 106	\$ 109	\$ 109
Other, net	(42)	(21)	(38)
Total	<u>\$ 64</u>	<u>\$ 88</u>	<u>\$ 71</u>

Note 14. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Nonperformance risk is also required to be reflected in the fair value measurement, including an entity's own credit standing when measuring the fair value of a liability.

Recurring Fair Value Measurements

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

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

March 31, 2020

	Level 1	Level 2	Level 3	Total
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(U.S. dollars in millions)

Assets:				
Derivative instruments:				
Interest rate swaps	\$	—	\$	704
Cross currency swaps		—	44	44
Total assets	\$	—	\$	748
Liabilities:				
Derivative instruments:				
Interest rate swaps	\$	—	\$	830
Cross currency swaps		—	142	142
Total liabilities	\$	—	\$	972

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, 2021 and 2020. Refer to notes 1(m) 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, 2021					
Vehicles held for disposition	\$	—	\$	50	\$ 13
March 31, 2020					
Vehicles held for disposition	\$	—	\$	145	\$ 31

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

Vehicles Held for Disposition

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

Fair Value of Financial Instruments

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

	March 31, 2021				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
(U.S. dollars in millions)					
Assets:					
Cash and cash equivalents	\$ 1,870	\$ 1,870	\$ —	\$ —	\$ 1,870
Dealer loans, net	4,077	—	—	3,936	3,936
Retail loans, net	37,356	—	—	38,284	38,284
Restricted cash	380	380	—	—	380
Liabilities:					
Commercial paper	\$ 5,542	\$ —	\$ 5,543	\$ —	\$ 5,543
Related party debt	—	—	—	—	—
Bank loans	4,052	—	4,085	—	4,085
Medium term note programs	29,470	—	30,069	—	30,069
Other debt	3,973	—	4,066	—	4,066
Secured debt	8,890	—	8,968	—	8,968
March 31, 2020					
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
(U.S. dollars in millions)					
Assets:					
Cash and cash equivalents	\$ 1,503	\$ 1,503	\$ —	\$ —	\$ 1,503
Dealer loans, net	5,600	—	—	5,136	5,136
Retail loans, net	33,954	—	—	34,441	34,441
Restricted cash	582	582	—	—	582
Liabilities:					
Commercial paper	\$ 5,490	\$ —	\$ 5,488	\$ —	\$ 5,488
Related party debt	533	—	533	—	533
Bank loans	4,938	—	4,780	—	4,780
Medium term note programs	26,157	—	25,740	—	25,740
Other debt	3,266	—	3,232	—	3,232
Secured debt	9,748	—	9,794	—	9,794

Fair value information presented in the tables above is based on information available at March 31, 2021 and 2020. 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 15. Segment Information

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

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

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

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

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
(U.S. dollars in millions)				
Year ended March 31, 2021				
Revenues:				
Retail	\$ 1,474	\$ 190	\$ —	\$ 1,664
Dealer	94	13	—	107
Operating leases	6,437	1,328	—	7,765
Total revenues	8,005	1,531	—	9,536
Leased vehicle expenses	4,576	1,004	—	5,580
Interest expense	772	121	—	893
Realized (gains)/losses on derivatives and foreign currency denominated debt	247	39	(286)	—
Net revenues	2,410	367	286	3,063
Other income	51	13	—	64
Total net revenues	2,461	380	286	3,127
Expenses:				
General and administrative expenses	418	53	—	471
Provision for credit losses	(65)	(4)	—	(69)
Impairment loss on operating lease	—	—	—	—
Early termination loss on operating leases	(157)	1	—	(156)
(Gain)/Loss on derivative instruments	—	—	(229)	(229)
(Gain)/Loss on foreign currency revaluation of debt	—	—	430	430
Income before income taxes	\$ 2,265	\$ 330	\$ 85	\$ 2,680
March 31, 2021				
Finance receivables, net	\$ 36,905	\$ 4,528	\$ —	\$ 41,433
Investment in operating leases, net	30,036	5,309	—	35,345
Total assets	70,590	10,212	—	80,802

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

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

Note 16. Selected Quarterly Financial Data (Unaudited)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Full Year</u>
(U.S. dollars in millions)					
<u>Year ended March 31, 2021</u>					
Total revenues	\$ 2,344	\$ 2,393	\$ 2,399	\$ 2,400	\$ 9,536
Leased vehicle expenses	1,436	1,361	1,391	1,392	5,580
Interest expense	264	226	207	196	893
Other income	12	17	17	18	64
Total net revenues	656	823	818	830	3,127
Provision for credit losses ⁽¹⁾	3	(4)	(19)	(49)	(69)
Early termination loss on operating leases ⁽¹⁾	(56)	(59)	(18)	(23)	(156)
Net income	436	553	559	485	2,033
Net income attributable to American Honda Finance Corporation	413	517	525	457	1,912
<u>Year ended March 31, 2020</u>					
Total revenues	\$ 2,393	\$ 2,435	\$ 2,442	\$ 2,438	\$ 9,708
Leased vehicle expenses	1,392	1,409	1,463	1,429	5,693
Interest expense	322	318	307	294	1,241
Other income	20	23	24	21	88
Total net revenues	699	731	696	736	2,862
Provision for credit losses ⁽²⁾	48	58	65	231	402
Early termination loss on operating leases ⁽²⁾	24	36	37	234	331
Net income	299	388	295	27	1,009
Net income attributable to American Honda Finance Corporation	272	355	268	17	912

- (1) During fiscal year ended March 31, 2021, the negative provision for credit losses was attributable to the reduction in the allowance for credit losses and lower than expected net charge-offs of retail loans. Additionally, the reversal of early termination losses on operating leases was the result of lower than expected realized losses during fiscal year 2021 and a reduction in the estimated impact of COVID-19 will have on the lessee default rates. The negative provision for credit losses and the reversal of early termination losses has resulted in higher net income.
- (2) During the fourth quarter of fiscal year ended March 31, 2020, the increase in provision for credit losses and early termination losses on operating leases due to COVID-19 pandemic has resulted in a lower net income.