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

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended September 30, 2014**

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**

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**AMERICAN HONDA FINANCE CORPORATION**

(Exact name of registrant as specified in its charter)

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**California**

(State or other jurisdiction of incorporation or organization)

**95-3472715**

(IRS Employer Identification No.)

**20800 Madrona Avenue, Torrance, California**

(Address of principal executive offices)

**90503**

(Zip Code)

**(310) 972-2555**

(Registrant's telephone number, including area code)

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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 October 31, 2014, 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.

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**REDUCED DISCLOSURE FORMAT**

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

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**AMERICAN HONDA FINANCE CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
For the quarter ended September 30, 2014

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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:

- 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;
- fluctuations in interest rates and currency exchange rates;
- the failure of our customers, dealers or counterparties in the financial industry 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;
- increased competition from other financial institutions seeking to increase their share of financing of Honda and Acura products;
- changes in laws and regulations, including as a 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 our Annual Report on Form 10-K for the year ended March 31, 2014 that we filed with the Securities and Exchange Commission on June 20, 2014, and readers of this Quarterly Report should review the additional information contained in that report, and in any subsequent Quarterly Report on Form 10-Q that we file with the Securities and Exchange Commission. We do not intend, and undertake no obligation to, update any forward-looking information to reflect actual results or future events or circumstances, except as required by applicable law.

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

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

	<b>September 30, 2014</b>	<b>March 31, 2014</b>
<b>Assets</b>		
Cash and cash equivalents.....	\$ 647	\$ 138
Finance receivables, net .....	40,697	41,700
Investment in operating leases, net .....	23,241	21,230
Due from Parent and affiliated companies .....	135	109
Income taxes receivable .....	26	91
Vehicles held for disposition.....	148	133
Other assets .....	720	736
Derivative instruments .....	129	159
Total assets.....	<u>\$ 65,743</u>	<u>\$ 64,296</u>
<b>Liabilities and Equity</b>		
<b>Debt:</b>		
Commercial paper.....	\$ 6,669	\$ 4,187
Related party debt.....	5,022	4,763
Bank loans .....	6,526	6,539
Medium term note programs.....	19,321	20,425
Other debt .....	1,471	1,490
Secured debt .....	7,666	8,230
Total debt.....	46,675	45,634
Due to Parent and affiliated companies .....	110	95
Accrued interest expense .....	79	127
Income taxes payable .....	152	21
Deferred income taxes .....	6,466	6,664
Other liabilities .....	1,214	1,255
Derivative instruments .....	117	107
Total liabilities .....	54,813	53,903
<b>Commitments and contingencies</b>		
<b>Shareholder's equity:</b>		
Common stock, \$100 par value. Authorized 15,000,000 shares; issued and outstanding 13,660,000 shares as of September 30, 2014 and March 31, 2014 .....	1,366	1,366
Retained earnings .....	8,829	8,306
Accumulated other comprehensive income .....	16	27
Total shareholder's equity.....	10,211	9,699
Noncontrolling interest in subsidiary .....	719	694
Total equity .....	10,930	10,393
Total liabilities and equity.....	<u>\$ 65,743</u>	<u>\$ 64,296</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 9 for additional information.

	<b>September 30, 2014</b>	<b>March 31, 2014</b>
Finance receivables, net .....	\$ 7,659	\$ 8,177
Vehicles held for disposition.....	4	4
Other assets .....	274	277
Total assets.....	<u>\$ 7,937</u>	<u>\$ 8,458</u>
Secured debt.....	\$ 7,666	\$ 8,230
Accrued interest expense .....	2	2
Total liabilities .....	<u>\$ 7,668</u>	<u>\$ 8,232</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

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

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Direct financing leases.....	\$ 36	\$ 49	\$ 75	\$ 102
Retail .....	329	350	663	689
Dealer .....	29	28	59	59
Operating leases.....	1,195	1,067	2,342	2,110
Total revenues .....	1,589	1,494	3,139	2,960
Depreciation on operating lease .....	943	842	1,846	1,650
Interest expense.....	146	158	296	333
Net revenues .....	500	494	997	977
Gain on disposition of lease vehicles .....	12	6	38	6
Other income.....	24	27	48	58
Total net revenues .....	536	527	1,083	1,041
<b>Expenses:</b>				
General and administrative expenses.....	100	99	199	195
Provision for credit losses.....	30	35	51	65
Early termination loss on operating leases.....	14	7	18	13
Loss on lease residual values .....	2	1	2	2
(Gain)/Loss on derivative instruments.....	150	(55)	132	(3)
(Gain)/Loss on foreign currency revaluation of debt.....	(167)	74	(179)	87
Total expenses .....	129	161	223	359
Income before income taxes .....	407	366	860	682
Income tax expense .....	143	141	302	261
Net income .....	264	225	558	421
Less: Net income attributable to noncontrolling interest .....	17	16	35	37
Net income attributable to American Honda Finance Corporation.....	<u>\$ 247</u>	<u>\$ 209</u>	<u>\$ 523</u>	<u>\$ 384</u>

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

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
Net income .....	\$ 264	\$ 225	\$ 558	\$ 421
<b>Other comprehensive income/(loss):</b>				
Foreign currency translation adjustment.....	(72)	28	(21)	(18)
Comprehensive income .....	192	253	537	403
Less: Comprehensive income/(loss) attributable to noncontrolling interest .....	(17)	29	25	28
Comprehensive income attributable to American Honda Finance Corporation.....	<u>\$ 209</u>	<u>\$ 224</u>	<u>\$ 512</u>	<u>\$ 375</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

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

	Total	Retained earnings	Accumulated other comprehensive income	Common stock	Noncontrolling interest
<b>Balance at March 31, 2013</b> .....	\$ 9,590	\$ 7,422	\$ 88	\$ 1,366	\$ 714
Net income .....	421	384	-	-	37
Other comprehensive loss .....	(18)	-	(9)	-	(9)
Dividends declared to noncontrolling interest.....	(36)	-	-	-	(36)
<b>Balance at September 30, 2013</b> .....	<u>\$ 9,957</u>	<u>\$ 7,806</u>	<u>\$ 79</u>	<u>\$ 1,366</u>	<u>\$ 706</u>
<b>Balance at March 31, 2014</b> .....	\$ 10,393	\$ 8,306	\$ 27	\$ 1,366	\$ 694
Net income .....	558	523	-	-	35
Other comprehensive loss .....	(21)	-	(11)	-	(10)
<b>Balance at September 30, 2014</b> .....	<u>\$ 10,930</u>	<u>\$ 8,829</u>	<u>\$ 16</u>	<u>\$ 1,366</u>	<u>\$ 719</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

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

	Six months ended September 30,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net income.....	\$ 558	\$ 421
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Debt and derivative instrument valuation adjustments.....	(183)	(36)
Loss on lease residual values and provision for credit losses.....	53	67
Early termination loss on operating leases.....	18	13
Depreciation and amortization.....	1,850	1,653
Accretion of unearned subsidy income.....	(540)	(521)
Amortization of deferred dealer participation and IDC.....	172	167
Gain on disposition of lease vehicles and fixed assets.....	(37)	(6)
Deferred income tax expense/(benefit).....	(194)	143
<b>Changes in operating assets and liabilities:</b>		
Income taxes receivable/payable.....	195	77
Other assets.....	(16)	(26)
Accrued interest/discounts on debt.....	20	8
Other liabilities.....	(26)	1
Due to/due from Parent and affiliated companies.....	(11)	(21)
Net cash provided by operating activities.....	<u>1,859</u>	<u>1,940</u>
<b>Cash flows from investing activities:</b>		
Finance receivables acquired.....	(9,314)	(12,280)
Principal collected on finance receivables.....	9,305	9,072
Net change in wholesale loans.....	759	662
Purchase of operating lease vehicles.....	(7,279)	(6,062)
Disposal of operating lease vehicles.....	3,216	3,146
Cash received for unearned subsidy income.....	685	637
Other investing activities, net.....	(1)	(14)
Net cash used in investing activities.....	<u>(2,629)</u>	<u>(4,839)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of commercial paper.....	20,314	21,583
Paydown of commercial paper.....	(17,812)	(20,123)
Proceeds from issuance of related party debt.....	21,592	23,006
Paydown of related party debt.....	(21,306)	(22,844)
Proceeds from issuance of medium term notes and other debt.....	3,490	5,975
Paydown of medium term notes and other debt.....	(4,428)	(4,784)
Proceeds from issuance of secured debt.....	1,994	2,743
Paydown of secured debt.....	(2,565)	(2,649)
Dividend paid.....	-	(18)
Net cash provided by financing activities.....	<u>1,279</u>	<u>2,889</u>
Effect of exchange rate changes on cash and cash equivalents.....	-	2
Net increase/(decrease) in cash and cash equivalents.....	509	(8)
Cash and cash equivalents at beginning of year.....	138	149
Cash and cash equivalents at end of year.....	<u>\$ 647</u>	<u>\$ 141</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid.....	\$ 326	\$ 409
Income taxes paid.....	301	38

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

**(1) Interim Information**

**(a) Organizational Structure**

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

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

**(b) Basis of Presentation**

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim information, and instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, these unaudited interim financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results of operations, cash flows, and financial condition for the interim periods presented. Results for interim periods should not be considered indicative of results for the full year or for any other interim period. These unaudited interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements, significant accounting policies, and the other notes to the consolidated financial statements for the fiscal year ended March 31, 2014 included in the Company’s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on June 20, 2014. All significant intercompany balances and transactions have been eliminated upon consolidation.

**(c) Recently Adopted Accounting Standards**

Effective April 1, 2014, the Company adopted Accounting Standards Update (ASU) 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which amended Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. The amendment requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available at the reporting date under the tax law, and the entity intends to use the deferred tax asset for such purpose. The amendment was applied prospectively and did not require new recurring disclosures. The adoption of this standard did not have a material impact on the consolidated financial statements.

**(d) Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* and created a new ASC Topic 606, *Revenue from Contracts with Customers*, and added ASC Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the industry topics of the codification. This guidance will be effective for the Company April 1, 2017. The Company is currently assessing the impact the adoption of this guidance will have on the consolidated financial statements.



**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments are effective for the fiscal year ending March 31, 2017 and interim periods thereafter. The adoption of this new standard is not expected to have an impact on the consolidated financial statements.

**(2) Finance Receivables**

Finance receivables consisted of the following:

	September 30, 2014			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Finance receivables .....	\$ 2,753	\$ 34,925	\$ 3,687	\$ 41,365
Allowance for credit losses.....	(3)	(91)	-	(94)
Write-down of lease residual values.....	(17)	-	-	(17)
Unearned interest income and fees .....	(100)	-	-	(100)
Deferred dealer participation and IDC .....	6	423	-	429
Unearned subsidy income.....	(128)	(758)	-	(886)
	<u>\$ 2,511</u>	<u>\$ 34,499</u>	<u>\$ 3,687</u>	<u>\$ 40,697</u>

	March 31, 2014			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Finance receivables .....	\$ 2,997	\$ 35,045	\$ 4,372	\$ 42,414
Allowance for credit losses.....	(4)	(95)	(1)	(100)
Write-down of lease residual values.....	(21)	-	-	(21)
Unearned interest income and fees .....	(114)	-	-	(114)
Deferred dealer participation and IDC .....	7	428	-	435
Unearned subsidy income.....	(143)	(771)	-	(914)
	<u>\$ 2,722</u>	<u>\$ 34,607</u>	<u>\$ 4,371</u>	<u>\$ 41,700</u>

Finance receivables include retail loans with principal balances of \$7.8 billion and \$8.3 billion as of September 30, 2014 and March 31, 2014, respectively, that have been sold for legal purposes in securitization transactions that do not qualify for sale accounting treatment. These finance receivables are restricted as collateral for the payment of the related secured debt obligations. Refer to Note 9 for additional information.

The uninsured portions of the lease residual values were \$397 million and \$433 million at September 30, 2014 and March 31, 2014, respectively. Included in the gain or loss on disposition of lease vehicles are end of term charges on both direct financing and operating leases of \$4 million and \$6 million for the three months ended September 30, 2014 and 2013, respectively, and \$10 million and \$13 million for the six months ended September 30, 2014 and 2013, respectively.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

***Credit Quality of Financing Receivables***

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

***Allowance for Credit Losses***

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

Consumer finance receivables in the retail loan and direct financing lease portfolio segments are collectively evaluated for impairment. Delinquencies and losses are continuously monitored and this historical experience provides the primary basis for estimating the allowance. Management utilizes various methodologies when estimating the allowance for credit losses including models, which incorporate vintage loss and delinquency migration analysis. These models take into consideration attributes of the portfolio including loan-to-value ratios, internal and external credit scores, and collateral types. Market and economic factors such as used vehicle prices, unemployment rates, and consumer debt service burdens are also incorporated when estimating losses.

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

There were no modifications to dealer loans that constituted troubled debt restructurings during the three and six months ended September 30, 2014 and 2013.

The Company generally does not grant concessions on consumer finance receivables that are considered to be 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 three and six months ended September 30, 2014 and 2013. The Company does allow payment deferrals on consumer finance receivables. However, these payment deferrals are not considered to be troubled debt restructurings since the deferrals are deemed to be insignificant and interest continues to accrue during the deferral period.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

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

	<b>Three and six months ended September 30, 2014</b>			
	<b>Lease</b>	<b>Retail</b>	<b>Dealer</b>	<b>Total</b>
	(U.S. dollars in millions)			
Beginning balance, July 1, 2014.....	\$ 4	\$ 95	\$ -	\$ 99
Provision.....	-	25	-	25
Charge-offs.....	(1)	(45)	-	(46)
Recoveries.....	-	16	-	16
Effect of translation adjustment.....	-	-	-	-
Ending balance, September 30, 2014 .....	<u>\$ 3</u>	<u>\$ 91</u>	<u>\$ -</u>	<u>\$ 94</u>
Beginning balance, April 1, 2014.....	\$ 4	\$ 95	\$ 1	\$ 100
Provision.....	1	41	-	42
Charge-offs.....	(2)	(84)	(1)	(87)
Recoveries.....	-	39	-	39
Effect of translation adjustment.....	-	-	-	-
Ending balance, September 30, 2014 .....	<u>\$ 3</u>	<u>\$ 91</u>	<u>\$ -</u>	<u>\$ 94</u>
Allowance for credit losses – ending balance:				
Individually evaluated for impairment.....	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment.....	3	91	-	94
Finance receivables – ending balance:				
Individually evaluated for impairment.....	\$ -	\$ -	\$ 30	\$ 30
Collectively evaluated for impairment.....	2,531	34,590	3,657	40,778

	<b>Three and six months ended September 30, 2013</b>			
	<b>Lease</b>	<b>Retail</b>	<b>Dealer</b>	<b>Total</b>
	(U.S. dollars in millions)			
Beginning balance, July 1, 2013.....	\$ 5	\$ 95	\$ -	\$ 100
Provision.....	1	29	1	31
Charge-offs.....	(1)	(51)	-	(52)
Recoveries.....	-	21	-	21
Effect of translation adjustment.....	-	-	-	-
Ending balance, September 30, 2013 .....	<u>\$ 5</u>	<u>\$ 94</u>	<u>\$ 1</u>	<u>\$ 100</u>
Beginning balance, April 1, 2013.....	\$ 5	\$ 88	\$ -	\$ 93
Provision.....	2	54	1	57
Charge-offs.....	(2)	(95)	-	(97)
Recoveries.....	-	47	-	47
Effect of translation adjustment.....	-	-	-	-
Ending balance, September 30, 2013 .....	<u>\$ 5</u>	<u>\$ 94</u>	<u>\$ 1</u>	<u>\$ 100</u>
Allowance for credit losses – ending balance:				
Individually evaluated for impairment.....	\$ -	\$ -	\$ 1	\$ 1
Collectively evaluated for impairment.....	5	94	-	99
Finance receivables – ending balance:				
Individually evaluated for impairment.....	\$ -	\$ -	\$ 12	\$ 12
Collectively evaluated for impairment.....	3,308	34,884	3,588	41,780

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

*Delinquencies*

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

	<u>30 – 59 days past due</u>	<u>60 – 89 days past due</u>	<u>90 days or greater past due</u>	<u>Total past due</u>	<u>Current or less than 30 days past due</u>	<u>Total finance receivables</u>
	(U.S. dollars in millions)					
<b>September 30, 2014</b>						
Retail loans:						
New auto.....	\$ 168	\$ 30	\$ 8	\$ 206	\$ 29,672	\$ 29,878
Used and certified auto .....	64	11	3	78	3,575	3,653
Motorcycle and other .....	11	4	1	16	1,043	1,059
Total retail .....	243	45	12	300	34,290	34,590
Direct financing lease.....	9	2	1	12	2,519	2,531
Dealer loans:						
Wholesale flooring .....	1	-	-	1	3,003	3,004
Commercial loans .....	-	-	-	-	683	683
Total dealer loans .....	1	-	-	1	3,686	3,687
Total finance receivables.....	<u>\$ 253</u>	<u>\$ 47</u>	<u>\$ 13</u>	<u>\$ 313</u>	<u>\$ 40,495</u>	<u>\$ 40,808</u>

**March 31, 2014**

Retail loans:						
New auto.....	\$ 140	\$ 18	\$ 6	\$ 164	\$ 29,611	\$ 29,775
Used and certified auto .....	54	7	2	63	3,837	3,900
Motorcycle and other .....	10	3	2	15	1,012	1,027
Total retail .....	204	28	10	242	34,460	34,702
Direct financing lease.....	10	2	1	13	2,734	2,747
Dealer loans:						
Wholesale flooring .....	1	-	2	3	3,765	3,768
Commercial loans .....	-	-	-	-	604	604
Total dealer loans .....	1	-	2	3	4,369	4,372
Total finance receivables.....	<u>\$ 215</u>	<u>\$ 30</u>	<u>\$ 13</u>	<u>\$ 258</u>	<u>\$ 41,563</u>	<u>\$ 41,821</u>

*Credit Quality Indicators*

*Retail Loan and Direct Financing Lease Portfolio Segments*

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

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Subsequent to origination, collection experience provides a current indication of the credit quality of consumer finance receivables. The likelihood of accounts charging off becomes significantly higher once an account becomes 60 days delinquent. Accounts that are current or less than 60 days past due are considered to be performing. Accounts that are 60 days or more past due are considered to be nonperforming. The table below presents the Company's portfolio of consumer loans and leases by this credit quality indicator:

	Retail new auto	Retail used and certified auto	Retail motorcycle and other	Direct financing lease	Total consumer finance receivables
(U.S. dollars in millions)					
<b>September 30, 2014</b>					
Performing .....	\$ 29,840	\$ 3,639	\$ 1,054	\$ 2,528	\$ 37,061
Nonperforming .....	38	14	5	3	60
Total .....	\$ 29,878	\$ 3,653	\$ 1,059	\$ 2,531	\$ 37,121

<b>March 31, 2014</b>					
Performing .....	\$ 29,751	\$ 3,891	\$ 1,022	\$ 2,744	\$ 37,408
Nonperforming .....	24	9	5	3	41
Total .....	\$ 29,775	\$ 3,900	\$ 1,027	\$ 2,747	\$ 37,449

*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. Factors including liquidity, financial strength, management effectiveness, and operating efficiency are evaluated when assessing their financial condition. Financing limits and interest rates are determined from these risk ratings. Monitoring activities including financial reviews and inventory inspections are performed more frequently for dealerships with weaker risk ratings. The financial conditions of dealerships are reviewed and their risk ratings are updated at least annually.

The Company's outstanding portfolio of dealer loans has been divided into two groups in the tables below. Group A includes the loans of dealerships with the strongest internal risk rating. Group B includes the loans of all remaining dealers. Although the likelihood of losses can be higher for dealerships in Group B, the overall risk of losses is not considered to be significant.

	September 30, 2014			March 31, 2014		
	Wholesale flooring	Commercial loans	Total	Wholesale flooring	Commercial loans	Total
(U.S. dollars in millions)						
Group A .....	\$ 1,933	\$ 427	\$ 2,360	\$ 2,319	\$ 355	\$ 2,674
Group B .....	1,071	256	1,327	1,449	249	1,698
Total .....	\$ 3,004	\$ 683	\$ 3,687	\$ 3,768	\$ 604	\$ 4,372

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**(3) Investment in Operating Leases**

Investment in operating leases consisted of the following:

	<b>September 30, 2014</b>	<b>March 31, 2014</b>
	<b>(U.S. dollars in millions)</b>	
Operating lease vehicles .....	\$ 28,649	\$ 26,274
Accumulated depreciation .....	(4,701)	(4,500)
Deferred dealer participation and IDC .....	94	88
Unearned subsidy income.....	(743)	(576)
Estimated early termination losses .....	(58)	(56)
	<u>\$ 23,241</u>	<u>\$ 21,230</u>

The Company recognized \$14 million and \$7 million of estimated early termination losses due to lessee defaults for the three months ended September 30, 2014 and 2013, respectively. Actual net losses realized for both the three months ended September 30, 2014 and 2013 totaled \$10 million. The Company recognized \$18 million and \$13 million of estimated early termination losses due to lessee defaults for the six months ended September 30, 2014 and 2013, respectively. Actual net losses realized for the six months ended September 30, 2014 and 2013 totaled \$16 million and \$17 million, respectively.

Included in the provision for credit losses for the three months ended September 30, 2014 and 2013 are provisions related to past due receivables on operating leases in the amounts of \$5 million and \$4 million, respectively. Included in the provision for credit losses for the six months ended September 30, 2014 and 2013 are provisions related to past due receivables on operating leases in the amounts of \$9 million and \$8 million, respectively.

The Company did not recognize impairment losses during the three and six months ended September 30, 2014 and 2013 since there were no events or circumstances which indicated that the carrying values of operating leases would not be recoverable.

**(4) Debt**

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

	<b>September 30, 2014</b>	<b>March 31, 2014</b>	<b>Weighted average contractual interest rate</b>		<b>Contractual interest rate ranges</b>	
			<b>September 30, 2014</b>	<b>March 31, 2014</b>	<b>September 30, 2014</b>	<b>March 31, 2014</b>
<b>(U.S. dollars in millions)</b>						
<b>Unsecured debt:</b>						
Commercial paper .....	\$ 6,669	\$ 4,187	0.38%	0.45%	0.13 - 1.23%	0.11 - 1.25%
Related party debt .....	5,022	4,763	0.54%	0.51%	0.13 - 1.27%	0.14 - 1.28%
Bank loans.....	6,526	6,539	0.90%	0.90%	0.58 - 2.00%	0.58 - 1.99%
Private U.S. MTN program .....	9,905	12,901	2.20%	1.85%	0.33 - 7.63%	0.23 - 7.63%
Public U.S. MTN program .....	7,229	3,736	1.05%	1.08%	0.23 - 2.25%	0.23 - 2.13%
Euro MTN programme...	2,187	3,788	1.30%	2.52%	0.19 - 2.23%	0.22 - 5.50%
Other debt.....	1,471	1,490	2.12%	2.12%	1.69 - 2.35%	1.68 - 2.35%
Total unsecured debt .....	39,009	37,404				
Secured debt .....	7,666	8,230	0.68%	0.67%	0.18 - 1.55%	0.19 - 1.80%
Total debt.....	<u>\$ 46,675</u>	<u>\$ 45,634</u>				

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As of September 30, 2014, the outstanding principal balance of long-term debt with floating interest rates totaled \$12.1 billion and long-term debt with fixed interest rates totaled \$20.5 billion. As of March 31, 2014, the outstanding principal balance of long-term debt with floating interest rates totaled \$12.5 billion and long-term debt with fixed interest rates totaled \$21.4 billion.

***Commercial Paper***

As of September 30, 2014 and March 31, 2014, the Company had commercial paper programs that provide the Company with available funds of up to \$8.8 billion and \$8.5 billion, respectively, at prevailing market interest rates for periods up to one year. The commercial paper programs are supported by the Keep Well Agreements with HMC described in Note 6.

Outstanding commercial paper averaged \$5.5 billion and \$5.1 billion during the six months ended September 30, 2014 and 2013, respectively. The maximum balance outstanding at any month end during the six months ended September 30, 2014 and 2013 was \$6.7 billion and \$6.1 billion, respectively.

As of September 30, 2014, the Company had available committed lines of credit totaling \$8.4 billion, which expire at various times through March 2019. Committed lines of credit are primarily in place to support the Company's commercial paper programs. If these lines were used, it would be in the form of short-term notes. The Company expensed commitment fees of \$2 million during both the three months ended September 30, 2014 and 2013, and \$3 million and \$4 million during the six months ended September 30, 2014 and 2013, respectively, in general and administrative expenses. As of September 30, 2014 and March 31, 2014, there were no amounts outstanding under these lines.

***Related Party Debt***

AHFC routinely issues fixed rate short term notes to AHM to help fund AHFC's general corporate operations. The Company incurred interest expense on these notes totaling \$1 million and \$2 million for the three months ended September 30, 2014 and 2013, respectively, and \$2 million and \$3 million for the six months ended September 30, 2014 and 2013, respectively.

HCFI routinely issues fixed rate short term notes to HCI to help fund HCFI's general corporate operations. The Company incurred interest expense on these notes totaling \$6 million and \$5 million for the three months ended September 30, 2014 and 2013, respectively, and \$11 million and \$10 million for the six months ended September 30, 2014 and 2013, respectively.

***Bank Loans***

Outstanding bank loans as of September 30, 2014 had floating interest rates. Outstanding bank loans have prepayment options. No outstanding bank loans as of September 30, 2014 were supported by the Keep Well Agreements with HMC described in Note 6.

***Medium Term Note (MTN) Programs***

***Private U.S. MTN Program***

AHFC no longer issues U.S. MTNs under the Rule 144A Private U.S. MTN Program. Future U.S. MTN issuances will be under the Public U.S. MTN Program described below. Notes outstanding under the Private U.S. MTN Program as of September 30, 2014 were long-term, with either fixed or floating interest rates, and denominated in U.S. dollars.

***Public U.S. MTN Program***

The Public U.S. MTN Program is authorized for the issuance of MTNs up to a maximum aggregate principal amount of \$16.0 billion. The aggregate principal amount of MTNs offered under this program may be increased from time to time. Notes outstanding under this program were both short-term and long-term, with either fixed or floating interest rates, and denominated in U.S. dollars.

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*Euro MTN Programme*

The Euro MTN Programme was effective through August 8, 2014. The Company may renew the program in the future. Notes under this program that are currently listed on the Luxembourg Stock Exchange will remain listed through their maturities. Notes outstanding under this program are long-term, with either fixed or floating interest rates, and denominated in U.S. dollars, Japanese Yen, or Euros.

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

**Other Debt**

The outstanding balance as of September 30, 2014 consisted of private placement debt issued by HCFI denominated in Canadian dollars, with either fixed or floating interest rates. Private placement debt was supported by the Keep Well Agreement with HMC described in Note 6.

**Secured Debt**

The Company issues notes through secured financing transactions that are secured by assets held by the issuing securitization trust. The notes generally have fixed interest rates (a limited number of notes had floating interest rates). Repayment on the notes is dependent on the performance of the underlying receivables. Refer to Note 9 for additional information on the Company's secured financing transactions.

**(5) Derivative Instruments**

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

	September 30, 2014			March 31, 2014		
	Notional balances	Assets	Liabilities	Notional balances	Assets	Liabilities
	(U.S. dollars in millions)					
Interest rate swaps .....	\$ 48,193	\$ 186	\$ 67	\$ 46,239	\$ 192	\$ 106
Cross currency swaps ..	1,452	4	111	2,960	72	106
Gross derivative assets/liabilities ...		190	178		264	212
Counterparty netting adjustment.....		(61)	(61)		(105)	(105)
Net derivative assets/liabilities ...		<u>\$ 129</u>	<u>\$ 117</u>		<u>\$ 159</u>	<u>\$ 107</u>

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

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
	(U.S. dollars in millions)			
Interest rate swaps .....	\$ 4	\$ (24)	\$ 13	\$ (88)
Cross currency swaps .....	(154)	79	(145)	91
Total gain/(loss) on derivative instruments .....	<u>\$ (150)</u>	<u>\$ 55</u>	<u>\$ (132)</u>	<u>\$ 3</u>



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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 recognized 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. The Company generally does not require or place collateral for these instruments under credit support agreements.

**(6) Transactions Involving Related Parties**

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

<b>Income statement</b>	<u>Three months ended</u> <u>September 30,</u>		<u>Six months ended</u> <u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	(U.S. dollars in millions)			
<b>Revenue:</b>				
Subsidy income .....	\$ 268	\$ 260	\$ 535	\$ 514
<b>Interest expense:</b>				
Related party debt .....	7	7	13	13
<b>Other income:</b>				
VSC administration fees .....	24	23	48	47
<b>General and administrative expenses:</b>				
Support Compensation Agreement fees .....	5	4	9	8
Benefit plan expenses.....	3	4	5	9
Shared services.....	13	12	26	23
 <b>Balance Sheet</b>			<b>September 30,</b>	<b>March 31,</b>
			<b>2014</b>	<b>2014</b>
	(U.S. dollars in millions)			
<b>Assets:</b>				
Finance receivables, net:				
Unearned subsidy income .....			\$ (871)	\$ (901)
Investment in operating leases, net:				
Unearned subsidy income .....			(740)	(573)
Due from Parent and affiliated companies .....			135	109
 <b>Liabilities:</b>				
Debt:				
Related party debt .....			\$ 5,022	\$ 4,763
Due to Parent and affiliated companies .....			110	95
<b>Accrued interest expenses:</b>				
Related party debt .....			4	3
<b>Other liabilities:</b>				
VSC unearned administrative fees .....			360	352
Accrued benefit expenses.....			48	47

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***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 U.S. MTN Program, Public U.S. MTN Program, Euro MTN Programme, and HCFI's private placement debt. 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 HMC Keep Well Agreements. Support Compensation Agreement fees are recognized in general and administrative expenses.

***Incentive 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.

***Related Party Debt***

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

***Vehicle Service Contract (VSC) Administration***

AHFC receives fees to perform administrative services for vehicle service contracts issued by AHM and its subsidiary. HCFI receives fees for marketing vehicle service contracts issued by HCI. Unearned VSC administration fees are included in other liabilities (Note 11). VSC administration income is recognized in other income (Note 12).

***Shared Services***

The Company shares certain common expenditures with AHM, HCI, and related parties including data processing services, software development, and facilities. The allocated costs for shared services are included in general and administrative expenses.

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***Benefit Plans***

The Company participates in various employee benefit plans that are maintained by AHM and HCI. The allocated benefit plan expenses are included in general and administrative expenses.

***Income taxes***

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

***Other***

The majority of the amounts due from the Parent and affiliated companies at September 30, 2014 and March 31, 2014 related to subsidiaries. The majority of the amounts due to the Parent and affiliated companies at September 30, 2014 and March 31, 2014 related to wholesale flooring invoices 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.

**(7) Income Taxes**

The Company's effective tax rate was 35.1% and 38.5% for the three months ended September 30, 2014 and 2013, respectively, and 35.1% and 38.3% for the six months ended September 30, 2014 and 2013, respectively. The decrease in the effective tax rate is primarily due to the increase in the tax deduction for qualified domestic production, which is allocated between the Parent and affiliated companies.

To date, the Company has not provided for federal income taxes on its share of the undistributed earnings of its foreign subsidiary, HCFI, that are intended to be indefinitely reinvested outside the United States. At September 30, 2014, \$640 million of accumulated undistributed earnings of HCFI were deemed to be so reinvested. If these undistributed earnings as of September 30, 2014 were to be distributed, the unrecognized deferred tax liability associated with these indefinitely reinvested earnings would be \$130 million. HCFI is not planning any future distributions.

Due to the lapse in U.S. tax law that defers the imposition of U.S. taxes on certain foreign active financing income until that income is repatriated to the U.S. as a dividend, for the three and six months ended September 30, 2014, AHFC recognized net income tax expense of \$1 million and \$3 million, respectively, on its share of such income.

The changes in the unrecognized tax benefits for the six months ended September 30, 2014 were not significant. The Company does not expect any material changes in the amounts of unrecognized tax benefits during the remainder of fiscal year ending March 31, 2015.

As of September 30, 2014, the Company is subject to examination by U.S. federal and state tax jurisdictions for the taxable years ended March 31, 2008 to 2013. The Company's Canadian subsidiary, HCFI, is subject to examination for returns filed for the taxable years ended March 31, 2007 to 2014 federally, and returns filed for the taxable years ended March 31, 2006 to 2014 provincially. The Company believes appropriate provision has been made for all outstanding issues for all open years.

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**(8) Commitments and Contingencies**

The Company leases certain premises and equipment on a long term basis under noncancelable leases. Some of these leases require the Company to pay property taxes, insurance, and other expenses. Lease expense was approximately \$2 million and \$3 million for the three months ended September 30, 2014 and 2013, respectively, and approximately \$5 million and \$6 million for the six months ended September 30, 2014 and 2013, respectively.

The Company extends commercial revolving lines of credit to new and used vehicle dealers to aid in their facilities refurbishment or general working capital requirements. The amounts borrowed are generally secured by the assets of the borrowing entity. The majority of the lines have annual renewal periods. Maximum commercial revolving lines of credit were \$376 million and \$283 million as of September 30, 2014 and March 31, 2014, respectively, with \$167 million and \$174 million, respectively, used as of those dates. The Company also has a commitment to lend a total of \$118 million to finance the construction of auto dealerships with \$68 million of this commitment funded as of September 30, 2014.

***Legal Proceedings***

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 from time to time. 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. Based on available information and established accruals, management does not believe it is reasonably possible that the results of these proceedings, in the aggregate, will have a material adverse effect on the Company's consolidated financial statements.

The Consumer Financial Protection Bureau (CFPB), together with the U.S. Department of Justice, have contacted the Company and other auto finance providers to request information about whether discretionary pricing practices of dealers originating retail installment sale contracts raise fair lending issues for banks and finance companies that purchase the contracts from dealers. Based on the information that was voluntarily provided by the Company, the CFPB, together with the U.S. Department of Justice, sent another letter in November 2014, indicating it is continuing to conduct their review and evaluation. Management cannot predict the outcome of whether an enforcement action will be taken. In addition, the Company has also received a subpoena from a state agency requesting information relating to their fair lending laws. The Company is cooperating with this request for information. Management cannot predict the outcome of this inquiry.

**(9) Securitizations and Variable Interest Entities (VIE)**

The trusts utilized for on-balance sheet securitizations are VIEs, which are required to be consolidated by their primary beneficiary. The Company is considered to be the primary beneficiary of these trusts due to (i) the power to direct the activities of the trusts that most significantly impact the trusts' 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 trusts through the subordinated certificates and residual interest retained. The debt securities issued by the trusts to third-party investors along with the assets of the trusts are included in the Company's consolidated financial statements.

During the six months ended September 30, 2014 and 2013, the Company issued notes through asset backed securitizations, which were accounted for as secured financing transactions totaling \$2.0 billion and \$2.7 billion, respectively. The notes were secured by receivables with an initial principal balance of \$2.1 billion and \$2.8 billion, respectively.

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The table below presents the carrying amounts of assets and liabilities of consolidated securitization trusts as they are reported in the Company's consolidated balance sheets. All amounts exclude intercompany balances, which have been eliminated in consolidation. The assets of the trusts can only be used to settle the obligations of the trusts. The third-party investors in the obligations of the trusts do not have recourse to the general credit of the Company.

	September 30, 2014	March 31, 2014
	(U.S. dollars in millions)	
<b>Assets:</b>		
Finance receivables .....	\$ 7,758	\$ 8,285
Unamortized costs and subsidy income, net .....	(86)	(95)
Allowance for credit losses .....	(13)	(13)
Finance receivables, net .....	7,659	8,177
Vehicles held for disposition .....	4	4
Restricted cash <sup>(1)</sup> .....	265	267
Accrued interest receivable <sup>(1)</sup> .....	9	10
Total assets .....	<u>\$ 7,937</u>	<u>\$ 8,458</u>
<b>Liabilities:</b>		
Secured debt .....	\$ 7,677	\$ 8,242
Unamortized discounts and fees .....	(11)	(12)
Secured debt, net .....	7,666	8,230
Accrued interest expense .....	2	2
Total liabilities .....	<u>\$ 7,668</u>	<u>\$ 8,232</u>

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

In their role as servicers, AHFC and HCFI collect principal and interest payments on the underlying receivables on behalf of the securitization trusts. Cash collected during a calendar month is required to be remitted to the trusts 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 trusts. As of September 30, 2014 and March 31, 2014, AHFC and HCFI had cash collections of \$430 million and \$444 million, respectively, which were required to be remitted to the trusts.

**(10) Other Assets**

Other assets consisted of the following:

	September 30, 2014	March 31, 2014
	(U.S. dollars in millions)	
Accrued interest and fees .....	\$ 75	\$ 79
Other receivables .....	80	98
Deferred expense .....	170	164
Software, net of accumulated amortization of \$136 and \$135 as of September 30, 2014 and March 31, 2014, respectively	9	10
Property and equipment, net of accumulated depreciation of \$17 and \$17 as of September 30, 2014 and March 31, 2014, respectively	6	6
Restricted cash .....	265	267
Other .....	115	112
Total .....	<u>\$ 720</u>	<u>\$ 736</u>

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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 \$1 million for both the three months ended September 30, 2014 and 2013, and \$3 million for both the six months ended September 30, 2014 and 2013.

**(11) Other Liabilities**

Other liabilities consisted of the following:

	<u>September 30,</u> <u>2014</u>	<u>March 31,</u> <u>2014</u>
(U.S. dollars in millions)		
Dealer payables .....	\$ 131	\$ 211
Accounts payable and accrued expenses .....	255	251
Lease security deposits .....	57	53
VSC unearned administrative fees (Note 6) .....	360	352
Unearned income, operating lease .....	286	270
Uncertain tax positions .....	24	24
Other .....	101	94
Total .....	<u>\$ 1,214</u>	<u>\$ 1,255</u>

**(12) Other Income**

Other income consisted of the following:

	<u>Three months ended</u> <u>September 30,</u>		<u>Six months ended</u> <u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
(U.S. dollars in millions)				
VSC administration (Note 6) .....	\$ 24	\$ 23	\$ 48	\$ 47
Other .....	-	4	-	11
Total .....	<u>\$ 24</u>	<u>\$ 27</u>	<u>\$ 48</u>	<u>\$ 58</u>

**(13) Fair Value Measurements**

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

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**Recurring Fair Value Measurements**

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

September 30, 2014					
Level 1	Level 2	Level 3	Counterparty netting	Total	
(U.S. dollars in millions)					
<b>Assets:</b>					
Derivative instruments:					
Interest rate swaps .....	\$ -	\$ 186	\$ -	\$ (47)	\$ 139
Cross currency swaps .....	-	4	-	(14)	(10)
Total assets .....	\$ -	\$ 190	\$ -	\$ (61)	\$ 129
<b>Liabilities:</b>					
Derivative instruments:					
Interest rate swaps .....	\$ -	\$ 67	\$ -	\$ (47)	\$ 20
Cross currency swaps .....	-	111	-	(14)	97
Total liabilities .....	\$ -	\$ 178	\$ -	\$ (61)	\$ 117
March 31, 2014					
Level 1	Level 2	Level 3	Counterparty netting	Total	
(U.S. dollars in millions)					
<b>Assets:</b>					
Derivative instruments:					
Interest rate swaps .....	\$ -	\$ 192	\$ -	\$ (68)	\$ 124
Cross currency swaps .....	-	72	-	(37)	35
Total assets .....	\$ -	\$ 264	\$ -	\$ (105)	\$ 159
<b>Liabilities:</b>					
Derivative instruments:					
Interest rate swaps .....	\$ -	\$ 106	\$ -	\$ (68)	\$ 38
Cross currency swaps .....	-	106	-	(37)	69
Total liabilities .....	\$ -	\$ 212	\$ -	\$ (105)	\$ 107

The valuation techniques of assets and liabilities measured 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 six months ended September 30, 2014 and 2013. Refer to Note 5 for additional information on derivative instruments.

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***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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Lower-of-cost or fair value adjustment</u>
	(U.S. dollars in millions)				
<b>September 30, 2014</b>					
Vehicles held for disposition .....	\$ -	\$ -	\$ 94	\$ 94	\$ 18
<b>September 30, 2013</b>					
Vehicles held for disposition .....	\$ -	\$ -	\$ 80	\$ 80	\$ 17

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 direct financing lease receivables and investment in operating leases.

	<u>Carrying value</u>	<u>September 30, 2014</u>			
		<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
(U.S. dollars in millions)					
<b>Assets:</b>					
Cash and cash equivalents.....	\$ 647	\$ 647	\$ -	\$ -	\$ 647
Dealer loans, net.....	3,687	-	-	3,565	3,565
Retail loans, net.....	34,499	-	-	34,811	34,811
Restricted cash .....	265	265	-	-	265
<b>Liabilities:</b>					
Commercial paper .....	\$ 6,669	\$ -	\$ 6,669	\$ -	\$ 6,669
Related party debt .....	5,022	-	5,022	-	5,022
Bank loans.....	6,526	-	6,582	-	6,582
Medium term note programs .....	19,321	-	19,733	-	19,733
Other debt.....	1,471	-	1,485	-	1,485
Secured debt.....	7,666	-	7,683	-	7,683



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	March 31, 2014				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
(U.S. dollars in millions)					
<b>Assets:</b>					
Cash and cash equivalents.....	\$ 138	\$ 138	\$ -	\$ -	\$ 138
Dealer loans, net.....	4,371	-	-	4,281	4,281
Retail loans, net.....	34,607	-	-	35,067	35,067
Restricted cash .....	267	267	-	-	267
<b>Liabilities:</b>					
Commercial paper.....	\$ 4,187	\$ -	\$ 4,187	\$ -	\$ 4,187
Related party debt .....	4,763	-	4,764	-	4,764
Bank loans.....	6,539	-	6,596	-	6,596
Medium term note programs .....	20,425	-	20,888	-	20,888
Other debt.....	1,490	-	1,501	-	1,501
Secured debt.....	8,230	-	8,263	-	8,263

The following describes the methodologies and assumptions used to estimate the fair value of the Company's financial instruments not measured at fair value on a recurring basis:

*Cash, Cash Equivalents, and Restricted Cash*

The carrying values reported on the consolidated balance sheets approximate fair values due to the short-term nature of the assets and negligible credit risk. Restricted cash accounts held by securitization trusts are included in other assets.

*Finance Receivables*

The fair values of the Company's retail loans and dealer wholesale loans are based on estimated proceeds of hypothetical whole loan transactions. It is assumed that market participants in whole loan transactions would acquire the loans with the intent of securitizing the loans. Internally developed valuation models are used to estimate the pricing of securitization transactions, which is adjusted for the estimated costs of securitization transactions and required profit margins of market participants. The models incorporate projected cash flows of the underlying receivables, which include prepayment and credit loss assumptions. The models also incorporate current market interest rates and market spreads for the credit and liquidity risk of securities issued in the securitizations. The estimated fair values of the Company's dealer commercial loans are based on a discounted cash flow model.

*Debt*

The fair value of the Company's debt is estimated based on a discounted cash flow analysis. Projected cash flows are discounted using current market interest rates and credit spreads for debt with similar maturities. The Company's specific nonperformance risk is reflected in the credit spreads on the Company's unsecured debt.

The above fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no active market exists for a portion of the Company's financial instruments, fair value estimates of such financial instruments are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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Fair value information presented in the tables above is based on information available at September 30, 2014 and March 31, 2014. 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.

**(14) Segment Information**

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

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

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

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Notes to Consolidated Financial Statements (Unaudited)

Financial information for the Company's reportable segments for the three and six months ended or at September 30, 2014 and 2013 is summarized in the following tables:

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
<b>Three months ended September 30, 2014</b>				
Revenues:				
Direct financing leases .....	\$ -	\$ 36	\$ -	\$ 36
Retail .....	286	43	-	329
Dealer .....	25	4	-	29
Operating leases .....	1,139	56	-	1,195
Total revenues .....	1,450	139	-	1,589
Depreciation on operating leases .....	897	46	-	943
Interest expense .....	122	24	-	146
Realized (gains)/losses on derivatives and foreign currency denominated debt .....	(1)	6	(5)	-
Net revenues .....	432	63	5	500
Gain/(Loss) on disposition of lease vehicles .....	9	3	-	12
Other income .....	24	-	-	24
Total net revenues .....	465	66	5	536
Expenses:				
General and administrative expenses .....	85	15	-	100
Provision for credit losses .....	28	2	-	30
Early termination loss on operating leases .....	13	1	-	14
Loss on lease residual values .....	-	2	-	2
(Gain)/Loss on derivative instruments .....	-	-	150	150
(Gain)/Loss on foreign currency revaluation of debt .....	-	-	(167)	(167)
Income before income taxes .....	\$ 339	\$ 46	\$ 22	\$ 407
<b>Six months ended September 30, 2014</b>				
Revenues:				
Direct financing leases .....	\$ -	\$ 75	\$ -	\$ 75
Retail .....	578	85	-	663
Dealer .....	51	8	-	59
Operating leases .....	2,244	98	-	2,342
Total revenues .....	2,873	266	-	3,139
Depreciation on operating leases .....	1,766	80	-	1,846
Interest expense .....	248	48	-	296
Realized (gains)/losses on derivatives and foreign currency denominated debt .....	(6)	12	(6)	-
Net revenues .....	865	126	6	997
Gain/(Loss) on disposition of lease vehicles .....	33	5	-	38
Other income .....	47	1	-	48
Total net revenues .....	945	132	6	1,083
Expenses:				
General and administrative expenses .....	171	28	-	199
Provision for credit losses .....	46	5	-	51
Early termination loss on operating leases .....	17	1	-	18
Loss on lease residual values .....	-	2	-	2
(Gain)/Loss on derivative instruments .....	-	-	132	132
(Gain)/Loss on foreign currency revaluation of debt .....	-	-	(179)	(179)
Income before income taxes .....	\$ 711	\$ 96	\$ 53	\$ 860
<b>September 30, 2014</b>				
Total finance receivables .....	\$ 34,225	\$ 6,472	\$ -	\$ 40,697
Total operating lease assets .....	22,053	1,188	-	23,241
Total assets .....	57,983	7,760	-	65,743

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	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
<b>Three months ended September 30, 2013</b>				
Revenues:				
Direct financing leases .....	\$ -	\$ 49	\$ -	\$ 49
Retail .....	304	46	-	350
Dealer .....	24	4	-	28
Operating leases .....	1,060	7	-	1,067
Total revenues .....	1,388	106	-	1,494
Depreciation on operating leases .....	836	6	-	842
Interest expense .....	130	28	-	158
Realized (gains)/losses on derivatives and foreign currency denominated debt .....	(7)	3	4	-
Net revenues .....	429	69	(4)	494
Gain/(Loss) on disposition of lease vehicles .....	3	3	-	6
Other income .....	27	-	-	27
Total net revenues .....	459	72	(4)	527
Expenses:				
General and administrative expenses .....	85	14	-	99
Provision for credit losses .....	31	4	-	35
Early termination loss on operating leases .....	7	-	-	7
Loss on lease residual values .....	-	1	-	1
(Gain)/Loss on derivative instruments .....	-	-	(55)	(55)
(Gain)/Loss on foreign currency revaluation of debt .....	-	-	74	74
Income before income taxes .....	\$ 336	\$ 53	\$ (23)	\$ 366
<b>Six months ended September 30, 2013</b>				
Revenues:				
Direct financing leases .....	\$ -	\$ 102	\$ -	\$ 102
Retail .....	599	90	-	689
Dealer .....	51	8	-	59
Operating leases .....	2,103	7	-	2,110
Total revenues .....	2,753	207	-	2,960
Depreciation on operating leases .....	1,644	6	-	1,650
Interest expense .....	273	60	-	333
Realized (gains)/losses on derivatives and foreign currency denominated debt .....	(26)	4	22	-
Net revenues .....	862	137	(22)	977
Gain/(Loss) on disposition of lease vehicles .....	-	6	-	6
Other income .....	57	1	-	58
Total net revenues .....	919	144	(22)	1,041
Expenses:				
General and administrative expenses .....	167	28	-	195
Provision for credit losses .....	58	7	-	65
Early termination loss on operating leases .....	13	-	-	13
Loss on lease residual values .....	-	2	-	2
(Gain)/Loss on derivative instruments .....	-	-	(3)	(3)
(Gain)/Loss on foreign currency revaluation of debt .....	-	-	87	87
Income before income taxes .....	\$ 681	\$ 107	\$ (106)	\$ 682
<b>September 30, 2013</b>				
Total finance receivables .....	\$ 34,292	\$ 7,371	\$ -	\$ 41,663
Total operating lease assets .....	20,294	266	-	20,560
Total assets .....	55,680	7,701	-	63,381

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

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

A substantial portion of our consumer financing business is acquired through incentive financing programs sponsored by AHM and HCI. The volume of 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, 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 revenue and net income 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 often may not be reflected in 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 capabilities. 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 increase our profitability, including adjusting staffing needs based upon our business volumes and centralizing support functions. Additionally, we use risk and compliance management practices to minimize credit and residual value risks and maintain compliance with our pricing, underwriting and servicing policies at the United States, Canadian, state and provincial levels.

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

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

References to “C\$” are to the Canadian dollar. This report contains translations of certain Canadian dollar amounts into U.S. dollars at the rate specified below solely for your convenience. These translations should not be construed as representations that the Canadian dollar amounts actually represent such U.S. dollar amounts or that they could be converted into U.S. dollars at the rate indicated. U.S. dollar equivalents for “C\$” amounts are calculated based on the exchange rate on September 30, 2014 of 1.1198 per U.S. dollar.

References in this report to our “fiscal year 2015” and “fiscal year 2014” refer to our fiscal year ending March 31, 2015 and our fiscal year ended March 31, 2014, respectively.

### Results of Operations

The following table presents our income before income taxes:

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
	(U.S. dollars in millions)			
Income before income taxes:				
United States segment .....	\$ 357	\$ 321	\$ 758	\$ 576
Canada segment .....	50	45	102	106
Total income before income taxes .....	<u>\$ 407</u>	<u>\$ 366</u>	<u>\$ 860</u>	<u>\$ 682</u>

### Comparison of the Three Months Ended September 30, 2014 and 2013

Our consolidated income before income taxes was \$407 million for the second quarter of fiscal year 2015 compared to \$366 million for the same period in fiscal year 2014. This increase of \$41 million, or 11%, was primarily due to a gain on revaluation of foreign currency denominated debt of \$167 million during the second quarter of fiscal year 2015 compared to a loss of \$74 million during the same period in fiscal year 2014, an increase in operating lease revenue, net of depreciation, of \$27 million, a decrease in interest expense of \$12 million, an increase in the gain on disposition of lease vehicles of \$6 million and a decline in provision of credit losses of \$5 million, which were partially offset by a loss on derivative instruments of \$150 million during the second quarter of fiscal year 2015 compared to a gain of \$55 million during the same period in fiscal year 2014, a decline in revenue from retail loans of \$21 million, a decline in revenues from direct financing leases of \$13 million, an increase in early termination loss on operating leases of \$7 million and decline in other income of \$3 million.

### Comparison of the Six Months Ended September 30, 2014 and 2013

Our consolidated income before income taxes was \$860 million for the first six months of fiscal year 2015 compared to \$682 million for the same period in fiscal year 2014. This increase of \$178 million, or 26%, was primarily due to a gain on revaluation of foreign currency denominated debt of \$179 million during the first six months of fiscal year 2015 compared to a loss of \$87 million during the same period in fiscal year 2014, a decrease in interest expense of \$37 million, an increase in operating lease revenue, net of depreciation, of \$36 million, an increase in the gain on disposition of lease vehicles of \$32 million and a decline in provision of credit losses of \$14 million, which were partially offset by a loss on derivative instruments of \$132 million during the first six months of fiscal year 2015 compared to a gain of \$3 million during the same period in fiscal year 2014, a decline in revenues from direct financing leases of \$27 million, a decline in revenue from retail loans of \$26 million, decline in other income of \$10 million, an increase in early termination loss on operating leases of \$5 million and an increase in general and administrative expense of \$4 million.

### Segment Results—Comparison of the Three Months Ended September 30, 2014 and 2013

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

	United States Segment		Canada Segment		Consolidated	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013	2014	2013
(U.S. dollars in millions)						
<b>Revenues:</b>						
Direct financing leases.....	\$ -	\$ -	\$ 36	\$ 49	\$ 36	\$ 49
Retail .....	286	304	43	46	329	350
Dealer .....	25	24	4	4	29	28
Operating leases.....	1,139	1,060	56	7	1,195	1,067
Total revenues .....	1,450	1,388	139	106	1,589	1,494
Depreciation on operating leases .....	897	836	46	6	943	842
Interest expense.....	122	130	24	28	146	158
Net revenues .....	431	422	69	72	500	494
Gain/(Loss) on disposition of lease vehicles.	9	3	3	3	12	6
Other income.....	24	27	-	-	24	27
Total net revenues .....	464	452	72	75	536	527
<b>Expenses:</b>						
General and administrative expenses.....	85	85	15	14	100	99
Provision for credit losses.....	28	31	2	4	30	35
Early termination loss on operating leases.....	13	7	1	-	14	7
Loss on lease residual values.....	-	-	2	1	2	1
(Gain)/Loss on derivative instruments.....	148	(72)	2	17	150	(55)
(Gain)/Loss on foreign currency revaluation of debt.....	(167)	80	-	(6)	(167)	74
Income before income taxes.....	\$ 357	\$ 321	\$ 50	\$ 45	\$ 407	\$ 366

## *Revenues*

Revenue from retail loans in the United States segment declined by \$18 million, or 6%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in revenue was attributable to the decline in loan yields, which was partially offset by the increase in average outstanding retail loan balances. Revenue from retail loans in the Canada segment declined by \$3 million, or 7%, due to the decline in loan yields and the effect of foreign currency translation adjustments, which was partially offset by the increase in average outstanding retail loan balances.

Direct financing lease revenue, which is generated only in Canada, declined by \$13 million, or 27%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in revenue was primarily attributable to the decline in outstanding direct financing lease assets. Beginning in the second quarter of fiscal year 2014, a portion of newly acquired consumer lease contracts did not qualify for direct financing lease accounting treatment and were required to be classified as operating leases. Prior to that time, all leases acquired in the Canada segment were classified as direct financing leases.

Operating lease revenue in the United States segment increased by \$79 million, or 7%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. The increase in operating lease revenue was due to higher outstanding operating lease assets during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. Operating lease revenue in the Canada segment increased by \$49 million due to the increase in operating lease assets.

Revenue from dealer loans increased by \$1 million, or 4%, in the United States segment and remained consistent in the Canada segment during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014.

Subsidy income from AHM and HCI sponsored incentive programs increased by \$8 million, or 3%, to \$268 million during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. This increase was attributable to the cumulatively higher volumes of incentive financing in recent fiscal years.

## *Depreciation on operating leases*

Depreciation on operating leases in the United States segment increased by \$61 million, or 7%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014, primarily due to an increase in operating lease assets. Depreciation on operating leases in the Canada segment increased by \$40 million due to the increase in operating lease assets.

Operating lease revenue, net of depreciation, in the United States segment increased by \$18 million, or 8%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. This increase was attributable to the growth in our operating lease assets, which was partially offset by lower net revenue on more recently acquired operating leases. Operating lease revenue, net of depreciation, in the Canada segment increased by \$9 million due to the increase in operating lease assets.

## *Interest expense*

In the United States segment, interest expense declined by \$8 million, or 6%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in interest expense was primarily attributable to the maturity of debt with higher interest rates. In the Canada segment, interest expense declined by \$4 million, or 14%, due to the maturity of debt with higher interest rates and the effect of foreign currency translation adjustments. See “—*Liquidity and Capital Resources*” below for more information.

## *Gain/loss on disposition of lease vehicles*

In the United States segment, we recognized a gain on disposition of lease vehicles of \$9 million during the second quarter of fiscal year 2015 compared to a gain of \$3 million during the same period in fiscal year 2014. More lease vehicles were purchased at their contractual balance and fewer vehicles were sold through auctions and dealer direct programs during the second quarter of fiscal year 2015 as compared to the same period in fiscal year 2014 which contributed to the increase in the gain on disposition. The gain on disposition of lease vehicles in the Canada segment remained consistent during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014.

### *Provision for credit losses*

In the United States segment, the provision for credit losses declined by \$3 million, or 10%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in the provision was primarily the result of reducing our allowance for credit losses. In the Canada segment, the provision for credit losses declined by \$2 million, or 50%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. See “—*Financial Condition—Credit Risk*” below for more information.

### *Early termination losses on operating leases*

Early termination losses on operating leases in the United States segment increased by \$6 million, or 86%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. The increase was primarily due to higher lease acquisition volumes. Early termination losses on operating leases in the Canada segment increased by \$1 million during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014.

### *Loss on lease residual values*

Losses on lease residual values in the Canada segment increased by \$1 million during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014.

### *Gain/loss on derivative instruments*

In the United States segment, we recognized a loss on derivative instruments of \$148 million during the second quarter of fiscal year 2015 compared to a gain of \$72 million during the same period in fiscal year 2014. The loss in the second quarter of fiscal year 2015 was comprised of losses on cross currency swaps of \$154 million and losses on pay float interest rate swaps of \$25 million, which were partially offset by gains on pay fixed interest rate swaps of \$31 million. The loss on cross currency swaps was attributable to the U.S. dollar strengthening against the Euro and Yen. The loss on pay float interest rate swaps and gain on pay fixed interest rate swaps was due to the general rise in interest rates during the quarter. Loss on derivative instruments in the Canada segment decreased by \$15 million, or 88%, during the second quarter of fiscal year 2015 compared to the same period in fiscal year 2014. See “—*Derivatives*” below for more information.

### *Gain/loss on foreign currency revaluation of debt*

In the United States segment, we recognized a gain on the revaluation of foreign currency denominated debt of \$167 million during the second quarter of fiscal year 2015 compared to a loss of \$80 million during the same period in fiscal year 2014. The gain during the second quarter of fiscal year 2015 was attributable to gains on Euro and Yen denominated debt as the U.S. dollar strengthened against both currencies. In the Canada segment, there was no gain or loss on the revaluation of foreign currency denominated debt during the second quarter of fiscal year 2015 compared to a gain of \$6 million the same period in fiscal year 2014. The Canada segment did not have any foreign currency denominated debt outstanding during the second quarter of fiscal year 2015.

### *Income tax expense*

Our consolidated effective tax rate was 35.1% for the second quarter of fiscal year 2015 and 38.5% for the same period in fiscal year 2014. The decrease in the effective tax rate is primarily due to the increase in the tax deduction for qualified domestic production, which is allocated between the Parent and affiliated companies.



## Segment Results—Comparison of the Six Months Ended September 30, 2014 and 2013

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

	United States Segment		Canada Segment		Consolidated	
	Six months ended September 30,		Six months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013	2014	2013
(U.S. dollars in millions)						
<b>Revenues:</b>						
Direct financing leases.....	\$ -	\$ -	\$ 75	\$ 102	\$ 75	\$ 102
Retail .....	578	599	85	90	663	689
Dealer .....	51	51	8	8	59	59
Operating leases.....	2,244	2,103	98	7	2,342	2,110
Total revenues .....	2,873	2,753	266	207	3,139	2,960
Depreciation on operating leases .....	1,766	1,644	80	6	1,846	1,650
Interest expense.....	248	273	48	60	296	333
Net revenues .....	859	836	138	141	997	977
Gain/(Loss) on disposition of lease vehicles..	33	-	5	6	38	6
Other income.....	47	57	1	1	48	58
Total net revenues .....	939	893	144	148	1,083	1,041
<b>Expenses:</b>						
General and administrative expenses.....	171	167	28	28	199	195
Provision for credit losses.....	46	58	5	7	51	65
Early termination loss on operating leases.....	17	13	1	-	18	13
Loss on lease residual values .....	-	-	2	2	2	2
(Gain)/Loss on derivative instruments.....	126	(5)	6	2	132	(3)
(Gain)/Loss on foreign currency revaluation of debt.....	(179)	84	-	3	(179)	87
Income before income taxes .....	<u>\$ 758</u>	<u>\$ 576</u>	<u>\$ 102</u>	<u>\$ 106</u>	<u>\$ 860</u>	<u>\$ 682</u>

### Revenues

Revenue from retail loans in the United States segment declined by \$21 million, or 4%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in revenue was attributable to the decline in loan yields, which was partially offset by the increase in average outstanding retail loan balances. Revenue from retail loans in the Canada segment declined by \$5 million, or 6%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014 due to the decline in loan yields and the effect of foreign currency translation adjustments, which was partially offset by the increase in average outstanding retail loan balances.

Direct financing lease revenue, which is generated only in Canada, declined by \$27 million, or 26%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in revenue was primarily attributable to the decline in outstanding direct financing lease assets. Beginning in the second quarter of fiscal year 2014, a portion of newly acquired consumer lease contracts did not qualify for direct financing lease accounting treatment and were required to be classified as operating leases. Prior to that time, all leases acquired in the Canada segment were classified as direct financing leases.

Operating lease revenue in the United States segment increased by \$141 million, or 7%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. The increase in operating lease revenue was due to higher outstanding operating lease assets during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. Operating lease revenue in the Canada segment increased by \$91 million due to the increase in operating lease assets.

Revenue from dealer loans remained consistent in the United States and Canada segments during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014.

Subsidy income from AHM and HCI sponsored incentive programs increased by \$21 million, or 4%, to \$535 million during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. This increase was attributable to the cumulatively higher volumes of incentive financing in recent fiscal years.

#### *Depreciation on operating leases*

Depreciation on operating leases in the United States segment increased by \$122 million, or 7%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014, primarily due to an increase in operating lease assets. Depreciation on operating leases in the Canada segment increased by \$74 million due to the increase in operating lease assets.

Operating lease revenue, net of depreciation, in the United States segment increased by \$19 million, or 4%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. This increase was attributable to the growth in our operating lease assets, which was partially offset by lower net revenue on more recently acquired operating leases. Operating lease revenue, net of depreciation, in the Canada segment increased by \$17 million due to the increase in operating lease assets.

#### *Interest expense*

In the United States segment, interest expense declined by \$25 million, or 9%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in interest expense was primarily attributable to the maturity of debt with higher interest rates. In the Canada segment, interest expense declined by \$12 million, or 20%, due to the maturity of debt with higher interest rates and the effect of foreign currency translation adjustments. See “—*Liquidity and Capital Resources*” below for more information.

#### *Gain/loss on disposition of lease vehicles*

In the United States segment, we recognized a gain on disposition of lease vehicles of \$33 million during the first six months of fiscal year 2015 compared to a loss of less than \$1 million during the same period in fiscal year 2014. More lease vehicles were purchased at their contractual balance and fewer vehicles were sold through auctions and dealer direct programs during the first six months of fiscal year 2015 as compared to the same period in fiscal year 2014 which contributed to the increase in the gain on disposition. The gain on disposition of lease vehicles in the Canada segment declined by \$1 million, or 17%, during the first six months of fiscal year 2015 as compared to the same period in fiscal year 2014. The decline was primarily attributable to lower volumes of returned lease vehicles.

#### *Provision for credit losses*

In the United States segment, the provision for credit losses declined by \$12 million, or 21%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in the provision was primarily the result of reducing our allowance for credit losses. In the Canada segment, the provision for credit losses declined by \$2 million, or 29%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. See “—*Financial Condition—Credit Risk*” below for more information.

#### *Early termination losses on operating leases*

Early termination losses on operating leases in the United States segment increased by \$4 million, or 31%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. The increase was primarily due to higher lease acquisition volumes. Early termination losses on operating leases in the Canada segment increased by \$1 million during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014.

#### *Loss on lease residual values*

Losses on lease residual values in the Canada segment were consistent for the first six months of fiscal year 2015 as compared to the same period in fiscal year 2014.

### *Gain/loss on derivative instruments*

In the United States segment, we recognized a loss on derivative instruments of \$126 million during the first six months of fiscal year 2015 compared to a gain of \$5 million during the same period in fiscal year 2014. The loss in the first six months of fiscal year 2015 was comprised of losses on cross currency swaps of \$145 million and losses on pay fixed interest rate swaps of \$12 million, which were partially offset by gains on pay float interest rate swaps of \$31 million. The loss on cross currency swaps was attributable to the U.S. dollar strengthening against the Euro and Yen. Loss on derivative instruments in the Canada segment increased by \$4 million, or 200%, during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. See “—*Derivatives*” below for more information.

### *Gain/loss on foreign currency revaluation of debt*

In the United States segment, we recognized a gain on the revaluation of foreign currency denominated debt of \$179 million during the first six months of fiscal year 2015 compared to a loss of \$84 million during the same period in fiscal year 2014. The gain during the first six months of fiscal year 2015 was primarily attributable to gains on Euro and Yen denominated debt as the U.S. dollar strengthened against the Euro and Yen. In the Canada segment, there was no gain or loss on the revaluation of foreign currency denominated debt during the first six months of fiscal year 2015 compared to a loss of \$3 million the same period in fiscal year 2014. The Canada segment did not have any foreign currency denominated debt outstanding during the first six months of fiscal year 2015.

### *Income tax expense*

Our consolidated effective tax rate was 35.1% for the first six months of fiscal year 2015 and 38.3% for the same period in fiscal year 2014. The decrease in the effective tax rate is primarily due to the increase in the tax deduction for qualified domestic production, which is allocated between the Parent and affiliated companies.

## Financial Condition

### Consumer Financing

#### Consumer Financing Acquisition Volumes

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

	Three months ended September 30,				Six months ended September 30,			
	2014		2013		2014		2013	
	Acquired	Sponsored <sup>(2)</sup>	Acquired	Sponsored <sup>(2)</sup>	Acquired	Sponsored <sup>(2)</sup>	Acquired	Sponsored <sup>(2)</sup>
(Units <sup>(1)</sup> in thousands)								
<b>United States Segment</b>								
Retail loans:								
New auto.....	130	82	205	157	275	179	391	298
Used auto.....	14	2	17	-	30	2	33	-
Motorcycle.....	18	3	20	3	39	7	40	6
Power equipment and marine engines.....	1	-	1	-	1	-	1	-
Total retail loans.....	<u>163</u>	<u>87</u>	<u>243</u>	<u>160</u>	<u>345</u>	<u>188</u>	<u>465</u>	<u>304</u>
Leases <sup>(3)</sup> .....	129	122	113	97	257	245	219	179
<b>Canada Segment</b>								
Retail loans:								
New auto.....	15	10	18	15	30	21	34	29
Used auto.....	4	1	5	3	8	3	11	6
Motorcycle.....	2	1	1	-	4	2	3	-
Power equipment and marine engines.....	-	-	-	-	-	-	-	-
Total retail loans.....	<u>21</u>	<u>12</u>	<u>24</u>	<u>18</u>	<u>42</u>	<u>26</u>	<u>48</u>	<u>35</u>
Leases <sup>(3)</sup> .....	18	16	14	14	38	35	31	30
<b>Consolidated</b>								
Retail loans:								
New auto.....	145	92	223	172	305	200	425	327
Used auto.....	18	3	22	3	38	5	44	6
Motorcycle.....	20	4	21	3	43	9	43	6
Power equipment and marine engines.....	1	-	1	-	1	-	1	-
Total retail loans.....	<u>184</u>	<u>99</u>	<u>267</u>	<u>178</u>	<u>387</u>	<u>214</u>	<u>513</u>	<u>339</u>
Leases <sup>(3)</sup> .....	147	138	127	111	295	280	250	209

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

*Consumer Financing Penetration Rates*

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

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
<b><u>United States Segment</u></b>				
New auto.....	61%	77%	64%	74%
Motorcycle.....	39%	43%	38%	42%
<b><u>Canada Segment</u></b>				
New auto.....	69%	71%	70%	71%
Motorcycle.....	29%	20%	27%	18%
<b><u>Consolidated</u></b>				
New auto.....	62%	76%	64%	74%
Motorcycle.....	38%	40%	37%	39%

## Consumer Financing Asset Balances

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

	September 30, 2014	March 31, 2014	September 30, 2014	March 31, 2014
	(U.S. dollars in millions)		(Units <sup>(1)</sup> in thousands)	
<b>United States Segment</b>				
Retail loans:				
New auto.....	\$ 26,947	\$ 27,018	1,822	1,799
Used auto .....	3,032	3,233	249	264
Motorcycle.....	908	886	188	187
Power equipment and marine engines .....	60	64	5	5
Total retail loans .....	<u>\$ 30,947</u>	<u>\$ 31,201</u>	<u>2,264</u>	<u>2,255</u>
Securitized retail loans <sup>(2)</sup> .....	\$ 7,543	\$ 7,999	696	699
Investment in operating leases .....	\$ 22,053	\$ 20,537	1,051	973
<b>Canada Segment</b>				
Retail loans:				
New auto.....	\$ 2,873	\$ 2,698	185	184
Used auto .....	601	645	63	67
Motorcycle.....	75	60	13	11
Power equipment and marine engines .....	3	3	2	1
Total retail loans .....	<u>\$ 3,552</u>	<u>\$ 3,406</u>	<u>263</u>	<u>263</u>
Securitized retail loans <sup>(2)</sup> .....	\$ 116	\$ 178	18	24
Direct financing leases .....	\$ 2,511	\$ 2,722	135	144
Investment in operating leases .....	\$ 1,188	\$ 693	46	25
<b>Consolidated</b>				
Retail loans:				
New auto.....	\$ 29,820	\$ 29,716	2,007	1,983
Used auto .....	3,633	3,878	312	331
Motorcycle.....	983	946	201	198
Power equipment and marine engines .....	63	67	7	6
Total retail loans .....	<u>\$ 34,499</u>	<u>\$ 34,607</u>	<u>2,527</u>	<u>2,518</u>
Securitized retail loans <sup>(2)</sup> .....	\$ 7,659	\$ 8,177	714	723
Direct financing leases .....	\$ 2,511	\$ 2,722	135	144
Investment in operating leases .....	\$ 23,241	\$ 21,230	1,097	998

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

(2) Securitized retail loans represent the portion of total retail loans that have been sold in securitization transactions but continue to be recognized on our balance sheet. Securitized retail loans are included in the amounts for total retail loans.

In the United States segment, total retail loan acquisition volumes declined during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014 due to the decline in new auto retail loan acquisitions. The decline in new auto retail loan acquisitions was primarily attributable to the reduction in incentive financing programs offered during the first six months of fiscal year 2015 as compared to the same period in fiscal year 2014 which negatively affected our financing penetration rates. Outstanding motorcycle retail loans increased slightly while outstanding used auto retail loans continued to decline. Operating lease acquisitions in the United States segment increased during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014 due to the increase in incentive financing programs for operating leases.

In the Canada segment, retail loan acquisition volumes declined while lease acquisition volumes increased during the first six months of fiscal year 2015 compared to the same period in fiscal year 2014. The shift toward lease acquisitions was primarily the result of increased lease incentive financing volume. The outstanding direct financing lease asset balance continued to decline and the investment in operating leases continued to increase during the first six months of fiscal year 2015 as the result of the Canada segment accounting for a portion of newly acquired consumer lease contracts as operating leases beginning in the second quarter of fiscal year 2014.

## 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 authorized Honda and Acura dealerships in the United States and/or Canada, as applicable:

	September 30, 2014	March 31, 2014
<b>United States Segment</b>		
Automobile .....	29%	29%
Motorcycle.....	97%	97%
Power equipment and marine engines .....	24%	24%
<b>Canada Segment</b>		
Automobile .....	34%	34%
Motorcycle.....	97%	99%
Power equipment and marine engines .....	94%	93%
<b>Consolidated</b>		
Automobile .....	29%	30%
Motorcycle.....	97%	97%
Power equipment and marine engines .....	26%	26%

### Wholesale Flooring Financing Percentage of Sales

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

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
<b>United States Segment</b>				
Automobile .....	28%	30%	29%	30%
Motorcycle.....	97%	96%	97%	95%
Power equipment and marine engines .....	10%	9%	9%	8%
<b>Canada Segment</b>				
Automobile .....	34%	34%	32%	34%
Motorcycle.....	98%	96%	95%	96%
Power equipment and marine engines .....	96%	95%	96%	96%
<b>Consolidated</b>				
Automobile .....	29%	30%	29%	30%
Motorcycle.....	97%	96%	96%	95%
Power equipment and marine engines .....	12%	11%	11%	10%

## Dealer Financing Asset Balances

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

	September 30, 2014 (U.S. dollars in millions)	March 31, 2014	September 30, 2014 (Units <sup>(1)</sup> in thousands)	March 31, 2014
<b>United States Segment</b>				
Wholesale flooring loans:				
Automobile .....	\$ 2,022	\$ 2,491	81	100
Motorcycle .....	564	701	88	107
Power equipment and marine engines .....	58	66	51	66
Total wholesale flooring loans .....	<u>\$ 2,644</u>	<u>\$ 3,258</u>	<u>220</u>	<u>273</u>
Commercial loans .....	\$ 634	\$ 572		
<b>Canada Segment</b>				
Wholesale flooring loans:				
Automobile .....	\$ 272	\$ 395	10	15
Motorcycle .....	66	82	9	11
Power equipment and marine engines .....	22	32	16	27
Total wholesale flooring loans .....	<u>\$ 360</u>	<u>\$ 509</u>	<u>35</u>	<u>53</u>
Commercial loans .....	\$ 49	\$ 32		
<b>Consolidated</b>				
Wholesale flooring loans:				
Automobile .....	\$ 2,294	\$ 2,886	91	115
Motorcycle .....	630	783	97	118
Power equipment and marine engines .....	80	98	67	93
Total wholesale flooring loans .....	<u>\$ 3,004</u>	<u>\$ 3,767</u>	<u>255</u>	<u>326</u>
Commercial loans .....	\$ 683	\$ 604		

(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 rates 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 and direct financing leases 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 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 retail loans and direct financing leases.

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 continuously monitoring the payment performance and creditworthiness of these dealers. In the event of default by a dealer, we seek all available legal remedies pursuant to the related dealer agreements and guarantees. Additionally, we have entered into agreements with AHM and HCI that provide for the repurchase of any new, unused, undamaged and unregistered vehicle or equipment repossessed by us from a dealer in the United States and Canada, respectively, who defaulted under the terms of its wholesale flooring agreement with us at the net cost of the financing that we provided.



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

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

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

	As of or for the three months ended September 30,		As of or for the six months ended September 30,	
	2014	2013	2014	2013
(U.S. dollars in millions)				
<b>United States Segment</b>				
Finance receivables:				
Allowance for credit losses at beginning of period.....	\$ 87	\$ 87	\$ 89	\$ 80
Provision for credit losses.....	23	27	37	50
Charge-offs, net of recoveries.....	(27)	(28)	(43)	(44)
Allowance for credit losses at end of period.....	<u>\$ 83</u>	<u>\$ 86</u>	<u>\$ 83</u>	<u>\$ 86</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup> .....			0.24%	0.25%
Charge-offs as a percentage of average receivable balance <sup>(1), (4)</sup> ...	0.31%	0.32%	0.24%	0.26%
Delinquencies (60 or more days past due):				
Delinquent amount <sup>(2)</sup> .....			\$ 53	\$ 61
As a percentage of ending receivable balance <sup>(1), (2)</sup> .....			0.15%	0.18%
Operating leases:				
Early termination loss on operating leases.....	\$ 13	\$ 7	\$ 17	\$ 13
Provision for past due operating lease rental payments <sup>(3)</sup> .....	5	4	9	8
<b>Canada Segment</b>				
Finance receivables:				
Allowance for credit losses at beginning of period.....	\$ 12	\$ 13	\$ 11	\$ 13
Provision for credit losses.....	2	4	5	7
Charge-offs, net of recoveries.....	(3)	(3)	(5)	(6)
Effect of translation adjustment .....	-	-	-	-
Allowance for credit losses at end of period.....	<u>\$ 11</u>	<u>\$ 14</u>	<u>\$ 11</u>	<u>\$ 14</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup> .....			0.16%	0.18%
Charge-offs as a percentage of average receivable balance <sup>(1), (4)</sup> ...	0.17%	0.19%	0.17%	0.17%
Delinquencies (60 or more days past due):				
Delinquent amount <sup>(2)</sup> .....			\$ 7	\$ 6
As a percentage of ending receivable balance <sup>(1), (2)</sup> .....			0.10%	0.07%
Operating leases:				
Early termination loss on operating leases.....	\$ 1	\$ -	\$ 1	\$ -
Provision for past due operating lease rental payments <sup>(3)</sup> .....	-	-	-	-
<b>Consolidated</b>				
Finance receivables:				
Allowance for credit losses at beginning of period.....	\$ 99	\$ 100	\$ 100	\$ 93
Provision for credit losses.....	25	31	42	57
Charge-offs, net of recoveries.....	(30)	(31)	(48)	(50)
Effect of translation adjustment .....	-	-	-	-
Allowance for credit losses at end of period.....	<u>\$ 94</u>	<u>\$ 100</u>	<u>\$ 94</u>	<u>\$ 100</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup> .....			0.23%	0.24%
Charge-offs as a percentage of average receivable balance <sup>(1), (4)</sup> ...	0.28%	0.30%	0.23%	0.24%
Delinquencies (60 or more days past due):				
Delinquent amount <sup>(2)</sup> .....			\$ 60	\$ 67
As a percentage of ending receivable balance <sup>(1), (2)</sup> .....			0.14%	0.16%
Operating leases:				
Early termination loss on operating leases.....	\$ 14	\$ 7	\$ 18	\$ 13
Provision for past due operating lease rental payments <sup>(3)</sup> .....	5	4	9	8

- (1) Ending and average receivable balances exclude the allowance for credit losses, write-down of lease residual values, 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 finance receivables, 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.
- (3) Provisions for past due operating lease rental payments are also included in total provision for credit losses in our consolidated statements of income.
- (4) Percentages for the three and six months ended September 30, 2014 and 2013 have been annualized.

In the United States segment, we recognized a provision for credit losses on our finance receivables of \$23 million and \$37 million for the second quarter and first six months of fiscal year 2015, respectively, compared to \$27 million and \$50 million for the respective periods in fiscal year 2014. The decline in the provision was primarily the result of reducing our allowance for credit losses during the first six months of fiscal year 2015 as compared to increasing our allowance for credit losses during the same period in fiscal year 2014. We reduced our allowance for credit losses due in part to the decline in retail loan acquisition volumes and outstanding loan balances during the first six months of fiscal year 2015. During the same period in fiscal year 2014, we increased our allowance for credit losses primarily as a result of the significantly higher retail loan acquisitions. Net charge-offs and delinquencies remained near historically low levels during the first six months of fiscal year 2015. We recognized early termination losses on operating lease assets of \$13 million and \$17 million during the second quarter and first six months of fiscal year 2015, respectively, compared to \$7 million and \$13 million for the respective periods in fiscal year 2014. The increase was primarily the result of higher lease acquisitions during fiscal year 2015. In the Canada segment, the provision for credit losses on finance receivables decreased by \$2 million during both the second quarter and first six months of fiscal year 2015 as compared to the respective periods in fiscal year 2014.

### ***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 for the contractual residual value (or if purchased prior to lease maturity, at 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, at the outstanding contractual balance) or through market based pricing programs. 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 at the end of the lease term.

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 the expected loss severity. 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 estimated residual values are made on a straight line basis over the remaining term of the lease and are included as depreciation expense. For direct financing leases, downward adjustments for declines in estimated residual values deemed to be other-than-temporary are recognized as a loss on lease residual values in the period in which the estimate changed. Additional information regarding lease residual values is provided in the discussion of “—Critical Accounting Policies—Determination of Lease Residual Values” below.

We also review our investment in operating leases for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If impairment conditions are met, impairment losses are measured by the amount carrying values exceed their fair values. There were no events or circumstances that indicated that the carrying values of our operating leases would not be recoverable during the first six months of fiscal year 2015 and 2014.

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

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
(Units <sup>(1)</sup> in thousands)				
<b>United States Segment</b>				
Termination units:				
Purchases at outstanding contractual balance <sup>(2)</sup> .....	57	52	120	114
Sales through auctions and dealer direct programs <sup>(3)</sup> .....	27	32	54	66
Total termination units .....	<u>84</u>	<u>84</u>	<u>174</u>	<u>180</u>
<b>Canada Segment</b>				
Termination units:				
Purchases at outstanding contractual balance <sup>(2)</sup> .....	10	10	22	23
Sales through auctions and dealer direct programs <sup>(3)</sup> .....	1	1	3	4
Total termination units .....	<u>11</u>	<u>11</u>	<u>25</u>	<u>27</u>
<b>Consolidated</b>				
Termination units:				
Purchases at outstanding contractual balance <sup>(2)</sup> .....	67	62	142	137
Sales through auctions and dealer direct programs <sup>(3)</sup> .....	28	33	57	70
Total termination units .....	<u>95</u>	<u>95</u>	<u>199</u>	<u>207</u>

- (1) A unit represents one lease that was terminated during the fiscal year 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, physical auctions, and market based pricing programs direct to dealers.

## 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 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 strategies 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, related party debt and asset-backed securities. We incorporate a funding strategy that takes into consideration factors such as the interest rate environment, domestic and foreign capital market conditions, maturity profiles, and economic conditions. We believe that our funding sources, combined with cash provided by operating and investing activities, will provide sufficient liquidity for us to meet our debt service and working capital requirements over the next twelve months.

## Summary of Outstanding Debt

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

	September 30, 2014	March 31, 2014	Weighted average contractual interest rate	
			September 30, 2014	March 31, 2014
(U.S. dollars in millions)				
<b>United States Segment</b>				
Unsecured debt:				
Commercial paper.....	\$ 5,274	\$ 2,927	0.17%	0.15%
Related party debt.....	3,236	3,225	0.13%	0.14%
Bank loans .....	5,391	5,389	0.71%	0.71%
Private U.S. MTN program .....	9,905	12,901	2.20%	1.85%
Public U.S. MTN program.....	7,229	3,736	1.05%	1.08%
Euro MTN programme .....	2,187	3,788	1.30%	2.52%
Total unsecured debt.....	33,222	31,966		
Secured debt.....	7,564	8,062	0.67%	0.65%
Total debt.....	<u>\$ 40,786</u>	<u>\$ 40,028</u>		
<b>Canada Segment</b>				
Unsecured debt:				
Commercial paper.....	\$ 1,395	\$ 1,260	1.15%	1.15%
Related party debt.....	1,786	1,538	1.27%	1.27%
Bank loans .....	1,135	1,150	1.81%	1.80%
Other debt .....	1,471	1,490	2.12%	2.12%
Total unsecured debt.....	5,787	5,438		
Secured debt.....	102	168	1.55%	1.52%
Total debt.....	<u>\$ 5,889</u>	<u>\$ 5,606</u>		
<b>Consolidated</b>				
Unsecured debt:				
Commercial paper.....	\$ 6,669	\$ 4,187	0.38%	0.45%
Related party debt.....	5,022	4,763	0.54%	0.51%
Bank loans .....	6,526	6,539	0.90%	0.90%
Private U.S. MTN program .....	9,905	12,901	2.20%	1.85%
Public U.S. MTN program.....	7,229	3,736	1.05%	1.08%
Euro MTN programme .....	2,187	3,788	1.30%	2.52%
Other debt .....	1,471	1,490	2.12%	2.12%
Total unsecured debt.....	39,009	37,404		
Secured debt.....	7,666	8,230	0.68%	0.67%
Total debt.....	<u>\$ 46,675</u>	<u>\$ 45,634</u>		

### Commercial Paper

As of September 30, 2014, we had commercial paper programs in the United States of \$7.0 billion and in Canada of C\$2.0 billion (\$1.8 billion). The commercial paper programs are supported by committed lines of credit totaling approximately \$8.4 billion. See “Credit Agreements” below. Interest rates on the commercial paper are fixed at the time of issuance. During the six months ended September 30, 2014, consolidated commercial paper month-end outstanding principal balances ranged from approximately \$5.0 billion to \$6.7 billion and the outstanding daily balance averaged \$5.5 billion.

### *Related Party Debt*

AHFC routinely issues fixed rate notes to AHM to help fund AHFC's general corporate operations. HCFI routinely issues fixed rate notes to HCI to help fund HCFI's general corporate operations. Interest rates are based on prevailing rates of debt with comparable terms. Generally, the term of these notes is less than 120 days. During the six months ended September 30, 2014, the consolidated related party debt month-end principal balances ranged from approximately \$4.9 billion to \$5.1 billion and the outstanding daily balance averaged \$4.9 billion.

### *Bank Loans*

During the six months ended September 30, 2014, AHFC and HCFI did not enter into any bank loan agreements. As of September 30, 2014, we had bank loans denominated in U.S. dollars and Canadian dollars with floating interest rates, in principal amounts ranging from approximately \$45 million to \$600 million. As of September 30, 2014, the remaining maturities of all bank loans outstanding ranged from 52 days to approximately 5.3 years. The weighted average remaining maturities on all bank loans was 2.1 years as of September 30, 2014.

Our bank loans contain customary restrictive covenants, including limitations on liens, limitations on mergers and 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 September 30, 2014, management believes that AHFC and HCFI were in compliance with all covenants contained in our bank loans.

### *Medium Term Note (MTN) Programs*

#### *Private U.S. MTN Program*

AHFC no longer issues U.S. MTNs under the Rule 144A Private U.S. MTN Program. Future U.S. MTN issuances will be under the Public U.S. MTN Program described below. As of September 30, 2014, the remaining maturities of Private U.S. MTNs outstanding ranged from 34 days to approximately 7.0 years. The weighted average remaining maturities of Private U.S. MTNs was 2.1 years as of September 30, 2014. Interest rates on the Private U.S. MTNs are fixed or floating. Private U.S. MTNs are 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 September 30, 2014, management believes that AHFC was in compliance with all covenants contained in the Private U.S. MTNs.

#### *Public U.S. MTN Program*

AHFC is a "well-known seasoned issuer" under SEC rules and issues Public U.S. MTNs pursuant to a registration statement on Form S-3 filed with the SEC. The Public U.S. MTN program is authorized for issuance of MTNs up to a maximum aggregate principal amount of \$16 billion. The aggregate principal amount of MTNs offered under this program may be increased from time to time. The Public U.S. MTNs may have original maturities of nine months or more from the date of issue, may be interest bearing with either fixed or floating interest rates, or may be discounted notes. During the six months ended September 30, 2014, AHFC issued \$3.5 billion aggregate principal amount of Public U.S. MTNs, with original maturities ranging from one to five years, bearing interest at fixed and floating rates. As of September 30, 2014, the remaining maturities of all Public U.S. MTNs outstanding ranged from 66 days to approximately 4.9 years. The weighted average remaining maturities of all Public U.S. MTNs was 2.4 years as of September 30, 2014.

The Public U.S. 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 September 30, 2014, management believes that AHFC was in compliance with all covenants under the indenture.

#### *Euro MTN Programme*

The \$11.0 billion Euro MTN Programme was effective through August 8, 2014. Management may renew the program in the future. Notes under this program that are currently listed on the Luxembourg Stock Exchange will remain listed through their maturity. Since August 8, 2013, AHFC has been the sole issuer under this program. During the six months end September 30, 2014, AHFC did not issue any Euro MTNs. As September 30, 2014, the remaining maturities of all Euro MTNs outstanding ranged from 16 days to approximately 8.4 years. The weighted average remaining maturities of all Euro MTNs was 3.1 years as of September 30, 2014.

Interest rates on the Euro MTNs are fixed or floating. Euro MTNs are 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 September 30, 2014, management believes that AHFC was in compliance with all covenants contained in the Euro MTNs.

Details of our outstanding Euro MTNs by currency is as follows:

	<u>September 30, 2014</u>		<u>March 31, 2014</u>	
	(U.S. dollars in millions)			
U.S. dollar .....	\$ 893	41%	\$ 942	25%
Japanese yen.....	351	16%	373	10%
Euro.....	943	43%	2,473	65%
Total.....	<u>\$ 2,187</u>	100%	<u>\$ 3,788</u>	100%

#### *Other Debt*

HCFI issues privately placed Canadian dollar denominated notes. During the six months ended September 30, 2014, HCFI did not issue any of these notes. As of September 30, 2014, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 146 days to approximately 4.2 years. The weighted average remaining maturities of these notes was 2.6 years as of September 30, 2014.

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 September 30, 2014, 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. Securitization transactions involve transferring pools of retail loans to statutory trusts. The trusts are special-purpose entities that we establish to accommodate securitization structures. Securitization trusts have the limited purpose of acquiring assets, issuing asset-backed securities, and making payments on the securities. Assets transferred to securitization trusts are considered to be legally isolated from us and the claims of our creditors. We continue to service the retail loans transferred to the trusts. Investors in the notes issued by a trust only have recourse to the assets of such trust and do not have recourse to AHFC, HCFI, or our other subsidiaries or to other trusts.

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

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

We are required to consolidate the securitization trusts in our financial statements, which results in the securitizations being accounted for as on-balance sheet secured financings. The securitized receivables remain on our consolidated balance sheet along with the notes issued by the trusts. The notes are secured solely by the assets of the applicable trust and not by any of our other assets or those of other trusts. The assets of a trust are the only source of funds for repayment on the notes of such trust.

During the six months ended September 30, 2014, we issued notes through asset-backed securitizations totaling \$2.0 billion, which were secured by consumer finance receivables with an initial principal balance of \$2.1 billion.

### *Asset-Backed Conduits*

In September 2010, we entered into a receivables loan agreement with a bank-sponsored asset-backed commercial paper conduit to allow us access to additional secured funding. Under this agreement, we would transfer finance receivables to funding agents as collateral for debt issued by the funding agents who are contractually committed, at our option, to make advances to us of up to \$500 million. This agreement was amended in September 2014 and terminates in September 2015. As of September 30, 2014, we had no amounts outstanding under this agreement. Our ability to obtain funding under this agreement is subject to us having a sufficient amount of assets eligible and any unused portion of this commitment may be terminated if the performance of the underlying assets deteriorates beyond specified levels.

### *Credit Agreements*

We maintain committed lines of credit with various financial institutions. These credit agreements are primarily in place to support our commercial paper programs. If these lines were used, it would be in the form of short-term notes.

In March 2014, AHFC entered into a \$3.5 billion 364 day credit agreement which terminates on March 6, 2015 and a \$3.5 billion five year credit agreement which terminates on March 7, 2019. At September 30, 2014, no amounts were outstanding or repaid under the AHFC credit agreements. AHFC intends to renew or replace the credit agreements prior to or on their respective termination dates.

In March 2014, HCFI entered into a C\$1.3 billion (\$1.2 billion) credit agreement. As amended in June 2014, the credit agreement was increased to C\$1.6 billion (\$1.4 billion) which provides that HCFI may borrow up to C\$800 million (\$714 million) on a one year and five-year revolving basis. The one year tranche of the credit agreement terminates on March 24, 2015 and the five year tranche of the credit agreement terminates on March 24, 2019. At September 30, 2014, no amounts were outstanding or repaid under the HCFI credit agreement. HCFI intends to renew or replace the credit agreement prior to or on the termination date of each respective tranche.

The credit agreements contain customary conditions to borrowing and customary restrictive covenants, including limitations on liens and limitations on mergers, consolidations and asset sales. The credit agreements also require us to maintain a positive consolidated tangible net worth. 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 September 30, 2014, management believes that AHFC and HCFI were in compliance with all covenants contained in the respective credit agreements.

### *Keep Well Agreements*

HMC has entered into separate keep well agreements with AHFC and HCFI. Pursuant to the Keep Well Agreements, HMC has agreed to, among other things:

- own and hold, at all times, directly or indirectly, at least 80% of each of AHFC's and HCFI's issued and outstanding shares of voting stock and not pledge, directly or indirectly, encumber, or otherwise dispose of any such shares or permit any of HMC's subsidiaries to do so, except to HMC or wholly owned subsidiaries of HMC;
- cause each of AHFC and HCFI to, on the last day of each of AHFC's and HCFI's respective fiscal years, have a positive consolidated tangible net worth (with "tangible net worth" meaning (a) shareholders' equity less (b) any intangible assets, as determined in accordance with GAAP with respect to AHFC and generally accepted accounting principles in Canada with respect to HCFI); and
- ensure that, at all times, each of AHFC and HCFI has sufficient liquidity and funds to meet their payment obligations under any Debt (with "Debt" defined as AHFC's or HCFI's debt, as applicable, for borrowed money that HMC has confirmed in writing is covered by the respective keep well agreement) in accordance with the terms of such Debt, or where necessary, HMC will make available to AHFC or HCFI, as applicable, or HMC will procure for AHFC or HCFI, as applicable, sufficient funds to enable AHFC or HCFI, as applicable, to pay its Debt in accordance with its terms. AHFC or HCFI Debt does not include the notes issued by securitization trusts in connection with AHFC's or HCFI's secured financing transactions, any related party debt or any indebtedness outstanding as of September 30, 2014 under AHFC's and HCFI's bank loan agreements.

As consideration for HMC's obligations under the Keep Well Agreements, we have agreed to pay HMC a quarterly fee based on the amount of outstanding Debt pursuant to support compensation agreements, dated October 1, 2005. We incurred expenses of \$5 million and \$4 million during the three months ended September 30, 2014 and 2013, respectively, and \$9 million and \$8 million during the six months ended September 30, 2014 and 2013, respectively, pursuant to these support compensation agreements.



## Indebtedness of Consolidated Subsidiaries

As of September 30, 2014, AHFC and its consolidated subsidiaries had approximately \$54.8 billion of outstanding indebtedness and other liabilities, including current liabilities, of which approximately \$14.3 billion consisted of indebtedness and liabilities of our consolidated subsidiaries, and none of AHFC's consolidated subsidiaries had outstanding any preferred equity.

## Derivatives

We utilize derivative instruments to manage 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 manage 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 statement 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 result of operations as evaluated by management. Realized gains and losses on derivative instruments, net of realized gains and losses on foreign currency denominated debt, are included in the measure of net revenues when we evaluate segment performance. Refer to Note 14—Segment Information of *Notes to Consolidated Financial Statements (Unaudited)* for additional information about segment information and Note 5—Derivative Instruments of *Notes to Consolidated Financial Statements (Unaudited)* for additional information on derivative instruments.

## Off-Balance Sheet Arrangements

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

## Contractual Obligations

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

	Payments due for the twelve month periods ending September 30,						
	Total	2015	2016	2017	2018	2019	Thereafter
	(U.S. dollars in millions)						
Debt obligations <sup>(1)</sup> .....	\$ 46,743	\$ 23,765	\$ 7,810	\$ 7,748	\$ 2,170	\$ 4,000	\$ 1,250
Interest payments on debt <sup>(2)</sup> .....	1,372	431	326	245	186	122	62
Operating lease obligations .....	55	8	7	7	7	6	20
Total.....	<u>\$ 48,170</u>	<u>\$ 24,204</u>	<u>\$ 8,143</u>	<u>\$ 8,000</u>	<u>\$ 2,363</u>	<u>\$ 4,128</u>	<u>\$ 1,332</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 September 30, 2014.

(2) Interest payments on floating rate and foreign currency denominated debt based on the applicable floating rates and/or exchange rates as of September 30, 2014.

The obligations in the above table do not include certain lending commitments to dealers since the amount and timing of future payments is uncertain. Refer to Note 8—Commitments and Contingencies of *Notes to Consolidated Financial Statements (Unaudited)* for additional information on these commitments.

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

## **New Accounting Standards**

Refer to Note 1(c)—Recently Adopted Accounting Standards and Note 1(d)—Recently Issued Accounting Standards of *Notes to Consolidated Financial Statements (Unaudited)*.

## **Critical Accounting Policies**

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

### ***Credit Losses***

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

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

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

Refer to Note 2—Finance Receivables of *Notes to Consolidated Financial Statements (Unaudited)* for additional information regarding charge-offs or write-downs of contractual balances of retail and dealer finance receivables.

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. Refer to Note 3—Investment in Operating Leases of *Notes to Consolidated Financial Statements (Unaudited)* for additional information.

### ***Sensitivity Analysis***

If we had experienced a 10% increase in net charge-offs of finance receivables during the twelve month period ended September 30, 2014, our provision for credit losses would have increased by approximately \$21 million during the period. Similarly, if we had experienced a 10% increase in realized losses on the disposition of repossessed operating lease vehicles during the twelve month period ended September 30, 2014, we would have recognized an additional \$9 million in early termination losses in our consolidated statement of income during the period.

### ***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 for the contractual residual value (or if purchased prior to lease maturity, at 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, at the outstanding contractual balance) or through market based pricing programs. 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 the expected loss severity. 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 estimated residual values are made on a straight-line basis over the remaining term of the lease and are included as depreciation expense. For direct financing leases, downward adjustments for declines in estimated residual values deemed to be other-than-temporary are recognized as a loss on lease residual values in the period in which the estimate changed.

### ***Sensitivity Analysis***

If future estimated auction values for all outstanding operating leases as of September 30, 2014 were to decrease by \$100 per unit from our current estimates, the total impact would be an increase of approximately \$48 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 \$6 million in depreciation expense, which would be recognized over the remaining lease terms. Similarly, if the future estimated auction values were to decrease by \$100 per unit and future return rates were to increase by one percentage point from our current estimates for all direct financing leases as of September 30, 2014, we would have recognized an increase of approximately \$1 million and less than \$1 million in losses on lease residual values, respectively. This sensitivity analysis may be asymmetric and is specific to the conditions in effect as of September 30, 2014. Additionally, any declines in auction values are likely to have a negative effect on return rates which could affect the severity of the impact on our results of operations.

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

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

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our Principal Executive Officer and Principal Financial Officer have performed an evaluation of the Company's disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2014, and each has concluded that such disclosure controls and procedures are effective, at the reasonable assurance level, to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and such information is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in the internal control over financial reporting during the quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

There are no material changes from the risk factors set forth under “*Item 1A. Risk Factors*” in our Annual Report on Form 10-K for the year ended March 31, 2014, which was filed with the SEC on June 20, 2014, except as follows:

#### ***New or revised financial or consumer regulations may adversely impact 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 impacts 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 implementing rules and regulations may include supervision and examination, limitations on our ability to expand product and service offerings and new or modified disclosure requirements. While the impact of the CFPB on our business remains uncertain, the CFPB has increased its focus on auto finance and the sale of add-on products. In September 2014, the CFPB proposed a rule that would subject larger nonbank participants in the automobile financing market, such as us, to the CFPB's supervisory authority as early as 2015.

The CFPB, together with the U.S. Department of Justice, have contacted us and other auto finance providers to request information about whether discretionary pricing practices of dealers originating retail installment sale contracts raise fair lending issues for banks and finance companies that purchase the contracts from dealers. Based on the information that was voluntarily provided by us, the CFPB, together with the U.S. Department of Justice, sent another letter in November 2014, indicating it is continuing to conduct their review and evaluation. We cannot predict the outcome of whether an enforcement action will be taken. In addition, we also received a subpoena from a state agency requesting information relating to their fair lending laws. We are cooperating with this request for information. We cannot predict the outcome of this inquiry.

Compliance with the regulations under the Dodd-Frank Act or the oversight of the SEC, CFPB, or other governmental entities may impose costs on, create operational constraints for, or place limits on pricing with respect to, finance companies such as us. As a result, our competitiveness may be affected, impairing our profitability.

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

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

### Item 3. Defaults Upon Senior Securities

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

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Refer to the Exhibit Index immediately following the Signature page.

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 13, 2014

**AMERICAN HONDA FINANCE  
CORPORATION**

By: /s/ Paul C. Honda

Paul C. Honda

Vice President and Assistant Secretary  
(Principal Accounting Officer)

# AMERICAN HONDA FINANCE CORPORATION

## Exhibit Index

Exhibit Number	Description
3.1 <sup>(1)</sup>	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 <sup>(1)</sup>	Amended and Restated Bylaws of American Honda Finance Corporation, dated April 27, 2010.
4.1 <sup>(1)</sup>	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 <sup>(2)</sup>	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 <sup>(2)</sup> , as supplemented by the First Supplemental Indenture to the Trust Indenture, dated as of August 25, 2006 <sup>(2)</sup> , as supplemented by the Second Supplemental Indenture to the Trust Indenture, dated as of December 14, 2006 <sup>(2)</sup> , as supplemented by the Third Supplemental Indenture to the Trust Indenture, dated as of May 25, 2007 <sup>(2)</sup> , as supplemented by the Fourth Supplemental Indenture to the Trust Indenture, dated as of September 26, 2007 <sup>(2)</sup> , as supplemented by the Fifth Supplemental Indenture to the Trust Indenture, dated as of November 30, 2007 <sup>(2)</sup> , as supplemented by the Sixth Supplemental Indenture to the Trust Indenture, dated as of May 9, 2008 <sup>(2)</sup> , as supplemented by the Seventh Supplemental Indenture to the Trust Indenture, dated as of September 12, 2008 <sup>(2)</sup> , as supplemented by the Eighth Supplemental Indenture to the Trust Indenture, dated as of February 21, 2012 <sup>(2)</sup> , as supplemented by the Ninth Supplemental Indenture to the Trust Indenture, dated as of December 11, 2012 <sup>(2)</sup> , as supplemented by the Tenth Supplemental Indenture to the Trust Indenture, dated as of June 4, 2013 <sup>(3)</sup> , and as supplemented by the Eleventh Supplemental Indenture to the Trust Indenture, dated as of September 3, 2013 <sup>(3)</sup> .
4.5 <sup>(4)</sup>	Indenture, dated September 5, 2013, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.6 <sup>(5)</sup>	Form of Fixed Rate Medium-Term Note, Series A and Form of Floating Rate Medium-Term Note, Series A.
10.1 <sup>(6)</sup>	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.
12.1 <sup>(7)</sup>	Statement regarding computation of ratio of earnings to fixed charges
31.1 <sup>(7)</sup>	Certification of Principal Executive Officer
31.2 <sup>(7)</sup>	Certification of Principal Financial Officer
32.1 <sup>(8)</sup>	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2 <sup>(8)</sup>	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS <sup>(7)</sup>	XBRL Instance Document
101.SCH <sup>(7)</sup>	XBRL Taxonomy Extension Schema Document
101.CAL <sup>(7)</sup>	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB <sup>(7)</sup>	XBRL Taxonomy Extension Label Linkbase Document
101.PRE <sup>(7)</sup>	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF <sup>(7)</sup>	XBRL Taxonomy Extension Definition Linkbase Document

- 
- (1) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, dated June 28, 2013.
  - (2) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
  - (3) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated November 12, 2013.
  - (4) Incorporated herein by reference to Exhibit number 4.1 filed with our registration statement on Form S-3, dated September 5, 2013.
  - (5) Incorporated herein by reference to Exhibit numbers 4.1 and 4.2 filed with our current report on Form 8-K, dated September 25, 2013.
  - (6) Incorporated herein by reference to the same numbered Exhibit filed with our current report on Form 8-K, dated June 30, 2014.
  - (7) Filed herewith.
  - (8) Furnished herewith.



**American Honda Finance Corporation and Subsidiaries**  
**Calculation of Ratio of Earnings to Fixed Charges**  
(U.S. dollars in millions)

	Three months ended		Six months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<b>Earnings</b>				
Consolidated income before provision for income taxes .....	\$ 407	\$ 366	\$ 860	\$ 682
Fixed Charges .....	147	159	298	335
Earnings .....	<u>\$ 554</u>	<u>\$ 525</u>	<u>\$ 1,158</u>	<u>\$ 1,017</u>
<b>Fixed Charges</b>				
Interest expense .....	\$ 146	\$ 158	\$ 296	\$ 333
Interest portion of rental expense <sup>(1)</sup> .....	1	1	2	2
Total fixed charges .....	<u>\$ 147</u>	<u>\$ 159</u>	<u>\$ 298</u>	<u>\$ 335</u>
Ratio of earnings to fixed charges .....	3.77x	3.30x	3.89x	3.04x

(1) One-third of all rental expense is deemed to be interest.

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

I, Narutoshi Wakiyama, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 of American Honda Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) (paragraph omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a));
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2014

By: /s/ Narutoshi Wakiyama  
\_\_\_\_\_  
Narutoshi Wakiyama  
President  
(Principal Executive Officer)

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

I, Shinji Kubaru, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 of American Honda Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) (paragraph omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a));
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2014

By: /s/ Shinji Kubaru  
Shinji Kubaru  
Vice President and Treasurer  
(Principal Financial Officer)



