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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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

AMERICAN HONDA FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

California	**95-3472715**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
20800 Madrona Avenue, Torrance, California	**90503**
(Address of principal executive offices)	(Zip Code)

(310) 972-2555
(Registrant's telephone number, including area code)

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 January 31, 2015, the number of outstanding shares of common stock of the registrant was 13,660,000 all of which shares were held by American Honda Motor Co., Inc. None of the shares are publicly traded.

REDUCED DISCLOSURE FORMAT

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

AMERICAN HONDA FINANCE CORPORATION
QUARTERLY REPORT ON FORM 10-Q
For the quarter ended December 31, 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, as updated by our Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 that we filed with the Securities and Exchange Commission on November 13, 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

Item1. Financial Statements

AMERICAN HONDA FINANCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

	December 31, 2014	March 31, 2014
Assets		
Cash and cash equivalents	$ 671	$ 138
Finance receivables, net	40,203	41,700
Investment in operating leases, net	23,917	21,230
Due from Parent and affiliated companies	107	109
Income taxes receivable	114	91
Vehicles held for disposition	169	133
Other assets	660	736
Derivative instruments	140	159
Total assets	$ 65,981	$ 64,296
Liabilities and Equity		
Debt:		
Commercial paper	$ 5,940	$ 4,187
Related party debt	4,121	4,763
Bank loans	7,083	6,539
Medium term note programs	19,916	20,425
Other debt	1,761	1,490
Secured debt	7,408	8,230
Total debt	46,229	45,634
Due to Parent and affiliated companies	65	95
Accrued interest expense	107	127
Income taxes payable	26	21
Deferred income taxes	7,088	6,664
Other liabilities	1,226	1,255
Derivative instruments	156	107
Total liabilities	54,897	53,903
Commitments and contingencies		
Shareholder's equity:		
Common stock, $100 par value. Authorized 15,000,000 shares; issued and outstanding 13,660,000 shares as of December 31, 2014 and March 31, 2014	1,366	1,366
Retained earnings	9,023	8,306
Accumulated other comprehensive income/(loss)	(12)	27
Total shareholder's equity	10,377	9,699
Noncontrolling interest in subsidiary	707	694
Total equity	11,084	10,393
Total liabilities and equity	$ 65,981	$ 64,296

The following table presents the assets and liabilities of consolidated variable interest entities. These assets and liabilities are included in the consolidated balance sheets presented above. Refer to Note 9 for additional information.

	December 31, 2014	March 31, 2014
Finance receivables, net	$ 7,414	$ 8,177
Vehicles held for disposition	3	4
Other assets	268	277
Total assets	$ 7,685	$ 8,458
Secured debt	$ 7,408	$ 8,230
Accrued interest expense	2	2
Total liabilities	$ 7,410	$ 8,232

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 December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Revenues:				
Direct financing leases	$ 34	$ 46	$ 109	$ 148
Retail	322	346	985	1,035
Dealer	29	28	88	87
Operating leases	1,233	1,091	3,575	3,201
Total revenues	1,618	1,511	4,757	4,471
Depreciation on operating lease	986	869	2,832	2,519
Interest expense	142	153	438	486
Net revenues	490	489	1,487	1,466
Gain on disposition of lease vehicles	-	12	38	18
Other income	26	29	74	87
Total net revenues	516	530	1,599	1,571
Expenses:				
General and administrative expenses	99	93	298	288
Provision for credit losses	34	34	85	99
Early termination loss on operating leases	11	15	29	28
Loss on lease residual values	2	1	4	3
Loss on derivative instruments	61	22	193	19
(Gain)/Loss on foreign currency revaluation of debt	(71)	13	(250)	100
Total expenses	136	178	359	537
Income before income taxes	380	352	1,240	1,034
Income tax expense	172	130	474	391
Net income	208	222	766	643
Less: Net income attributable to noncontrolling interest	14	21	49	58
Net income attributable to American Honda Finance Corporation	$ 194	$ 201	$ 717	$ 585

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

	Three months ended December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Net income	$ 208	$ 222	$ 766	$ 643
Other comprehensive loss:				
Foreign currency translation adjustment	(54)	(43)	(75)	(61)
Comprehensive income	154	179	691	582
Less: Comprehensive income/(loss) attributable to noncontrolling interest	(12)	1	13	29
Comprehensive income attributable to American Honda Finance Corporation	$ 166	$ 178	$ 678	$ 553

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
Balance at March 31, 2013	$ 9,590	$ 7,422	$ 88	$ 1,366	$ 714
Net income	643	585	-	-	58
Other comprehensive loss	(61)	-	(32)	-	(29)
Dividends declared to noncontrolling interest	(36)	-	-	-	(36)
Balance at December 31, 2013	$ 10,136	$ 8,007	$ 56	$ 1,366	$ 707
Balance at March 31, 2014	$ 10,393	$ 8,306	$ 27	$ 1,366	$ 694
Net income	766	717	-	-	49
Other comprehensive loss	(75)	-	(39)	-	(36)
Balance at December 31, 2014	$ 11,084	$ 9,023	$ (12)	$ 1,366	$ 707

See accompanying notes to consolidated financial statements.

AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES

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

	Nine months ended December 31,	
	2014	**2013**
Cash flows from operating activities:		
Net income	$ 766	$ 643
Adjustments to reconcile net income to net cash provided by operating activities:		
Debt and derivative instrument valuation adjustments	(201)	(5)
Loss on lease residual values and provision for credit losses	89	102
Early termination loss on operating leases	29	28
Depreciation and amortization	2,837	2,524
Accretion of unearned subsidy income	(810)	(785)
Amortization of deferred dealer participation and IDC	254	251
Gain on disposition of lease vehicles and fixed assets	(38)	(18)
Deferred income tax expense	437	-
Changes in operating assets and liabilities:		
Income taxes receivable/payable	(20)	216
Other assets	37	(28)
Accrued interest/discounts on debt	35	20
Other liabilities	6	25
Due to/due from Parent and affiliated companies	(28)	1
Net cash provided by operating activities	3,393	2,974
Cash flows from investing activities:		
Finance receivables acquired	(13,077)	(16,809)
Principal collected on finance receivables	13,662	13,473
Net change in wholesale loans	352	149
Purchase of operating lease vehicles	(10,458)	(8,656)
Disposal of operating lease vehicles	4,569	4,432
Cash received for unearned subsidy income	977	894
Other investing activities, net	3	(32)
Net cash used in investing activities	(3,972)	(6,549)
Cash flows from financing activities:		
Proceeds from issuance of commercial paper	31,729	33,948
Paydown of commercial paper	(29,913)	(33,996)
Proceeds from issuance of related party debt	32,031	34,291
Paydown of related party debt	(32,581)	(34,195)
Proceeds from issuance of medium term notes and other debt	7,353	9,840
Paydown of medium term notes and other debt	(6,678)	(6,384)
Proceeds from issuance of secured debt	2,991	4,239
Paydown of secured debt	(3,820)	(3,856)
Dividend paid	-	(18)
Net cash provided by financing activities	1,112	3,869
Effect of exchange rate changes on cash and cash equivalents	-	-
Net increase in cash and cash equivalents	533	294
Cash and cash equivalents at beginning of year	138	149
Cash and cash equivalents at end of year	$ 671	$ 443
Supplemental disclosures of cash flow information:		
Interest paid	$ 429	$ 517
Income taxes paid	65	172

See accompanying notes to consolidated financial statements.

(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.

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:

	December 31, 2014			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Finance receivables	$ 2,398	$ 34,257	$ 4,174	$ 40,829
Allowance for credit losses	(3)	(86)	-	(89)
Write-down of lease residual values	(15)	-	-	(15)
Unearned interest income and fees	(83)	-	-	(83)
Deferred dealer participation and IDC	5	407	-	412
Unearned subsidy income	(106)	(745)	-	(851)
	$ 2,196	$ 33,833	$ 4,174	$ 40,203

	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)
	$ 2,722	$ 34,607	$ 4,371	$ 41,700

Finance receivables include retail loans with principal balances of $7.5 billion and $8.3 billion as of December 31, 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 $354 million and $433 million at December 31, 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 $6 million for both the three months ended December 31, 2014 and 2013, and $16 million and $19 million for the nine months ended December 31, 2014 and 2013, respectively.

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 nine months ended December 31, 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 nine months ended December 31, 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.

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

	Three and nine months ended December 31, 2014			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Beginning balance, October 1, 2014	$ 3	$ 91	$ -	$ 94
Provision	1	28	-	29
Charge-offs	(2)	(55)	-	(57)
Recoveries	1	23	-	24
Effect of translation adjustment	-	(1)	-	(1)
Ending balance, December 31, 2014	$ 3	$ 86	$ -	$ 89
Beginning balance, April 1, 2014	$ 4	$ 95	$ 1	$ 100
Provision	2	69	-	71
Charge-offs	(4)	(139)	(1)	(144)
Recoveries	1	62	-	63
Effect of translation adjustment	-	(1)	-	(1)
Ending balance, December 31, 2014	$ 3	$ 86	$ -	$ 89
Allowance for credit losses – ending balance:				
Individually evaluated for impairment	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	3	86	-	89
Finance receivables – ending balance:				
Individually evaluated for impairment	$ -	$ -	$ 36	$ 36
Collectively evaluated for impairment	2,214	33,919	4,138	40,271

	Three and nine months ended December 31, 2013			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Beginning balance, October 1, 2013	$ 5	$ 94	$ 1	$ 100
Provision	-	28	1	29
Charge-offs	(2)	(53)	-	(55)
Recoveries	1	19	-	20
Effect of translation adjustment	-	-	-	-
Ending balance, December 31, 2013	$ 4	$ 88	$ 2	$ 94
Beginning balance, April 1, 2013	$ 5	$ 88	$ -	$ 93
Provision	2	82	2	86
Charge-offs	(4)	(148)	-	(152)
Recoveries	1	66	-	67
Effect of translation adjustment	-	-	-	-
Ending balance, December 31, 2013	$ 4	$ 88	$ 2	$ 94
Allowance for credit losses – ending balance:				
Individually evaluated for impairment	$ -	$ -	$ 2	$ 2
Collectively evaluated for impairment	4	88	-	92
Finance receivables – ending balance:				
Individually evaluated for impairment	$ -	$ -	$ 9	$ 9
Collectively evaluated for impairment	3,027	34,921	4,169	42,117

Delinquencies

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

	30 – 59 days past due	60 – 89 days past due	90 days or greater past due	Total past due	Current or less than 30 days past due	Total finance receivables
			(U.S. dollars in millions)			
December 31, 2014						
Retail loans:						
New auto	$ 198	$ 36	$ 10	$ 244	$ 29,156	$ 29,400
Used and certified auto	72	13	3	88	3,380	3,468
Motorcycle and other	13	4	2	19	1,032	1,051
Total retail	283	53	15	351	33,568	33,919
Direct financing lease	8	3	1	12	2,202	2,214
Dealer loans:						
Wholesale flooring	3	-	-	3	3,389	3,392
Commercial loans	-	-	-	-	782	782
Total dealer loans	3	-	-	3	4,171	4,174
Total finance receivables	$ 294	$ 56	$ 16	$ 366	$ 39,941	$ 40,307
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	$ 215	$ 30	$ 13	$ 258	$ 41,563	$ 41,821

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.

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)		
December 31, 2014					
Performing	$ 29,354	$ 3,452	$ 1,045	$ 2,210	$ 36,061
Nonperforming	46	16	6	4	72
Total	$ 29,400	$ 3,468	$ 1,051	$ 2,214	$ 36,133
March 31, 2014					
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.

	December 31, 2014			March 31, 2014		
	Wholesale flooring	Commercial loans	Total	Wholesale flooring	Commercial loans	Total
			(U.S. dollars in millions)			
Group A	$ 2,124	$ 506	$ 2,630	$ 2,319	$ 355	$ 2,674
Group B	1,268	276	1,544	1,449	249	1,698
Total	$ 3,392	$ 782	$ 4,174	$ 3,768	$ 604	$ 4,372

(3) Investment in Operating Leases

Investment in operating leases consisted of the following:

	December 31, 2014	March 31, 2014
	(U.S. dollars in millions)	
Operating lease vehicles	$ 29,598	$ 26,274
Accumulated depreciation	(4,928)	(4,500)
Deferred dealer participation and IDC	95	88
Unearned subsidy income	(789)	(576)
Estimated early termination losses	(59)	(56)
	$ 23,917	$ 21,230

The Company recognized $11 million and $15 million of estimated early termination losses due to lessee defaults for the three months ended December 31, 2014 and 2013, respectively. Actual net losses realized for the three months ended December 31, 2014 and 2013 totaled $10 million and $11 million, respectively. The Company recognized $29 million and $28 million of estimated early termination losses due to lessee defaults for the nine months ended December 31, 2014 and 2013, respectively. Actual net losses realized for the nine months ended December 31, 2014 and 2013 totaled $26 million and $28 million, respectively.

Included in the provision for credit losses for both the three months ended December 31, 2014 and 2013 are provisions related to past due receivables on operating leases in the amounts of $5 million. Included in the provision for credit losses for the nine months ended December 31, 2014 and 2013 are provisions related to past due receivables on operating leases in the amounts of $14 million and $13 million, respectively.

The Company did not recognize impairment losses during the three and nine months ended December 31, 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:

			Weighted average contractual interest rate		Contractual interest rate ranges	
	December 31, 2014	March 31, 2014	December 31, 2014	March 31, 2014	December 31, 2014	March 31, 2014
	(U.S. dollars in millions)					
Unsecured debt:						
Commercial paper	$ 5,940	$ 4,187	0.38%	0.45%	0.13 - 1.33%	0.11 - 1.25%
Related party debt	4,121	4,763	0.62%	0.51%	0.15 - 1.29%	0.14 - 1.28%
Bank loans	7,083	6,539	0.88%	0.90%	0.58 - 2.01%	0.58 - 1.99%
Private U.S. MTN program	8,957	12,901	2.40%	1.85%	0.61 - 7.63%	0.23 - 7.63%
Public U.S. MTN program	8,941	3,736	1.07%	1.08%	0.23 - 2.25%	0.23 - 2.13%
Euro MTN programme	2,018	3,788	1.31%	2.52%	0.19 - 2.23%	0.22 - 5.50%
Other debt	1,761	1,490	2.03%	2.12%	1.60 - 2.35%	1.68 - 2.35%
Total unsecured debt	38,821	37,404				
Secured debt	7,408	8,230	0.70%	0.67%	0.18 - 1.58%	0.19 - 1.80%
Total debt	$ 46,229	$ 45,634				

As of December 31, 2014, the outstanding principal balance of long-term debt with floating interest rates totaled $12.8 billion and long-term debt with fixed interest rates totaled $21.2 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 December 31, 2014 and March 31, 2014, the Company had commercial paper programs that provide the Company with available funds of up to $8.7 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 $5.8 billion and $4.7 billion during the nine months ended December 31, 2014 and 2013, respectively. The maximum balance outstanding at any month end during the nine months ended December 31, 2014 and 2013 was $6.7 billion and $6.1 billion, respectively.

As of December 31, 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 $1 million and $2 million during the three months ended December 31, 2014 and 2013, respectively, and $4 million and $6 million during the nine months ended December 31, 2014 and 2013, respectively, in general and administrative expenses. As of December 31, 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 for both the three months ended December 31, 2014 and 2013, and $3 million and $4 million for the nine months ended December 31, 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 December 31, 2014 and 2013, respectively, and $17 million and $15 million for the nine months ended December 31, 2014 and 2013, respectively.

Bank Loans

Outstanding bank loans as of December 31, 2014 had floating interest rates. Outstanding bank loans have prepayment options. No outstanding bank loans as of December 31, 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. Notes outstanding under the Private U.S. MTN Program as of December 31, 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.

Euro MTN Programme

The Euro MTN Programme was retired in August 2014. 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 December 31, 2014 consisted of private placement debt issued by HCFI denominated in Canadian dollars, with either fixed or floating interest rates. Private placement debt is 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.

	December 31, 2014			March 31, 2014		
	Notional balances	Assets	Liabilities	Notional balances	Assets	Liabilities
	(U.S. dollars in millions)					
Interest rate swaps	$ 49,024	$ 208	$ 51	$ 46,239	$ 192	$ 106
Cross currency swaps	1,452	1	174	2,960	72	106
Gross derivative assets/liabilities		209	225		264	212
Counterparty netting adjustment		(69)	(69)		(105)	(105)
Net derivative assets/liabilities		$ 140	$ 156		$ 159	$ 107

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 December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
	(U.S. dollars in millions)			
Interest rate swaps	$ 7	$ (32)	$ 20	$ (120)
Cross currency swaps	(68)	10	(213)	101
Total loss on derivative instruments	$ (61)	$ (22)	$ (193)	$ (19)

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.

Income statement	Three months ended December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
	(U.S. dollars in millions)			
Revenue:				
Subsidy income	$ 266	$ 259	$ 801	$ 773
Interest expense:				
Related party debt	7	6	20	19
Other income:				
VSC administration fees	24	25	72	72
General and administrative expenses:				
Support Compensation Agreement fees	4	4	13	12
Benefit plan expenses	2	3	7	12
Shared services	19	11	45	34

Balance Sheet	December 31, 2014	March 31, 2014
	(U.S. dollars in millions)	
Assets:		
Finance receivables, net:		
Unearned subsidy income	$ (837)	$ (901)
Investment in operating leases, net:		
Unearned subsidy income	(785)	(573)
Due from Parent and affiliated companies	107	109
Liabilities:		
Debt:		
Related party debt	$ 4,121	$ 4,763
Due to Parent and affiliated companies	65	95
Accrued interest expenses:		
Related party debt	5	3
Other liabilities:		
VSC unearned administrative fees	360	352
Accrued benefit expenses	49	47

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 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.

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 December 31, 2014 and March 31, 2014 related to subsidies. The majority of the amounts due to the Parent and affiliated companies at December 31, 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 45.3% and 36.9% for the three months ended December 31, 2014 and 2013, respectively, and 38.2% and 37.8% for the nine months ended December 31, 2014 and 2013, respectively. The increase in the effective tax rate for the three months ended December 31, 2014 is primarily due to the decrease in the tax deduction for qualified domestic production, which is allocated between the Parent and affiliated companies. The deduction for qualified domestic production was affected by the extension of 50% bonus depreciation which was included in the Tax Increase Prevention Act of 2014 signed into law on December 19, 2014.

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 December 31, 2014, $650 million of accumulated undistributed earnings of HCFI were deemed to be so reinvested. If these undistributed earnings as of December 31, 2014 were to be distributed, the unrecognized deferred tax liability associated with these indefinitely reinvested earnings would be $141 million. HCFI is not planning any future distributions.

The changes in the unrecognized tax benefits for the nine months ended December 31, 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 December 31, 2014, the Company is subject to examination by U.S. federal and state tax jurisdictions for the taxable years ended March 31, 2008 to 2014, with the exception of one state which is subject to examination for taxable years ended March 31, 2001 to 2014. The Company's Canadian subsidiary, HCFI, is subject to examination for returns filed for the taxable years ended March 31, 2008 to 2014 federally, and returns filed for the taxable years ended March 31, 2007 to 2014 provincially. The Company believes appropriate provision has been made for all outstanding issues for all open years.

(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 $3 million and $2 million for the three months ended December 31, 2014 and 2013, respectively, and approximately $8 million for both the nine months ended December 31, 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 $374 million and $283 million as of December 31, 2014 and March 31, 2014, respectively, with $260 million and $174 million, respectively, used as of those dates. The Company also has a commitment to lend a total of $68 million to finance the construction of auto dealerships with $36 million of this commitment funded as of December 31, 2014.

Legal Proceedings and Regulatory Matters

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

The Company is involved, in the ordinary course of business, in various legal proceedings including claims of individual customers and purported class action lawsuits. Certain of these actions are similar to suits filed against other financial institutions and captive finance companies. Most of these proceedings concern customer allegations of wrongful repossession or defamation of credit. The Company is also subject to governmental reviews from time to time. Based on available information and established accruals, management does not believe it is reasonably possible that the results of these proceedings, in the aggregate, will have a material adverse effect on the Company's consolidated financial statements.

As previously disclosed, the Consumer Financial Protection Bureau (CFPB), together with the U.S. Department of Justice (the Agencies), have contacted the Company regarding their review of pricing practices by dealers originating retail installment sale contracts for automobiles. The Company has voluntarily provided the information requested and cooperated fully with the investigation. As also previously disclosed, the Company has received a notice that the Agencies have authorized enforcement actions against the Company, alleging discrimination in automobile loan pricing to certain borrowers by dealers and alleging the loan pricing disparities were caused by the Company's business practices related to dealer discretion, and that the Agencies may seek monetary relief and implementation of changes to the Company's pricing practices and policies, which may affect the Company's business. The Company has also been informed that the Agencies may defer pursuit of litigation if the Company works with them to seek a voluntary resolution to these allegations. The Company will continue to cooperate with the Agencies to find a mutually agreeable resolution and the Company is working towards finding an industry wide resolution to these allegations. However, at this time, the Company cannot predict the outcome of this matter and, therefore, a reasonable estimate of the amount of any possible loss or range of loss cannot be made. In addition, the Company 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 nine months ended December 31, 2014 and 2013, the Company issued notes through asset backed securitizations, which were accounted for as secured financing transactions totaling $3.0 billion and $4.3 billion, respectively. The notes were secured by receivables with an initial principal balance of $3.1 billion and $4.4 billion, respectively.

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.

	December 31, 2014	March 31, 2014
	(U.S. dollars in millions)	
Assets:		
Finance receivables	$ 7,506	$ 8,285
Unamortized costs and subsidy income, net	(81)	(95)
Allowance for credit losses	(11)	(13)
Finance receivables, net	7,414	8,177
Vehicles held for disposition	3	4
Restricted cash (1)	259	267
Accrued interest receivable (1)	9	10
Total assets	$ 7,685	$ 8,458
Liabilities:		
Secured debt	$ 7,419	$ 8,242
Unamortized discounts and fees	(11)	(12)
Secured debt, net	7,408	8,230
Accrued interest expense	2	2
Total liabilities	$ 7,410	$ 8,232

(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 December 31, 2014 and March 31, 2014, AHFC and HCFI had cash collections of $410 million and $444 million, respectively, which were required to be remitted to the trusts.

(10) Other Assets

Other assets consisted of the following:

	December 31, 2014	March 31, 2014
	(U.S. dollars in millions)	
Accrued interest and fees	$ 78	$ 79
Other receivables	91	98
Deferred expense	171	164
Software, net of accumulated amortization of $136 and $135 as of December 31, 2014 and March 31, 2014, respectively	10	10
Property and equipment, net of accumulated depreciation of $17 and $17 as of December 31, 2014 and March 31, 2014, respectively	5	6
Restricted cash	259	267
Other	46	112
Total	$ 660	$ 736

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 and $2 million for the three months ended December 31, 2014 and 2013, respectively, and $4 million and $5 million for the nine months ended December 31, 2014 and 2013, respectively.

(11) Other Liabilities

Other liabilities consisted of the following:

	December 31, 2014	March 31, 2014
	(U.S. dollars in millions)	
Dealer payables	$ 140	$ 211
Accounts payable and accrued expenses	253	251
Lease security deposits	58	53
VSC unearned administrative fees (Note 6)	360	352
Unearned income, operating lease	297	270
Uncertain tax positions	17	24
Other	101	94
Total	$ 1,226	$ 1,255

(12) Other Income

Other income consisted of the following:

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
	(U.S. dollars in millions)			
VSC administration (Note 6)	$ 24	$ 25	$ 72	$ 72
Other	2	4	2	15
Total	$ 26	$ 29	$ 74	$ 87

(13) Fair Value Measurements

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

Recurring Fair Value Measurements

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

	December 31, 2014				
	Level 1	Level 2	Level 3	Counterparty netting	Total
	(U.S. dollars in millions)				
Assets:					
Derivative instruments:					
Interest rate swaps	$ -	$ 208	$ -	$ (48)	$ 160
Cross currency swaps	-	1	-	(21)	(20)
Total assets	$ -	$ 209	$ -	$ (69)	$ 140
Liabilities:					
Derivative instruments:					
Interest rate swaps	$ -	$ 51	$ -	$ (48)	$ 3
Cross currency swaps	-	174	-	(21)	153
Total liabilities	$ -	$ 225	$ -	$ (69)	$ 156

	March 31, 2014				
	Level 1	Level 2	Level 3	Counterparty netting	Total
	(U.S. dollars in millions)				
Assets:					
Derivative instruments:					
Interest rate swaps	$ -	$ 192	$ -	$ (68)	$ 124
Cross currency swaps	-	72	-	(37)	35
Total assets	$ -	$ 264	$ -	$ (105)	$ 159
Liabilities:					
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 nine months ended December 31, 2014 and 2013. Refer to Note 5 for additional information on derivative instruments.

Nonrecurring Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total	Lower-of-cost or fair value adjustment
			(U.S. dollars in millions)		
December 31, 2014					
Vehicles held for disposition	$ -	$ -	$ 111	$ 111	$ 19
December 31, 2013					
Vehicles held for disposition	$ -	$ -	$ 109	$ 109	$ 20

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.

	December 31, 2014				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
		(U.S. dollars in millions)			
Assets:					
Cash and cash equivalents	$ 671	$ 671	$ -	$ -	$ 671
Dealer loans, net	4,174	-	-	4,016	4,016
Retail loans, net	33,833	-	-	34,049	34,049
Restricted cash	259	259	-	-	259
Liabilities:					
Commercial paper	$ 5,940	$ -	$ 5,940	$ -	$ 5,940
Related party debt	4,121	-	4,121	-	4,121
Bank loans	7,083	-	7,121	-	7,121
Medium term note programs	19,916	-	20,300	-	20,300
Other debt	1,761	-	1,776	-	1,776
Secured debt	7,408	-	7,412	-	7,412

	March 31, 2014				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)				
Assets:					
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
Liabilities:					
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.

Fair value information presented in the tables above is based on information available at December 31, 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.

AMERICAN HONDA FINANCE CORPORATION
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Notes to Consolidated Financial Statements (Unaudited)

Financial information for the Company's reportable segments for the three and nine months ended or at December 31, 2014 and 2013 is summarized in the following tables:

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
		(U.S. dollars in millions)		
Three months ended December 31, 2014				
Revenues:				
Direct financing leases	$ -	$ 34	$ -	$ 34
Retail	281	41	-	322
Dealer	26	3	-	29
Operating leases	1,165	68	-	1,233
Total revenues	1,472	146	-	1,618
Depreciation on operating leases	929	57	-	986
Interest expense	117	25	-	142
Realized (gains)/losses on derivatives and foreign currency denominated debt	3	5	(8)	-
Net revenues	423	59	8	490
Gain/(Loss) on disposition of lease vehicles	(2)	2	-	-
Other income	25	1	-	26
Total net revenues	446	62	8	516
Expenses:				
General and administrative expenses	87	12	-	99
Provision for credit losses	30	4	-	34
Early termination loss on operating leases	10	1	-	11
Loss on lease residual values	-	2	-	2
Loss on derivative instruments	-	-	61	61
Gain on foreign currency revaluation of debt	-	-	(71)	(71)
Income before income taxes	$ 319	$ 43	$ 18	$ 380
Nine months ended December 31, 2014				
Revenues:				
Direct financing leases	$ -	$ 109	$ -	$ 109
Retail	859	126	-	985
Dealer	77	11	-	88
Operating leases	3,409	166	-	3,575
Total revenues	4,345	412	-	4,757
Depreciation on operating leases	2,695	137	-	2,832
Interest expense	365	73	-	438
Realized (gains)/losses on derivatives and foreign currency denominated debt	(3)	17	(14)	-
Net revenues	1,288	185	14	1,487
Gain on disposition of lease vehicles	31	7	-	38
Other income	72	2	-	74
Total net revenues	1,391	194	14	1,599
Expenses:				
General and administrative expenses	258	40	-	298
Provision for credit losses	76	9	-	85
Early termination loss on operating leases	27	2	-	29
Loss on lease residual values	-	4	-	4
Loss on derivative instruments	-	-	193	193
Gain on foreign currency revaluation of debt	-	-	(250)	(250)
Income before income taxes	$ 1,030	$ 139	$ 71	$ 1,240
December 31, 2014				
Total finance receivables	$ 34,086	$ 6,117	$ -	$ 40,203
Total operating lease assets	22,421	1,496	-	23,917
Total assets	58,278	7,703	-	65,981

AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
		(U.S. dollars in millions)		
Three months ended December 31, 2013				
Revenues:				
Direct financing leases	$ -	$ 46	$ -	$ 46
Retail	301	45	-	346
Dealer	25	3	-	28
Operating leases	1,072	19	-	1,091
Total revenues	1,398	113	-	1,511
Depreciation on operating leases	854	15	-	869
Interest expense	129	24	-	153
Realized (gains)/losses on derivatives and foreign currency denominated debt	(3)	6	(3)	-
Net revenues	418	68	3	489
Gain on disposition of lease vehicles	9	3	-	12
Other income	28	1	-	29
Total net revenues	455	72	3	530
Expenses:				
General and administrative expenses	80	13	-	93
Provision for credit losses	33	1	-	34
Early termination loss on operating leases	15	-	-	15
Loss on lease residual values	-	1	-	1
Loss on derivative instruments	-	-	22	22
Loss on foreign currency revaluation of debt	-	-	13	13
Income before income taxes	$ 327	$ 57	$ (32)	$ 352
Nine months ended December 31, 2013				
Revenues:				
Direct financing leases	$ -	$ 148	$ -	$ 148
Retail	900	135	-	1,035
Dealer	76	11	-	87
Operating leases	3,175	26	-	3,201
Total revenues	4,151	320	-	4,471
Depreciation on operating leases	2,498	21	-	2,519
Interest expense	402	84	-	486
Realized (gains)/losses on derivatives and foreign currency denominated debt	(29)	10	19	-
Net revenues	1,280	205	(19)	1,466
Gain on disposition of lease vehicles	9	9	-	18
Other income	85	2	-	87
Total net revenues	1,374	216	(19)	1,571
Expenses:				
General and administrative expenses	247	41	-	288
Provision for credit losses	91	8	-	99
Early termination loss on operating leases	28	-	-	28
Loss on lease residual values	-	3	-	3
Loss on derivative instruments	-	-	19	19
Loss on foreign currency revaluation of debt	-	-	100	100
Income before income taxes	$ 1,008	$ 164	$ (138)	$ 1,034
December 31, 2013				
Total finance receivables	$ 34,990	$ 7,018	$ -	$ 42,008
Total operating lease assets	20,358	523	-	20,881
Total assets	56,800	7,600	-	64,400

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 December 31, 2014 of 1.1621 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 December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
	(U.S. dollars in millions)			
Income before income taxes:				
United States segment	$ 342	$ 294	$ 1,100	$ 870
Canada segment	38	58	140	164
Total income before income taxes	$ 380	$ 352	$ 1,240	$ 1,034

Comparison of the Three Months Ended December 31, 2014 and 2013

Our consolidated income before income taxes was $380 million for the third quarter of fiscal year 2015 compared to $352 million for the same period in fiscal year 2014. This increase of $28 million, or 8%, was primarily due to a gain on revaluation of foreign currency denominated debt of $71 million during the third quarter of fiscal year 2015 compared to a loss of $13 million during the same period in fiscal year 2014, an increase in operating lease revenue, net of depreciation, of $25 million, a decrease in interest expense of $11 million and a decrease in early termination loss on operating leases of $4 million, which were partially offset by an increase in the loss on derivative instruments of $39 million, a decline in revenue from retail loans of $24 million, a decline in revenues from direct financing leases of $12 million, a decline in gain on disposition of lease vehicles of $12 million, an increase in general and administrative expenses of $6 million and a decline in other income of $3 million.

Comparison of the Nine Months Ended December 31, 2014 and 2013

Our consolidated income before income taxes was $1,240 million for the first nine months of fiscal year 2015 compared to $1,034 million for the same period in fiscal year 2014. This increase of $206 million, or 20%, was primarily due to a gain on revaluation of foreign currency denominated debt of $250 million during the first nine months of fiscal year 2015 compared to a loss of $100 million during the same period in fiscal year 2014, an increase in operating lease revenue, net of depreciation, of $61 million, a decrease in interest expense of $48 million, an increase in the gain on disposition of lease vehicles of $20 million and a decline in provision of credit losses of $14 million, which were partially offset by an increase in the loss on derivative instruments of $174 million, a decline in revenue from retail loans of $50 million, a decline in revenues from direct financing leases of $39 million, decline in other income of $13 million, and an increase in general and administrative expense of $10 million.

Segment Results—Comparison of the Three Months Ended December 31, 2014 and 2013

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

	United States Segment Three months ended December 31,		Canada Segment Three months ended December 31,		Consolidated Three months ended December 31,	
	2014	2013	2014	2013	2014	2013
			(U.S. dollars in millions)			
Revenues:						
Direct financing leases	$ -	$ -	$ 34	$ 46	$ 34	$ 46
Retail	281	301	41	45	322	346
Dealer	26	25	3	3	29	28
Operating leases	1,165	1,072	68	19	1,233	1,091
Total revenues	1,472	1,398	146	113	1,618	1,511
Depreciation on operating leases	929	854	57	15	986	869
Interest expense	117	129	25	24	142	153
Net revenues	426	415	64	74	490	489
Gain/(Loss) on disposition of lease vehicles	(2)	9	2	3	-	12
Other income	25	28	1	1	26	29
Total net revenues	449	452	67	78	516	530
Expenses:						
General and administrative expenses	87	80	12	13	99	93
Provision for credit losses	30	33	4	1	34	34
Early termination loss on operating leases	10	15	1	-	11	15
Loss on lease residual values	-	-	2	1	2	1
Loss on derivative instruments	51	17	10	5	61	22
(Gain)/Loss on foreign currency revaluation of debt	(71)	13	-	-	(71)	13
Income before income taxes	$ 342	$ 294	$ 38	$ 58	$ 380	$ 352

Revenues

Revenue from retail loans in the United States segment declined by $20 million, or 7%, during the third 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 loan yields. Revenue from retail loans in the Canada segment declined by $4 million, or 9%, 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 $12 million, or 26%, during the third 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.

Operating lease revenue in the United States segment increased by $93 million, or 9%, during the third 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 third 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 third 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 $7 million, or 3%, to $266 million during the third 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 $75 million, or 9%, during the third 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 $42 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 third 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 $7 million due to the increase in operating lease assets.

Interest expense

In the United States segment, interest expense declined by $12 million, or 9%, during the third 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 increased by $1 million, or 4%, due to an increase in average outstanding debt which was partially offset by 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 loss on disposition of lease vehicles of $2 million during the third quarter of fiscal year 2015 compared to a gain of $9 million during the same period in fiscal year 2014. The loss was the result of an increase in the volume of off-lease vehicles sold through auctions and a decline in used vehicle prices during the third quarter of fiscal year 2015 as compared to the same period in fiscal year 2014. The gain on disposition of lease vehicles in the Canada decreased by $1 million during the third 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 9%, during the third quarter of fiscal year 2015 compared to the same period in fiscal year 2014. The decline in the provision was primarily the result of a decline in net charge-offs during the third quarter of fiscal year 2015 as compared to the same period in fiscal year 2014. In the Canada segment, the provision for credit losses increased by $3 million during the third 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 decreased by $5 million, or 33%, during the third quarter of fiscal year 2015 compared to the same period in fiscal year 2014. Early termination losses on operating leases in the Canada segment increased by $1 million during the third quarter of fiscal year 2015 compared to the same period in fiscal year 2014. See "—*Financial Condition—Credit Risk*" below for more information.

Loss on lease residual values

Losses on lease residual values in the Canada segment increased by $1 million during the third 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 $51 million during the third quarter of fiscal year 2015 compared to a loss of $17 million during the same period in fiscal year 2014. The loss in the third quarter of fiscal year 2015 was comprised of losses on cross currency swaps of $68 million and losses on pay fixed interest rate swaps of $53 million, which were partially offset by gains on pay float interest rate swaps of $70 million. The loss on cross currency swaps was attributable to the U.S. dollar strengthening against the Euro and Yen. The loss on pay fixed interest rate swaps and gain on pay float interest rate swaps was primarily due to the decline in duration of the interest rate swaps. In the Canada segment, we recognized a loss on derivative instruments of $10 million during the third quarter of fiscal year 2015 compared to a loss of $5 million during the same period in fiscal year 2014. The loss during the third quarter of fiscal year 2015 was attributable to the loss on interest rate swaps due to the decline in Canadian interest rates. 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 $71 million during the third quarter of fiscal year 2015 compared to a loss of $13 million during the same period in fiscal year 2014. The gain during the third quarter of fiscal year 2015 was attributable to gains on Euro and Yen denominated debt as the U.S. dollar strengthened against both currencies. The Canada segment did not have any foreign currency denominated debt outstanding during the third quarter of fiscal year 2015 and 2014.

Income tax expense

Our consolidated effective tax rate was 45.3% for the third quarter of fiscal year 2015 and 36.9% for the same period in fiscal year 2014. The increase in the effective rate is primarily due to the decrease in the tax deduction for qualified domestic production, which is allocated between the Parent and affiliated companies. The deduction for qualified domestic production was affected by the extension of 50% bonus depreciation which was included in the Tax Increase Prevention Act of 2014 signed into law on December 19, 2014.

Segment Results—Comparison of the Nine Months Ended December 31, 2014 and 2013

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

	United States Segment		Canada Segment		Consolidated	
	Nine months ended December 31,		Nine months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013	2014	2013
			(U.S. dollars in millions)			
Revenues:						
Direct financing leases	$ -	$ -	$ 109	$ 148	$ 109	$ 148
Retail	859	900	126	135	985	1,035
Dealer	77	76	11	11	88	87
Operating leases	3,409	3,175	166	26	3,575	3,201
Total revenues	4,345	4,151	412	320	4,757	4,471
Depreciation on operating leases	2,695	2,498	137	21	2,832	2,519
Interest expense	365	402	73	84	438	486
Net revenues	1,285	1,251	202	215	1,487	1,466
Gain on disposition of lease vehicles	31	9	7	9	38	18
Other income	72	85	2	2	74	87
Total net revenues	1,388	1,345	211	226	1,599	1,571
Expenses:						
General and administrative expenses	258	247	40	41	298	288
Provision for credit losses	76	91	9	8	85	99
Early termination loss on operating leases	27	28	2	-	29	28
Loss on lease residual values	-	-	4	3	4	3
Loss on derivative instruments	177	12	16	7	193	19
(Gain)/Loss on foreign currency revaluation of debt	(250)	97	-	3	(250)	100
Income before income taxes	$ 1,100	$ 870	$ 140	$ 164	$ 1,240	$ 1,034

Revenues

Revenue from retail loans in the United States segment declined by $41 million, or 5%, during the first nine 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 $9 million, or 7%, during the first nine 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 $39 million, or 26%, during the first nine 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.

Operating lease revenue in the United States segment increased by $234 million, or 7%, during the first nine 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 nine months of fiscal year 2015 compared to the same period in fiscal year 2014. Operating lease revenue in the Canada segment increased by $140 million due to the increase in operating lease assets.

Revenue from dealer loans in the United States segment increased by $1 million during the first nine months of fiscal year 2015 compared to the same period in fiscal year 2014. Revenue from dealer loans in the Canada segment remained consistent during the first nine 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 $28 million, or 4%, to $801 million during the first nine 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 $197 million, or 8%, during the first nine 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 $116 million due to the increase in operating lease assets.

Operating lease revenue, net of depreciation, in the United States segment increased by $37 million, or 5%, during the first nine 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 $24 million due to the increase in operating lease assets.

Interest expense

In the United States segment, interest expense declined by $37 million, or 9%, during the first nine 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 $11 million, or 13%, 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 $31 million during the first nine months of fiscal year 2015 compared to a gain of $9 million during the same period in fiscal year 2014. The gain we recognized during the first nine months of fiscal year 2015 was due to the strong used vehicle prices we experienced primarily during the first quarter of the fiscal year. Used vehicle prices have declined since the first quarter of fiscal year 2015 and the volume of vehicles sold through auction has increased. The gain on disposition of lease vehicles in the Canada segment declined by $2 million, or 22%, during the first nine 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 $15 million, or 16%, during the first nine 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 increased by $1 million, or 13%, during the first nine 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 decreased by $1 million, or 4%, during the first nine months of fiscal year 2015 compared to the same period in fiscal year 2014. Early termination losses on operating leases in the Canada segment increased by $2 million during the first nine months of fiscal year 2015 compared to the same period in fiscal year 2014. See "—*Financial Condition—Credit Risk*" below for more information.

Loss on lease residual values

Losses on lease residual values in the Canada segment increased by $1 million, or 33%, during the first nine 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 $177 million during the first nine months of fiscal year 2015 compared to a loss of $12 million during the same period in fiscal year 2014. The loss in the first nine months of fiscal year 2015 was comprised of losses on cross currency swaps of $213 million and losses on pay fixed interest rate swaps of $65 million, which were partially offset by gains on pay float interest rate swaps of $101 million. The loss on cross currency swaps was attributable to the U.S. dollar strengthening against the Euro and Yen. We recognized a loss on pay fixed interest rate swaps and a gain on pay float interest rate swaps despite the increase in interest rates during the first nine months of fiscal year 2015 primarily due to the decline in duration of the interest rate swaps. In the Canada segment, we recognized a loss of $16 million during the first nine months of fiscal year 2015 compared to a loss of $7 million during the same period in fiscal year 2014. The loss during the first nine months of fiscal year 2015 was attributable to the loss on interest rate swaps due to the decline in Canadian interest rates. 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 $250 million during the first nine months of fiscal year 2015 compared to a loss of $97 million during the same period in fiscal year 2014. The gain during the first nine 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 nine 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 nine months of fiscal year 2015.

Income tax expense

Our consolidated effective tax rate was 38.2% for the first nine months of fiscal year 2015 and 37.8% for the same period in fiscal year 2014.

Financial Condition

Consumer Financing

Consumer Financing Acquisition Volumes

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

	Three months ended December 31,				Nine months ended December 31,			
	2014		2013		2014		2013	
	Acquired	Sponsored [(2)]	Acquired	Sponsored [(2)]	Acquired	Sponsored [(2)]	Acquired	Sponsored [(2)]
	(Units [(1)] in thousands)							
United States Segment								
Retail loans:								
New auto	115	86	140	100	390	265	531	398
Used auto	12	-	19	-	42	2	52	-
Motorcycle	17	2	17	5	56	9	57	11
Power equipment and marine engines	-	-	-	-	1	-	1	-
Total retail loans	144	88	176	105	489	276	641	409
Leases [(3)]	102	94	88	78	359	339	307	257
Canada Segment								
Retail loans:								
New auto	12	10	14	11	42	31	48	40
Used auto	3	1	4	2	11	4	15	8
Motorcycle	1	1	-	-	5	3	3	-
Power equipment and marine engines	1	-	1	-	1	-	1	-
Total retail loans	17	12	19	13	59	38	67	48
Leases [(3)]	17	16	15	14	55	51	46	44
Consolidated								
Retail loans:								
New auto	127	96	154	111	432	296	579	438
Used auto	15	1	23	2	53	6	67	8
Motorcycle	18	3	17	5	61	12	60	11
Power equipment and marine engines	1	-	1	-	2	-	2	-
Total retail loans	161	100	195	118	548	314	708	457
Leases [(3)]	119	110	103	92	414	390	353	301

(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 December 31,		Nine months ended December 31,	
	2014	**2013**	**2014**	**2013**
United States Segment				
New auto	57%	62%	62%	71%
Motorcycle	37%	41%	38%	42%
Canada Segment				
New auto	66%	66%	68%	69%
Motorcycle	28%	20%	27%	19%
Consolidated				
New auto	58%	63%	62%	70%
Motorcycle	36%	40%	37%	39%

Consumer Financing Asset Balances

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

	December 31, 2014	March 31, 2014	December 31, 2014	March 31, 2014
	(U.S. dollars in millions)		(Units [1] in thousands)	
United States Segment				
Retail loans:				
New auto	$ 26,539	$ 27,018	1,818	1,799
Used auto	2,896	3,233	242	264
Motorcycle	906	886	189	187
Power equipment and marine engines	58	64	5	5
Total retail loans	$ 30,399	$ 31,201	2,254	2,255
Securitized retail loans [2]	$ 7,325	$ 7,999	677	699
Investment in operating leases	$ 22,421	$ 20,537	1,073	973
Canada Segment				
Retail loans:				
New auto	$ 2,805	$ 2,698	190	184
Used auto	553	645	61	67
Motorcycle	72	60	13	11
Power equipment and marine engines	4	3	2	1
Total retail loans	$ 3,434	$ 3,406	266	263
Securitized retail loans [2]	$ 89	$ 178	16	24
Direct financing leases	$ 2,196	$ 2,722	126	144
Investment in operating leases	$ 1,496	$ 693	61	25
Consolidated				
Retail loans:				
New auto	$ 29,344	$ 29,716	2,008	1,983
Used auto	3,449	3,878	303	331
Motorcycle	978	946	202	198
Power equipment and marine engines	62	67	7	6
Total retail loans	$ 33,833	$ 34,607	2,520	2,518
Securitized retail loans [2]	$ 7,414	$ 8,177	693	723
Direct financing leases	$ 2,196	$ 2,722	126	144
Investment in operating leases	$ 23,917	$ 21,230	1,134	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 nine months of fiscal year 2015 compared to the same period in fiscal year 2014 primarily due to the decline in new auto retail loan acquisitions. The decline in new auto retail loan acquisitions was attributable to the reduction in incentive financing programs offered during the first nine 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 nine 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 nine 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. Beginning in the second quarter of fiscal year 2014, a portion of newly acquired consumer lease contracts did not qualify for direct financing lease classification and were required to be classified as operating leases. Beginning in the third quarter of fiscal year 2015, all newly acquired leases were classified as operating leases. As a result, outstanding direct financing lease assets continued to decline and operating lease assets continues to increase during fiscal year 2015.

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:

	December 31, 2014	March 31, 2014
United States Segment		
Automobile	29%	29%
Motorcycle	97%	97%
Power equipment and marine engines	23%	24%
Canada Segment		
Automobile	34%	34%
Motorcycle	98%	99%
Power equipment and marine engines	96%	93%
Consolidated		
Automobile	30%	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 December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
United States Segment				
Automobile	29%	30%	29%	30%
Motorcycle	97%	96%	97%	96%
Power equipment and marine engines	9%	9%	9%	8%
Canada Segment				
Automobile	32%	29%	32%	32%
Motorcycle	88%	95%	93%	96%
Power equipment and marine engines	93%	96%	95%	96%
Consolidated				
Automobile	29%	30%	29%	30%
Motorcycle	96%	96%	96%	96%
Power equipment and marine engines	13%	12%	11%	11%

Dealer Financing Asset Balances

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

	December 31, 2014	March 31, 2014	December 31, 2014	March 31, 2014
	(U.S. dollars in millions)		(Units [1] in thousands)	
United States Segment				
Wholesale flooring loans:				
Automobile	$ 2,324	$ 2,491	91	100
Motorcycle	579	701	88	107
Power equipment and marine engines	56	66	49	66
Total wholesale flooring loans	$ 2,959	$ 3,258	228	273
Commercial loans	$ 729	$ 572		
Canada Segment				
Wholesale flooring loans:				
Automobile	$ 341	$ 395	13	15
Motorcycle	68	82	10	11
Power equipment and marine engines	24	32	16	27
Total wholesale flooring loans	$ 433	$ 509	39	53
Commercial loans	$ 53	$ 32		
Consolidated				
Wholesale flooring loans:				
Automobile	$ 2,665	$ 2,886	104	115
Motorcycle	647	783	98	118
Power equipment and marine engines	80	98	65	93
Total wholesale flooring loans	$ 3,392	$ 3,767	267	326
Commercial loans	$ 782	$ 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 December 31,		As of or for the nine months ended December 31,	
	2014	2013	2014	2013
	(U.S. dollars in millions)			
United States Segment				
Finance receivables:				
Allowance for credit losses at beginning of period	$ 83	$ 86	$ 89	$ 80
Provision for credit losses	25	28	62	78
Charge-offs, net of recoveries	(29)	(32)	(72)	(76)
Allowance for credit losses at end of period	$ 79	$ 82	$ 79	$ 82
Allowance as a percentage of ending receivable balance [1]			0.23%	0.23%
Charge-offs as a percentage of average receivable balance [1], [4]	0.34%	0.37%	0.28%	0.30%
Delinquencies (60 or more days past due):				
Delinquent amount [2]			$ 63	$ 71
As a percentage of ending receivable balance [1], [2]			0.18%	0.20%
Operating leases:				
Early termination loss on operating leases	$ 10	$ 15	$ 27	$ 28
Provision for past due operating lease rental payments [3]	5	5	14	13
Canada Segment				
Finance receivables:				
Allowance for credit losses at beginning of period	$ 11	$ 14	$ 11	$ 13
Provision for credit losses	4	1	9	8
Charge-offs, net of recoveries	(4)	(3)	(9)	(9)
Effect of translation adjustment	(1)	-	(1)	-
Allowance for credit losses at end of period	$ 10	$ 12	$ 10	$ 12
Allowance as a percentage of ending receivable balance [1]			0.16%	0.17%
Charge-offs as a percentage of average receivable balance [1], [4]	0.19%	0.14%	0.18%	0.16%
Delinquencies (60 or more days past due):				
Delinquent amount [2]			$ 8	$ 7
As a percentage of ending receivable balance [1], [2]			0.13%	0.10%
Operating leases:				
Early termination loss on operating leases	$ 1	$ -	$ 2	$ -
Provision for past due operating lease rental payments [3]	-	-	-	-
Consolidated				
Finance receivables:				
Allowance for credit losses at beginning of period	$ 94	$ 100	$ 100	$ 93
Provision for credit losses	29	29	71	86
Charge-offs, net of recoveries	(33)	(35)	(81)	(85)
Effect of translation adjustment	(1)	-	(1)	-
Allowance for credit losses at end of period	$ 89	$ 94	$ 89	$ 94
Allowance as a percentage of ending receivable balance [1]			0.22%	0.22%
Charge-offs as a percentage of average receivable balance [1], [4]	0.32%	0.33%	0.26%	0.27%
Delinquencies (60 or more days past due):				
Delinquent amount [2]			$ 71	$ 78
As a percentage of ending receivable balance [1], [2]			0.17%	0.18%
Operating leases:				
Early termination loss on operating leases	$ 11	$ 15	$ 29	$ 28
Provision for past due operating lease rental payments [3]	5	5	14	13

(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 nine months ended December 31, 2014 and 2013 have been annualized.

In the United States segment, we recognized a provision for credit losses on our finance receivables of $25 million and $62 million for the third quarter and first nine months of fiscal year 2015, respectively, compared to $28 million and $78 million for the respective periods in fiscal year 2014. The decline in the provision was the result of a decline in net charge-offs and reduction of our allowance for credit losses during the first nine months of fiscal year 2015 as compared to an increase of 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 nine 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 nine months of fiscal year 2015. We recognized early termination losses on operating lease assets of $10 million and $27 million during the third quarter and first nine months of fiscal year 2015, respectively, compared to $15 million and $28 million for the respective periods in fiscal year 2014. Despite the growth in operating lease assets, losses from lessee defaults continued to remain low during the first nine months of fiscal year 2015 reflecting the credit quality of our portfolio of operating lease assets. In the Canada segment, the provision for credit losses on finance receivables increased by $3 million and $1 million during the third quarter and first nine months of fiscal year 2015, respectively, 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 at 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 at the contractual residual value (or if purchased prior to lease maturity, at the outstanding contractual balance) or at a market based pricing option. 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 nine months of fiscal year 2015 and 2014.

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

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
	(Units [1] in thousands)			
United States Segment				
Termination units:				
Sales at outstanding contractual balances [2]	50	52	186	181
Sales through auctions and dealer direct programs [3]	25	21	62	72
Total termination units	75	73	248	253
Canada Segment				
Termination units:				
Sales at outstanding contractual balances [2]	10	9	32	32
Sales through auctions and dealer direct programs [3]	1	2	4	6
Total termination units	11	11	36	38
Consolidated				
Termination units:				
Sales at outstanding contractual balances [2]	60	61	218	213
Sales through auctions and dealer direct programs [3]	26	23	66	78
Total termination units	86	84	284	291

(1) A unit represents one terminated lease by their method of disposition during the period shown. Unit counts do not include leases that were terminated due to lessee defaults.

(2) Includes vehicles purchased by lessees or dealers for the contractual residual value at lease maturity or the outstanding contractual balance if purchased prior to lease maturity.

(3) Includes vehicles sold through online auctions and market based pricing options under our dealer direct programs or through physical auctions. We previously included all vehicles sold through our dealer direct programs in this category including vehicles that the grounding dealer exercised their option to purchase at contractual residual values. As of December 31, 2014, we have included these units in the "Sales at outstanding contractual balances" category and have reclassified comparative periods to reflect this change.

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:

	December 31, 2014	March 31, 2014	Weighted average contractual interest rate December 31, 2014	Weighted average contractual interest rate March 31, 2014
	(U.S. dollars in millions)			
United States Segment				
Unsecured debt:				
Commercial paper	$ 4,735	$ 2,927	0.17%	0.15%
Related party debt	2,400	3,225	0.15%	0.14%
Bank loans	5,989	5,389	0.70%	0.71%
Private U.S. MTN program	8,957	12,901	2.40%	1.85%
Public U.S. MTN program	8,941	3,736	1.07%	1.08%
Euro MTN programme	2,018	3,788	1.31%	2.52%
Total unsecured debt	33,040	31,966		
Secured debt	7,333	8,062	0.69%	0.65%
Total debt	$ 40,373	$ 40,028		
Canada Segment				
Unsecured debt:				
Commercial paper	$ 1,205	$ 1,260	1.19%	1.15%
Related party debt	1,721	1,538	1.27%	1.27%
Bank loans	1,094	1,150	1.82%	1.80%
Other debt	1,761	1,490	2.03%	2.12%
Total unsecured debt	5,781	5,438		
Secured debt	75	168	1.58%	1.52%
Total debt	$ 5,856	$ 5,606		
Consolidated				
Unsecured debt:				
Commercial paper	$ 5,940	$ 4,187	0.38%	0.45%
Related party debt	4,121	4,763	0.62%	0.51%
Bank loans	7,083	6,539	0.88%	0.90%
Private U.S. MTN program	8,957	12,901	2.40%	1.85%
Public U.S. MTN program	8,941	3,736	1.07%	1.08%
Euro MTN programme	2,018	3,788	1.31%	2.52%
Other debt	1,761	1,490	2.03%	2.12%
Total unsecured debt	38,821	37,404		
Secured debt	7,408	8,230	0.70%	0.67%
Total debt	$ 46,229	$ 45,634		

Commercial Paper

As of December 31, 2014, we had commercial paper programs in the United States of $7.0 billion and in Canada of C$2.0 billion ($1.7 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 nine months ended December 31, 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 $5.8 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 150 days. During the nine months ended December 31, 2014, the consolidated related party debt month-end principal balances ranged from approximately $4.7 billion to $5.1 billion and the outstanding daily balance averaged $4.9 billion.

Bank Loans

During the nine months ended December 31, 2014, AHFC entered into floating interest rate term loan agreements for $800 million and HCFI did not enter into any bank loan agreements. As of December 31, 2014, we had bank loans denominated in U.S. dollars and Canadian dollars with floating interest rates, in principal amounts ranging from approximately $43 million to $600 million. As of December 31, 2014, the remaining maturities of all bank loans outstanding ranged from 86 days to approximately 5.1 years. The weighted average remaining maturities on all bank loans was 2.3 years as of December 31, 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 December 31, 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. As of December 31, 2014, the remaining maturities of Private U.S. MTNs outstanding ranged from 58 days to approximately 6.7 years. The weighted average remaining maturities of Private U.S. MTNs was 2.1 years as of December 31, 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 December 31, 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 9 months or more from the date of issue, may be interest bearing with either fixed or floating interest rates, or may be discounted notes. During the nine months ended December 31, 2014, AHFC issued $6.2 billion aggregate principal amount of Public U.S. MTNs, with original maturities ranging from 1 to 5 years, bearing interest at fixed and floating rates. As of December 31, 2014, the remaining maturities of all Public U.S. MTNs outstanding ranged from 155 days to approximately 4.6 years. The weighted average remaining maturities of all Public U.S. MTNs was 2.3 years as of December 31, 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 December 31, 2014, management believes that AHFC was in compliance with all covenants under the indenture.

Euro MTN Programme

The Euro MTN Programme was retired in August 2014. 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 nine months ended December 31, 2014, AHFC did not issue any Euro MTNs. As of December 31, 2014, the remaining maturities of all Euro MTNs outstanding ranged from 29 days to approximately 8.1 years. The weighted average remaining maturities of all Euro MTNs was 3 years as of December 31, 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 December 31, 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:

	December 31, 2014		March 31, 2014	
	(U.S. dollars in millions)			
U.S. dollar	$ 793	39%	$ 942	25%
Japanese yen	321	16%	373	10%
Euro	904	45%	2,473	65%
Total	$ 2,018	100%	$ 3,788	100%

Other Debt

HCFI issues privately placed Canadian dollar denominated notes. During the nine months ended December 31, 2014, HCFI issued C$400 million ($344 million) of these notes with an original maturity of 2.5 years. As of December 31, 2014, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 54 days to approximately 3.9 years. The weighted average remaining maturities of these notes was 2.3 years as of December 31, 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 December 31, 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 nine months ended December 31, 2014, we issued notes through asset-backed securitizations totaling $3.0 billion, which were secured by consumer finance receivables with an initial principal balance of $3.1 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 $4 million during both the three months ended December 31, 2014 and 2013, and $13 million and $12 million during the nine months ended December 31, 2014 and 2013, respectively, pursuant to these support compensation agreements.

Indebtedness of Consolidated Subsidiaries

As of December 31, 2014, AHFC and its consolidated subsidiaries had approximately $54.9 billion of outstanding indebtedness and other liabilities, including current liabilities, of which approximately $14.0 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 December 31,						
	Total	2015	2016	2017	2018	2019	Thereafter
	(U.S. dollars in millions)						
Debt obligations [1]	$ 46,300	$ 23,329	$ 9,473	$ 6,212	$ 3,339	$ 2,707	$ 1,240
Interest payments on debt [2]	1,292	438	325	227	154	87	61
Operating lease obligations	51	7	7	7	6	5	19
Total	$ 47,643	$ 23,774	$ 9,805	$ 6,446	$ 3,499	$ 2,799	$ 1,320

(1) Debt obligations reflect the remaining principal obligations of our outstanding debt and do not reflect unamortized debt discounts and fees. Repayment schedule of secured debt reflects payment performance assumptions on underlying receivables. Foreign currency denominated debt principal is based on exchange rates as of December 31, 2014.

(2) Interest payments on floating rate and foreign currency denominated debt based on the applicable floating rates and/or exchange rates as of December 31, 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 December 31, 2014, our provision for credit losses would have increased by approximately $20 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 December 31, 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 at 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 at the contractual residual value (or if purchased prior to lease maturity, at the outstanding contractual balance) or at a market based pricing option. 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 December 31, 2014 were to decrease by $100 per unit from our current estimates, the total impact would be an increase of approximately $50 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 $7 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 and Regulatory Matters of *Notes to Consolidated Financial Statements (Unaudited),* which is incorporated by reference herein.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth under *"Item 1A. Risk Factors"* in our Annual Report on Form 10-K for the year ended March 31, 2014, which was filed with the SEC on June 20, 2014, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, which was filed with the SEC on November 13, 2014, except with respect to the risk factor titled: "*New or revised financial or consumer regulations may adversely impact our business, results of operations, cash flows and financial condition*", which we hereby update with the following information:

As previously disclosed, the CFPB, together with the U.S. Department of Justice (the Agencies), have contacted us regarding their review of pricing practices by dealers originating retail installment sale contracts for automobiles. We have voluntarily provided the information requested and cooperated fully with the investigation. As also previously disclosed, we have received a notice that the Agencies have authorized enforcement actions against us, alleging discrimination in automobile loan pricing to certain borrowers by dealers and alleging the loan pricing disparities were caused by our business practices related to dealer discretion, and that the Agencies may seek monetary relief and implementation of changes to our pricing practices and policies, which may affect our business. We have also been informed that the Agencies may defer pursuit of litigation if we work with them to seek a voluntary resolution to these allegations. We will continue to cooperate with the Agencies to find a mutually agreeable resolution and we are working towards finding an industry wide resolution to these allegations. However, at this time, we cannot predict the outcome of this matter. 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.

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: February 12, 2015

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[(1)]	Articles of Incorporation of American Honda Finance Corporation, dated February 6, 1980, and Certificates of Amendment to the Articles of Incorporation, dated March 29, 1984, November 13, 1988, December 4, 1989, July 2, 1991, April 3, 1997, November 30, 1999, and December 17, 2003.
3.2[(1)]	Amended and Restated Bylaws of American Honda Finance Corporation, dated April 27, 2010.
4.1[(1)]	Form of Specimen Common Stock of American Honda Finance Corporation.
4.2	American Honda Finance Corporation agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of American Honda Finance Corporation and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the American Honda Finance Corporation and its subsidiaries.
4.3[(2)]	Amended and Restated Issuing and Paying Agency Agreement between American Honda Finance Corporation and The Bank of New York Mellon, dated as of August 27, 2012.
4.4	Trust Indenture between Honda Canada Finance Inc., as issuer, and BNY Trust Company of Canada (as successor to CIBC Mellon Trust Company), as trustee, dated as of September 26, 2005[(2)], as supplemented by supplemental indentures from time to time, and the Form of Debenture[(3)].
4.5[(4)]	Indenture, dated September 5, 2013, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.6[(5)]	Form of Fixed Rate Medium-Term Note, Series A and Form of Floating Rate Medium-Term Note, Series A.
10.1[(6)]	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[(3)]	Statement regarding computation of ratio of earnings to fixed charges
31.1[(3)]	Certification of Principal Executive Officer
31.2[(3)]	Certification of Principal Financial Officer
32.1[(7)]	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2[(7)]	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS[(3)]	XBRL Instance Document
101.SCH[(3)]	XBRL Taxonomy Extension Schema Document
101.CAL[(3)]	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB[(3)]	XBRL Taxonomy Extension Label Linkbase Document
101.PRE[(3)]	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF[(3)]	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) Filed herewith.
(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) Furnished herewith.

Exhibit 4.4

Unless this certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. (“CDS”) to Honda Canada Finance Inc. (the “Issuer”) or its agent for registration of transfer, exchange, or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO. or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate. Unless permitted under securities legislation, the holder of this security must not trade the security before the date that is 4 months and a day after the later of (i) ●, and (ii) the date the issuer became a reporting issuer in any province or territory.

ISIN#●

SERIES 20●-●

Serial No.: ●

HONDA CANADA FINANCE INC.
DEBENTURE

Issue Date	Principal Amount	Maturity Date
●	****CAD$●****	●

for value received hereby promises to pay to or to the order of

REGISTERED HOLDER **CDS & CO.**

ADDRESS **85 RICHMOND STREET WEST**

TORONTO, ONTARIO M5H 2C9

on the Maturity Date the sum of **CAD$●** DOLLARS

plus interest thereon on each Interest Payment Date at a rate of interest equal to ● calculated ●, not in advance, paid ● and payable in lawful money of Canada

Interest Payment Dates: PAYABLE ● ON ● OF EACH YEAR COMMENCING ON ●*

SPECIAL FEATURES

Reference is hereby made to the further provisions of this Debenture set forth on the reverse hereof. This Debenture shall become valid only when manually countersigned on behalf of Honda Canada Finance Inc. by an authorized signing officer of the registrar and paying agent.

IN WITNESS WHEREOF, Honda Canada Finance Inc. has caused this Debenture to be signed by its duly authorized signatories.

Dated: ●

Countersigned on behalf of
Canadian Imperial Bank of Commerce

By: ______________________	By: ______________________	By: ______________________
Authorized Signing Officer	Authorized Signatory	Authorized Signatory

*Non-resident withholding tax may be deducted where applicable.

FURTHER TERMS AND PROVISIONS

1. At least five (5) Business Days (as defined in the Indenture) prior to each payment date as interest on this Debenture and principal become due, the Company shall forward or cause to be forwarded by prepaid ordinary mail to the Registered Holder at the address appearing on the register of Debentureholders (as defined in the Indenture) maintained by Canadian Imperial Bank of Commerce (the "Issuing, Transfer and Redemption Agent"), a cheque drawn on a chartered bank in Toronto for such interest or principal, as the case may be, payable to the registered Holder. The forwarding of such cheque shall satisfy and discharge the liability of the Company for such interest or principal to the extent of the sum represented thereby unless such cheque shall not be paid on presentation.
2. This Debenture is one of a series of like debentures designated as Senior Unsecured Series 2013-3 Debentures of the Company (the "Debentures") issued pursuant to the indenture made as of September 26, 2005, as supplemented by supplemental indentures from time to time (the "Indenture") between the Company and BNY Trust Company of Canada (the "Trustee"). This Debenture and all other Debentures now or hereafter issued or certified under the Indenture shall rank pari passu with all other senior unsecured obligations of the Company.
3. This Debenture is issued subject to the provisions of the Indenture which is hereby referred to for a complete statement of the rights of the holders of Debentures issued thereunder and of the Company and of the Trustee in respect thereof and of the terms and conditions upon which the Debentures are issued and held, to all of which the Registered Holder by acceptance of this Debenture assents. In the case of any conflict or inconsistency between the terms of this Debenture and the terms of the Indenture, the terms of the Indenture shall prevail.
4. The Indenture contains provisions dealing with the effect of default under one or more of the Debentures.
5. This Debenture is a direct obligation of the Company, subject to the terms and conditions of the Indenture.
6. This Debenture shall be transferable subject to resale restrictions imposed under applicable securities laws; provided however, that no transfer of this Debenture shall be valid or effective unless:
   (1) it is made on the Register by the holder thereof (or by his duly appointed attorney) by written instrument in form and execution satisfactory to the Issuing, Transfer and Redemption Agent and upon compliance with such reasonable requirements that the Issuing, Transfer and Redemption Agent or other registrar may prescribe; and
   (2) particulars thereof are endorsed on this Debenture by the Issuing, Transfer and Redemption Agent.

   Registered Holders should consult their own legal advisors with respect to application of resale restrictions under securities laws to which they may be subject.
7. The principal hereof may become due or be declared due before the Maturity Date of the Debentures, as more particularly provided in the Indenture.
8. The Indenture contains provisions for the holding of meetings of, and the giving of notices to the Debentureholders and the rendering of Extraordinary Resolutions (as defined in the Indenture) passed by the holders of a specified majority of the principal amount of the Debentures outstanding under the Indenture at a meeting of the Debentureholders or written instruments signed by Debentureholders may become binding upon all Debentureholders.
9. For purposes of disclosure pursuant to the *Interest Act* (Canada), the annual rates of interest provided in this Debenture (and stated herein to be computed on the basis of a 365 day year or any other period of time less than a calendar year) are equivalent to the rates so determined multiplied by the actual number of days in the applicable calendar year and divided by 365 or such period of time, as the case may be.

Exhibit 12.1

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

	Three months ended December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Earnings				
Consolidated income before provision for income taxes	$ 380	$ 352	$ 1,240	$ 1,034
Fixed Charges	143	154	441	489
Earnings	$ 523	$ 506	$ 1,681	$ 1,523
Fixed Charges				
Interest expense	$ 142	$ 153	$ 438	$ 486
Interest portion of rental expense [1]	1	1	3	3
Total fixed charges	$ 143	$ 154	$ 441	$ 489
Ratio of earnings to fixed charges	3.66x	3.29x	3.81x	3.11x

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

Exhibit 31.1

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 December 31, 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: February 12, 2015

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

Exhibit 31.2

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 December 31, 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: February 12, 2015

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

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

In connection with the Quarterly Report of American Honda Finance Corporation (the "Company") on Form 10-Q for the quarter ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Narutoshi Wakiyama, President and Principal Executive Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 12, 2015

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

*A signed original of this written statement required by Section 906 has been provided to American Honda Finance Corporation and will be retained by American Honda Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

In connection with the Quarterly Report of American Honda Finance Corporation (the "Company") on Form 10-Q for the quarter ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shinji Kubaru, Vice President, Treasurer and Principal Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 12, 2015

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

*A signed original of this written statement required by Section 906 has been provided to American Honda Finance Corporation and will be retained by American Honda Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.