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

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended December 31, 2017**

OR

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-36111**

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**AMERICAN HONDA FINANCE CORPORATION**

(Exact name of registrant as specified in its charter)

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**California**

(State or other jurisdiction of incorporation or organization)

**95-3472715**

(IRS Employer Identification No.)

**20800 Madrona Avenue, Torrance, California**

(Address of principal executive offices)

**90503**

(Zip Code)

**(310) 972-2555**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

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

Emerging growth company

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

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

As of January 31, 2018, the number of outstanding shares of common stock of the registrant was 13,660,000 all of which shares were held by American Honda Motor Co., Inc. None of the shares are publicly traded.

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**REDUCED DISCLOSURE FORMAT**

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

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**AMERICAN HONDA FINANCE CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
For the quarter ended December 31, 2017

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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;
- increases in competition from other financial institutions seeking to increase their share of financing of Honda and Acura products;
- changes in laws and regulations, including the result of financial services legislation, and related costs;
- changes in accounting standards;
- a failure or interruption in our operations; and
- a security breach or cyber attack.

Additional information regarding these and other risks and uncertainties to which our business is subject is contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 filed with the Securities and Exchange Commission on June 22, 2017. Readers of this Quarterly Report should review the additional information contained in that report, and in any subsequent reports that we file with the Securities and Exchange Commission as such risks and uncertainties may be amended, supplemented or superseded from time to time. We do not intend, and undertake no obligation to, update any forward-looking information to reflect actual results or future events or circumstances, except as required by applicable law.

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

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

	<b>December 31, 2017</b>	<b>March 31, 2017</b>
<b>Assets</b>		
Cash and cash equivalents .....	\$ 774	\$ 760
Finance receivables, net .....	37,632	35,904
Investment in operating leases, net .....	32,219	31,310
Due from Parent and affiliated companies .....	146	228
Income taxes receivable .....	317	256
Vehicles held for disposition .....	223	255
Other assets .....	843	892
Derivative instruments .....	560	249
<b>Total assets</b> .....	<b>\$ 72,714</b>	<b>\$ 69,854</b>
<b>Liabilities and Equity</b>		
Debt .....	\$ 48,065	\$ 46,227
Due to Parent and affiliated companies .....	85	91
Accrued interest expense .....	172	120
Deferred income taxes .....	6,166	8,792
Other liabilities .....	1,348	1,389
Derivative instruments .....	299	449
<b>Total liabilities</b> .....	<b>56,135</b>	<b>57,068</b>
Commitments and contingencies (Note 8)		
Shareholder's equity:		
Common stock, \$100 par value. Authorized 15,000,000 shares; issued and outstanding 13,660,000 shares as of December 31, 2017 and March 31, 2017 .....	1,366	1,366
Retained earnings .....	14,408	10,787
Accumulated other comprehensive loss .....	(61)	(110)
<b>Total shareholder's equity</b> .....	<b>15,713</b>	<b>12,043</b>
Noncontrolling interest in subsidiary .....	866	743
<b>Total equity</b> .....	<b>16,579</b>	<b>12,786</b>
<b>Total liabilities and equity</b> .....	<b>\$ 72,714</b>	<b>\$ 69,854</b>

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

	<b>December 31, 2017</b>	<b>March 31, 2017</b>
Finance receivables, net .....	\$ 8,534	\$ 8,512
Vehicles held for disposition .....	4	3
Other assets .....	411	367
<b>Total assets</b> .....	<b>\$ 8,949</b>	<b>\$ 8,882</b>
Secured debt .....	\$ 8,387	\$ 8,422
Accrued interest expense .....	5	4
<b>Total liabilities</b> .....	<b>\$ 8,392</b>	<b>\$ 8,426</b>

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,		Nine months ended December 31,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Direct financing leases .....	\$ 3	\$ 7	\$ 11	\$ 28
Retail.....	353	301	1,010	884
Dealer .....	44	36	128	108
Operating leases.....	1,740	1,609	5,143	4,690
Total revenues .....	2,140	1,953	6,292	5,710
Depreciation on operating leases .....	1,378	1,306	4,087	3,738
Interest expense.....	229	186	651	533
Net revenues.....	533	461	1,554	1,439
Gain on disposition of lease vehicles.....	8	—	71	18
Other income.....	14	23	41	67
Total net revenues .....	555	484	1,666	1,524
<b>Expenses:</b>				
General and administrative expenses .....	106	103	325	309
Provision for credit losses .....	65	54	187	157
Early termination loss on operating leases .....	22	19	81	50
Loss on lease residual values.....	1	4	2	9
(Gain)/Loss on derivative instruments .....	(62)	280	(436)	337
(Gain)/Loss on foreign currency revaluation of debt .....	53	(160)	384	(224)
Total expenses .....	185	300	543	638
Income before income taxes.....	370	184	1,123	886
Income tax expense/(benefit).....	(3,000)	65	(2,717)	334
Net income .....	3,370	119	3,840	552
Less: Net income attributable to noncontrolling interest.....	21	21	78	53
Net income attributable to American Honda Finance Corporation .....	\$ 3,349	\$ 98	\$ 3,762	\$ 499

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

	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
Net income .....	\$ 3,370	\$ 119	\$ 3,840	\$ 552
<b>Other comprehensive income/(loss):</b>				
Foreign currency translation adjustment .....	(12)	(34)	94	(48)
Comprehensive income .....	3,358	85	3,934	504
Less: Comprehensive income attributable to noncontrolling interest .....	16	5	123	30
Comprehensive income attributable to American Honda Finance Corporation .....	\$ 3,342	\$ 80	\$ 3,811	\$ 474

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)

	<b>Total</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive loss</b>	<b>Common stock</b>	<b>Noncontrolling interest</b>
<b>Balance at March 31, 2016</b> .....	\$ 12,068	\$ 10,104	\$ (92)	\$ 1,366	\$ 690
Net income .....	552	499	—	—	53
Other comprehensive loss .....	(48)	—	(25)	—	(23)
<b>Balance at December 31, 2016</b> .....	<u>\$ 12,572</u>	<u>\$ 10,603</u>	<u>\$ (117)</u>	<u>\$ 1,366</u>	<u>\$ 720</u>
<b>Balance at March 31, 2017</b> .....	\$ 12,786	\$ 10,787	\$ (110)	\$ 1,366	\$ 743
Net income .....	3,840	3,762	—	—	78
Other comprehensive income .....	94	—	49	—	45
Dividends declared .....	(141)	(141)	—	—	—
<b>Balance at December 31, 2017</b> .....	<u>\$ 16,579</u>	<u>\$ 14,408</u>	<u>\$ (61)</u>	<u>\$ 1,366</u>	<u>\$ 866</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

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

	Nine months ended December 31,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net income .....	\$ 3,840	\$ 552
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Debt and derivative instrument valuation adjustments .....	(44)	123
Loss on lease residual values and provision for credit losses .....	189	166
Early termination loss on operating leases and impairment on operating leases .....	81	50
Depreciation and amortization .....	4,095	3,743
Accretion of unearned subsidy income .....	(1,075)	(919)
Amortization of deferred dealer participation and other deferred costs .....	237	235
Gain on disposition of lease vehicles and fixed assets .....	(71)	(18)
Deferred income taxes .....	(2,644)	613
<b>Changes in operating assets and liabilities:</b>		
Income taxes receivable/payable .....	(57)	230
Other assets .....	3	(97)
Accrued interest/discounts on debt .....	51	37
Other liabilities .....	52	113
Due to/from Parent and affiliated companies .....	78	(86)
Net cash provided by operating activities .....	4,735	4,742
<b>Cash flows from investing activities:</b>		
Finance receivables acquired .....	(13,899)	(12,637)
Principal collected on finance receivables .....	11,698	12,155
Net change in wholesale loans .....	183	(66)
Purchase of operating lease vehicles .....	(11,124)	(12,397)
Disposal of operating lease vehicles .....	6,280	5,355
Cash received for unearned subsidy income .....	1,350	1,178
Other investing activities, net .....	(86)	(63)
Net cash used in investing activities .....	(5,598)	(6,475)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of commercial paper .....	26,573	32,940
Paydown of commercial paper .....	(25,223)	(30,964)
Proceeds from issuance of short-term debt .....	381	—
Proceeds from issuance of related party debt .....	3,186	8,157
Paydown of related party debt .....	(3,345)	(8,610)
Proceeds from issuance of medium term notes and other debt .....	5,033	6,222
Paydown of medium term notes and other debt .....	(5,474)	(6,751)
Proceeds from issuance of secured debt .....	3,508	4,523
Paydown of secured debt .....	(3,624)	(3,729)
Dividend paid .....	(141)	—
Net cash provided by financing activities .....	874	1,788
Effect of exchange rate changes on cash and cash equivalents .....	3	(2)
Net increase in cash and cash equivalents .....	14	53
Cash and cash equivalents at beginning of period .....	760	658
Cash and cash equivalents at end of period .....	\$ 774	\$ 711
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid .....	\$ 567	\$ 475
Income taxes received .....	\$ (11)	\$ (509)

See accompanying notes to consolidated financial statements.



**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

**(1) Interim Information**

**(a) Organizational Structure**

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

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

**(b) Basis of Presentation**

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim information, and instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, these unaudited interim financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results of operations, cash flows, and financial condition for the interim periods presented. Results for interim periods should not be considered indicative of results for the full year or for any other interim period. These unaudited interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements, significant accounting policies, and the other notes to the consolidated financial statements for the fiscal year ended March 31, 2017 included in the Company’s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on June 22, 2017. All significant intercompany balances and transactions have been eliminated upon consolidation.

**(c) Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance in this update supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the industry topics of the codification. The FASB has also issued several updates to ASU 2014-09 with targeted improvements and clarifications. Substantially all of the Company’s sources of revenue are from lease and loan contracts, with the exception of revenue from Vehicle Service Contract Administration. Revenue from lease and loan contracts are not within the scope of this ASU as they are within the scope of other accounting standards. The Company does not expect this ASU to impact the timing and amount of revenue recognized from Vehicle Service Contract Administration, however additional disclosures will be required. The Company will adopt the new guidance effective April 1, 2018.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments are effective for the Company beginning April 1, 2018. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the guidance in ASC 840, *Leases*. The effect of adopting the new standard will be the requirement to record right-of-use assets and lease liabilities for the Company’s current operating leases as a lessee. The Company is identifying the contracts that are or may contain lease arrangements as a lessee and continues to evaluate the application of this standard to those contracts. Lessor accounting remains largely unchanged from current GAAP. The Company also continues to evaluate the application of this standard as a lessor. The amendments are effective for the Company beginning April 1, 2019. Early adoption is permitted. The Company plans to adopt the new guidance effective April 1, 2019.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company is currently assessing the impact of this standard on the consolidated financial statements. In general, the allowance for credit losses is expected to increase when changing from an incurred loss to expected loss methodology. The models and methodologies that are currently used in estimating the allowance for credit losses are being evaluated to identify the changes necessary to meet the requirements of the new standard. The amendments are effective for the Company beginning April 1, 2020, with early adoption permitted as of April 1, 2019.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for the Company beginning April 1, 2018. The Company is currently assessing the impact of this standard on the consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash and require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents, and that an entity disclose information about the nature of such restricted amounts. The Company's restricted cash consists primarily of reserve funds and yield supplement accounts held in securitization trusts. Net changes in these restricted cash balances are currently reported within investing activities in the Company's statement of cash flows. Under the amended guidance, transfers between restricted and unrestricted cash accounts will not be reported as cash flows. The amendments are effective retrospectively for the Company beginning April 1, 2018.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which addresses better alignment between an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments are effective for the Company beginning April 1, 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the impact of this standard on the consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

**(2) Finance Receivables**

Finance receivables consisted of the following:

	<b>December 31, 2017</b>			
	<b>Lease</b>	<b>Retail</b>	<b>Dealer</b>	<b>Total</b>
	(U.S. dollars in millions)			
Finance receivables .....	\$ 207	\$ 33,349	\$ 4,930	\$ 38,486
Allowance for credit losses .....	—	(176)	(2)	(178)
Write-down of lease residual values.....	(10)	—	—	(10)
Unearned interest income and fees.....	(3)	—	—	(3)
Deferred dealer participation and other deferred costs.....	—	390	—	390
Unearned subsidy income.....	(4)	(1,049)	—	(1,053)
Finance receivables, net .....	<u>\$ 190</u>	<u>\$ 32,514</u>	<u>\$ 4,928</u>	<u>\$ 37,632</u>

	<b>March 31, 2017</b>			
	<b>Lease</b>	<b>Retail</b>	<b>Dealer</b>	<b>Total</b>
	(U.S. dollars in millions)			
Finance receivables .....	\$ 410	\$ 31,103	\$ 5,006	\$ 36,519
Allowance for credit losses .....	(1)	(132)	—	(133)
Write-down of lease residual values.....	(16)	—	—	(16)
Unearned interest income and fees.....	(8)	—	—	(8)
Deferred dealer participation and other deferred costs.....	—	371	—	371
Unearned subsidy income.....	(10)	(819)	—	(829)
Finance receivables, net .....	<u>\$ 375</u>	<u>\$ 30,523</u>	<u>\$ 5,006</u>	<u>\$ 35,904</u>

Finance receivables include retail loans with a principal balance of \$8.7 billion and \$8.6 billion as of December 31, 2017 and March 31, 2017, respectively, which have been transferred to securitization trusts and are considered to be legally isolated but 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 direct financing lease residual values were \$45 million and \$78 million at December 31, 2017 and March 31, 2017, 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 \$13 million and \$12 million for the three months ended December 31, 2017 and 2016, respectively, and \$46 million and \$28 million for the nine months ended December 31, 2017 and 2016, 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 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.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

Consumer finance receivables in the retail loan and direct financing lease portfolio segments are collectively evaluated for impairment. Delinquencies and losses are monitored on an ongoing basis and the 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, collateral types, and loan terms. Market and economic factors such as used vehicle prices, unemployment rates, and consumer debt service burdens are also incorporated into these models.

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 dealership payment history, financial condition, and 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 nine months ended December 31, 2017 and 2016.

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 nine months ended December 31, 2017 and 2016. The Company does allow payment deferrals on consumer finance receivables. However, these payment deferrals are not considered to be troubled debt restructurings since the deferrals are deemed to be insignificant and interest continues to accrue during the deferral period.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

The following is a summary of the activity in the allowance for credit losses of finance receivables, excluding the provisions related to past due operating leases:

	<b>Three and nine months ended December 31, 2017</b>			
	<b>Lease</b>	<b>Retail</b>	<b>Dealer</b>	<b>Total</b>
	(U.S. dollars in millions)			
Beginning balance, October 1, 2017 .....	\$ —	\$ 167	\$ 2	\$ 169
Provision .....	—	56	—	56
Charge-offs .....	—	(66)	—	(66)
Recoveries .....	—	19	—	19
Effect of translation adjustment .....	—	—	—	—
Ending balance, December 31, 2017 .....	<u>\$ —</u>	<u>\$ 176</u>	<u>\$ 2</u>	<u>\$ 178</u>
Beginning balance, April 1, 2017 .....	\$ 1	\$ 132	\$ —	\$ 133
Provision .....	—	161	2	163
Charge-offs .....	(1)	(175)	—	(176)
Recoveries .....	—	57	—	57
Effect of translation adjustment .....	—	1	—	1
Ending balance, December 31, 2017 .....	<u>\$ —</u>	<u>\$ 176</u>	<u>\$ 2</u>	<u>\$ 178</u>

Allowance for credit losses – ending balance:

Individually evaluated for impairment .....	\$ —	\$ —	\$ 2	\$ 2
Collectively evaluated for impairment .....	—	176	—	176

Finance receivables – ending balance:

Individually evaluated for impairment .....	\$ —	\$ —	\$ 4	\$ 4
Collectively evaluated for impairment .....	200	32,690	4,926	37,816

	<b>Three and nine months ended December 31, 2016</b>			
	<b>Lease</b>	<b>Retail</b>	<b>Dealer</b>	<b>Total</b>
	(U.S. dollars in millions)			
Beginning balance, October 1, 2016 .....	\$ 2	\$ 121	\$ —	\$ 123
Provision .....	(1)	48	—	47
Charge-offs .....	(1)	(62)	—	(63)
Recoveries .....	1	18	—	19
Effect of translation adjustment .....	—	—	—	—
Ending balance, December 31, 2016 .....	<u>\$ 1</u>	<u>\$ 125</u>	<u>\$ —</u>	<u>\$ 126</u>
Beginning balance, April 1, 2016 .....	\$ 2	\$ 91	\$ —	\$ 93
Provision .....	—	139	—	139
Charge-offs .....	(2)	(162)	—	(164)
Recoveries .....	1	57	—	58
Effect of translation adjustment .....	—	—	—	—
Ending balance, December 31, 2016 .....	<u>\$ 1</u>	<u>\$ 125</u>	<u>\$ —</u>	<u>\$ 126</u>

Allowance for credit losses – ending balance:

Individually evaluated for impairment .....	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment .....	1	125	—	126

Finance receivables – ending balance:

Individually evaluated for impairment .....	\$ —	\$ —	\$ 1	\$ 1
Collectively evaluated for impairment .....	490	30,528	4,873	35,891

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*Delinquencies*

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

	<u>30 – 59 days past due</u>	<u>60 – 89 days past due</u>	<u>90 days or greater past due</u>	<u>Total past due</u>	<u>Current or less than 30 days past due</u>	<u>Total finance receivables</u>
	(U.S. dollars in millions)					
<b>December 31, 2017</b>						
Retail loans:						
New auto.....	\$ 232	\$ 56	\$ 14	\$ 302	\$ 27,181	\$ 27,483
Used and certified auto.....	77	18	4	99	3,883	3,982
Motorcycle and other.....	14	5	2	21	1,204	1,225
Total retail.....	323	79	20	422	32,268	32,690
Direct financing leases.....	2	1	—	3	197	200
Dealer loans:						
Wholesale flooring.....	3	1	2	6	3,940	3,946
Commercial loans.....	—	—	—	—	984	984
Total dealer loans.....	3	1	2	6	4,924	4,930
Total finance receivables.....	<u>\$ 328</u>	<u>\$ 81</u>	<u>\$ 22</u>	<u>\$ 431</u>	<u>\$ 37,389</u>	<u>\$ 37,820</u>
<b>March 31, 2017</b>						
Retail loans:						
New auto.....	\$ 162	\$ 26	\$ 7	\$ 195	\$ 25,785	\$ 25,980
Used and certified auto.....	48	8	2	58	3,474	3,532
Motorcycle and other.....	10	3	2	15	1,128	1,143
Total retail.....	220	37	11	268	30,387	30,655
Direct financing leases.....	3	2	—	5	387	392
Dealer loans:						
Wholesale flooring.....	2	—	—	2	4,098	4,100
Commercial loans.....	—	—	—	—	906	906
Total dealer loans.....	2	—	—	2	5,004	5,006
Total finance receivables.....	<u>\$ 225</u>	<u>\$ 39</u>	<u>\$ 11</u>	<u>\$ 275</u>	<u>\$ 35,778</u>	<u>\$ 36,053</u>

*Credit Quality Indicators*

*Retail Loan and Direct Financing Lease Portfolio Segments*

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

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Subsequent to origination, collection experience provides a current indication of the credit quality of consumer finance receivables. The likelihood of accounts charging off is 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 retail loans and direct financing leases by this credit quality indicator:

	<u>Retail new auto</u>	<u>Retail used and certified auto</u>	<u>Retail motorcycle and other</u>	<u>Direct financing lease</u>	<u>Total consumer finance receivables</u>
(U.S. dollars in millions)					
<b>December 31, 2017</b>					
Performing.....	\$ 27,413	\$ 3,960	\$ 1,218	\$ 199	\$ 32,790
Nonperforming .....	70	22	7	1	100
Total .....	<u>\$ 27,483</u>	<u>\$ 3,982</u>	<u>\$ 1,225</u>	<u>\$ 200</u>	<u>\$ 32,890</u>
<b>March 31, 2017</b>					
Performing.....	\$ 25,947	\$ 3,522	\$ 1,138	\$ 390	\$ 30,997
Nonperforming .....	33	10	5	2	50
Total .....	<u>\$ 25,980</u>	<u>\$ 3,532</u>	<u>\$ 1,143</u>	<u>\$ 392</u>	<u>\$ 31,047</u>

*Dealer Loan Portfolio Segment*

The Company utilizes an internal risk rating system to evaluate dealer credit risk. Dealerships are assigned an internal risk rating based on an assessment of their financial condition. 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.

	<u>December 31, 2017</u>			<u>March 31, 2017</u>		
	<u>Wholesale flooring</u>	<u>Commercial loans</u>	<u>Total</u>	<u>Wholesale flooring</u>	<u>Commercial loans</u>	<u>Total</u>
(U.S. dollars in millions)						
Group A.....	\$ 2,487	\$ 640	\$ 3,127	\$ 2,689	\$ 628	\$ 3,317
Group B.....	1,459	344	1,803	1,411	278	1,689
Total.....	<u>\$ 3,946</u>	<u>\$ 984</u>	<u>\$ 4,930</u>	<u>\$ 4,100</u>	<u>\$ 906</u>	<u>\$ 5,006</u>

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**(3) Investment in Operating Leases**

Investment in operating leases consisted of the following:

	December 31, 2017	March 31, 2017
	(U.S. dollars in millions)	
Operating lease vehicles.....	\$ 41,489	\$ 39,684
Accumulated depreciation.....	(7,926)	(7,136)
Deferred dealer participation and other deferred costs .....	118	118
Unearned subsidy income .....	(1,367)	(1,285)
Estimated early termination losses.....	(95)	(71)
Investment in operating leases, net.....	<u>\$ 32,219</u>	<u>\$ 31,310</u>

The Company recognized \$22 million and \$19 million of estimated early termination losses due to lessee defaults for the three months ended December 31, 2017 and 2016, respectively. Actual net losses realized for the three months ended December 31, 2017 and 2016 totaled \$22 million and \$19 million, respectively. The Company recognized \$81 million and \$50 million of estimated early termination losses due to lessee defaults for the nine months ended December 31, 2017 and 2016, respectively. Actual net losses realized for the nine months ended December 31, 2017 and 2016 totaled \$57 million and \$43 million, respectively.

Included in the provision for credit losses for the three months ended December 31, 2017 and 2016 are provisions related to past due receivables on operating leases in the amounts of \$9 million and \$7 million, respectively. Included in the provision for credit losses for the nine months ended December 31, 2017 and 2016 are provisions related to past due receivables on operating leases in the amounts of \$24 million and \$18 million, respectively.

No impairment losses due to declines in estimated residual values were recognized during the nine months ended December 31, 2017 and 2016.

**(4) Debt**

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

	December 31, 2017	March 31, 2017	Weighted average contractual interest rate		Contractual interest rate ranges	
			December 31, 2017	March 31, 2017	December 31, 2017	March 31, 2017
(U.S. dollars in millions)						
<b>Unsecured debt:</b>						
Commercial paper .....	\$ 5,872	\$ 4,462	1.43%	0.99%	1.07 - 1.74%	0.78 - 1.15%
Related party debt .....	1,114	1,201	1.44%	0.95%	1.40 - 1.54%	0.93 - 0.96%
Bank loans .....	5,445	5,883	2.06%	1.65%	1.77 - 2.54%	1.28 - 2.00%
Private MTN program ..	2,447	2,946	4.23%	3.77%	1.60 - 7.63%	1.50 - 7.63%
Public MTN program ...	20,280	19,491	1.77%	1.63%	0.08 - 2.90%	0.07 - 2.90%
Euro MTN programme	1,186	1,086	1.92%	1.83%	1.86 - 2.23%	1.52 - 2.23%
Other debt.....	3,334	2,736	2.12%	1.90%	1.63 - 2.54%	1.28 - 2.35%
Total unsecured debt.....	39,678	37,805				
Secured debt.....	8,387	8,422	1.53%	1.24%	0.99 - 2.21%	0.77 - 2.05%
Total debt .....	<u>\$ 48,065</u>	<u>\$ 46,227</u>				



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As of December 31, 2017, the outstanding principal balance of long-term debt with floating interest rates totaled \$12.7 billion, long-term debt with fixed interest rates totaled \$27.5 billion, and short-term debt totaled \$8.0 billion. As of March 31, 2017, the outstanding principal balance of long-term debt with floating interest rates totaled \$12.2 billion, long-term debt with fixed interest rates totaled \$27.9 billion, and short-term debt totaled \$6.2 billion.

***Commercial Paper***

As of December 31, 2017 and March 31, 2017, the Company had commercial paper programs that provide the Company with available funds of up to \$8.6 billion and \$8.5 billion, respectively, at prevailing market interest rates for terms up to one year. The commercial paper programs are supported by the Keep Well Agreements with HMC described in Note 6.

Outstanding commercial paper averaged \$5.6 billion and \$5.9 billion during the nine months ended December 31, 2017 and 2016, respectively. The maximum balance outstanding at any month-end during the nine months ended December 31, 2017 and 2016 was \$6.0 billion and \$6.6 billion, respectively.

***Related Party Debt***

AHFC issues fixed rate short-term notes to AHM to help fund AHFC's general corporate operations. AHFC had no issued and outstanding notes to AHM during the nine months ended December 31, 2017. AHFC incurred interest expense on these notes totaling \$1 million for the three months ended December 31, 2016, and \$3 million for the nine months ended December 31, 2016.

HCFI issues fixed rate short-term notes to HCI to help fund HCFI's general corporate operations. HCFI incurred interest expense on these notes totaling \$4 million and \$3 million for the three months ended December 31, 2017 and 2016, respectively, and \$10 million and \$9 million for the nine months ended December 31, 2017 and 2016, respectively.

***Bank Loans***

Outstanding bank loans at December 31, 2017 were either short-term or long-term, with floating interest rates, and denominated in U.S. dollars or Canadian dollars. Outstanding bank loans have prepayment options. No outstanding bank loans as of December 31, 2017 were supported by the Keep Well Agreements with HMC described in Note 6. Outstanding bank loans contain certain covenants, including limitations on liens, mergers, consolidations and asset sales.

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

***Private MTN Program***

AHFC no longer issues MTNs under the Rule 144A Private MTN Program. Notes outstanding under the Private MTN Program as of December 31, 2017 were long-term, with fixed interest rates, and denominated in U.S. dollars. Notes under this program were issued pursuant to the terms of an issuing and paying agency agreement which contains certain covenants, including negative pledge provisions.

***Public MTN Program***

In August 2016, AHFC filed a registration statement with the SEC under which it may issue from time to time up to \$30.0 billion aggregate principal amount of Public MTNs. The aggregate principal amount of MTNs offered under this program may be increased from time to time. Notes outstanding under this program as of December 31, 2017 were either long-term or short-term, with either fixed or floating interest rates, and denominated in U.S. dollars, Euro or Sterling. Notes under this program are issued pursuant to an indenture which contains certain covenants, including negative pledge provisions and limitations on mergers, consolidations and asset sales.

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*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 as of December 31, 2017 were long-term with either fixed or floating interest rates, and denominated in U.S. dollars, Japanese Yen, or Euros. Notes under this program were issued pursuant to the terms of an agency agreement which contains certain covenants, including negative pledge provisions.

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

***Other Debt***

The outstanding balances as of December 31, 2017 consisted of private placement debt issued by HCFI which are long-term, with either fixed or floating interest rates, and denominated in Canadian dollars. Private placement debt is supported by the Keep Well Agreement with HMC described in Note 6. The notes are issued pursuant to the terms of an indenture which contains certain covenants, including negative pledge provisions.

***Secured Debt***

The Company issues notes through financing transactions that are secured by assets held by the issuing securitization trusts. Notes outstanding as of December 31, 2017 were both long-term and short-term, with either fixed or floating interest rates, and denominated in U.S. dollars or Canadian dollars. 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.

***Credit Agreements***

*Syndicated Bank Credit Facilities*

AHFC maintains a \$3.5 billion 364-day credit agreement, which expires on March 2, 2018, a \$2.1 billion three-year credit agreement, which expires on March 3, 2020, and a \$1.4 billion five-year credit agreement, which expires on March 3, 2022. As of December 31, 2017, no amounts were drawn upon under the AHFC credit agreements. AHFC intends to renew or replace these credit agreements prior to or on their respective expiration dates.

HCFI maintains a \$1.3 billion credit agreement which provides that HCFI may borrow up to \$636 million on a one-year and up to \$636 million on a five-year revolving basis. The one-year tranche of the credit agreement expires on March 24, 2018 and the five-year tranche of the credit agreement expires on March 24, 2022. As of December 31, 2017, no amounts were drawn upon under the HCFI credit agreement. HCFI intends to renew or replace the credit agreement prior to or on the expiration date of each respective tranche.

The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales.

*Other Credit Agreements*

AHFC maintains other committed lines of credit that allow the Company access to an additional \$1.0 billion in unsecured funding with multiple banks. The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales. As of December 31, 2017, no amounts were drawn upon under these agreements. These agreements expire in September 2018. AHFC intends to renew these credit agreements prior to or on their expiration dates.

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**(5) Derivative Instruments**

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

	<u>December 31, 2017</u>			<u>March 31, 2017</u>		
	<u>Notional balances</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Notional balances</u>	<u>Assets</u>	<u>Liabilities</u>
	(U.S. dollars in millions)					
Interest rate swaps.....	\$ 55,630	\$ 327	\$ 193	\$ 54,664	\$ 237	\$ 193
Cross currency swaps.....	3,694	233	106	3,694	12	256
Gross derivative assets/liabilities ....		560	299		249	449
Counterparty netting adjustment.....		(271)	(271)		(179)	(179)
Net derivative assets/liabilities .....		<u>\$ 289</u>	<u>\$ 28</u>		<u>\$ 70</u>	<u>\$ 270</u>

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

	<u>Three months ended December 31,</u>		<u>Nine months ended December 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(U.S. dollars in millions)			
Interest rate swaps.....	\$ 23	\$ (81)	\$ 87	\$ (88)
Cross currency swaps.....	39	(199)	349	(249)
Total gain/(loss) on derivative instruments .....	<u>\$ 62</u>	<u>\$ (280)</u>	<u>\$ 436</u>	<u>\$ (337)</u>

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.

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**(6) Transactions Involving Related Parties**

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

<b>Income Statement</b>	<b>Three months ended December 31,</b>		<b>Nine months ended December 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
(U.S. dollars in millions)				
<b>Revenue:</b>				
Subsidy income.....	\$ 369	\$ 312	\$ 1,067	\$ 910
<b>Interest expense:</b>				
Related party debt.....	4	4	10	12
<b>Other income, net:</b>				
VSC administration fees.....	28	26	81	77
Support Service Fee.....	(7)	—	(21)	—
<b>General and administrative expenses:</b>				
Support Compensation Agreement fees.....	5	5	16	15
Benefit plan expenses.....	3	3	8	8
Shared services.....	15	15	46	45
			<b>December 31,</b>	<b>March 31,</b>
			<b>2017</b>	<b>2017</b>
(U.S. dollars in millions)				
<b>Balance Sheet</b>				
<b>Assets:</b>				
Finance receivables, net:				
Unearned subsidy income.....			\$ (1,043)	\$ (820)
Investment in operating leases, net:				
Unearned subsidy income.....			(1,364)	(1,281)
Due from Parent and affiliated companies.....			146	228
<b>Liabilities:</b>				
Debt:				
Related party debt.....			\$ 1,114	\$ 1,201
Due to Parent and affiliated companies.....			85	91
Accrued interest expense:				
Related party debt.....			2	2
Other liabilities:				
VSC unearned administrative fees.....			398	394
Accrued benefit expenses.....			69	66

**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.

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

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

***Incentive Financing Programs***

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

***Related Party Debt***

AHFC issues short-term notes to AHM to fund AHFC's general corporate operations. As of December 31, 2017, AHFC had no issued and outstanding notes to AHM. HCFI 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 VSCs issued by AHM and its subsidiaries. Unearned VSC administration fees are included in other liabilities (Note 11). VSC administration income is recognized in other income (Note 12). HCFI receives fees for marketing vehicle service contracts issued by HCI, and is also recognized in other income.

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

***Shared Services***

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

***Benefit Plans***

The Company participates in various employee benefit plans that are 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.

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***Other***

AHM periodically sponsors programs that allow lessees to terminate their lease contracts prior to the contractual maturity date. AHM compensates the Company for rental payments that were waived under these programs. During the three months ended December 31, 2017 and 2016, the Company recognized \$3 million and \$1 million, respectively, and during the nine months ended December 31, 2017 and 2016, the Company recognized \$14 million and \$5 million, respectively, under these programs which were reflected as proceeds on the disposition of the returned lease vehicles.

As a result of the recall of certain Honda and Acura vehicles announced in the fourth quarter of the fiscal year ended March 31, 2016, the Company experienced delays in the disposition of returned lease vehicles and repossessed vehicles. HCI has compensated the Company for certain costs resulting from the delay in disposition of affected vehicles in Canada. The Company compensated AHM for certain costs related to the disposition of affected vehicles in the United States.

The majority of the amounts due from the Parent and affiliated companies at December 31, 2017 and March 31, 2017 related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at December 31, 2017 and March 31, 2017 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.

In April 2017, the Company sold all issued and outstanding common stock of its wholly-owned subsidiary American Honda Service Contract Corporation (AHSCC) to AHM for \$36 million which was equal to AHSCC's total equity as of March 31, 2017. AHSCC was not material to the Company's operations.

In July 2017, AHFC declared and paid a cash dividend of \$141 million to its parent, AHM.

**(7) Income Taxes**

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The primary impact on the effective tax rate is the reduction of the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018. In accordance with Section 15 of the Internal Revenue Code, our fiscal year ending March 31, 2018 will have a blended federal corporate tax rate of 31.55%.

The SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment date for companies to complete the accounting under ASC Topic 740, *Income Taxes* (ASC 740). In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but the company is able to determine a reasonable estimate, it must record a provisional amount in the financial statements. If a company cannot determine a reasonable estimate to be included as a provisional amount in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, in the period ended December 31, 2017, we have recorded an estimated net tax benefit which primarily consists of an estimated benefit of \$3,025 million for repricing of deferred taxes that are estimated to be reversing at 21% in future years, offset by an estimated expense for the one-time deemed repatriation transition tax (Transition Tax) of \$25 million on previously untaxed accumulated and current earnings and profits (E&P) of our foreign subsidiary, HCFI. Our accounting for both items is incomplete; however, we were able to make reasonable estimates and, therefore, recorded provisional adjustments. The final accounting for these items may differ from the estimates due to among other things, availability of current year actual transaction details, changes to current year earnings estimates, or changes in interpretations of the Tax Act. We are continuing to gather additional information for the items above, and expect to complete the accounting under ASC 740 within the measurement period.

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The Company's effective tax rate was (810.8)% and 35.3% for the three months ended December 31, 2017 and 2016, respectively, and (241.9)% and 37.7% for the nine months ended December 31, 2017 and 2016, respectively. The decrease in the effective tax rate for the three months ended December 31, 2017 was primarily due to the impact of the U.S. federal corporate tax rate reduction on the repricing of the current and prior years' deferred taxes, partially offset by Transition Tax on previously untaxed accumulated and current E&P of HCFI, foreign tax rate differential, and the changes in apportionment methods and tax rates enacted in certain states. The decrease in the effective tax rate for the nine months ended December 31, 2017 was primarily due to the impact of the U.S. federal corporate tax rate reduction on the repricing of the current and prior years' deferred taxes.

Prior to the passage of the Tax Act, foreign undistributed earnings were generally subject to U.S. taxation when repatriated and when subject to U.S. taxation might generally be offset by foreign tax credits. The Tax Act imposes a one-time Transition Tax on E&P and generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries. The Company has provided for federal and certain states Transition Tax on E&P of HCFI in the period ended December 31, 2017. The Company has not provided for income taxes on its share of the undistributed earnings of HCFI, exceeding E&P, which are intended to be indefinitely reinvested outside the United States. At December 31, 2017, \$832 million of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of December 31, 2017 were to be distributed, the tax liability associated with these indefinitely reinvested earnings would be \$87 million.

The changes in the unrecognized tax benefits for the nine months ended December 31, 2017 were not significant. The Company does not expect any material changes in the amounts of unrecognized tax benefits during the remainder of the fiscal year ending March 31, 2018.

To date, the Company is subject to examination by U.S. federal and state tax jurisdictions for returns filed for the taxable years ended March 31, 2008 through 2017, with the exception of one state which is subject to examination for returns filed for the taxable years ended March 31, 2001 through 2017. The Company's Canadian subsidiary, HCFI, is subject to federal examination for returns filed for the taxable years ended March 31, 2009, and 2011 through 2017, and provincial examination for returns filed for the taxable years ended March 31, 2009 through 2017. 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 \$3 million for both the three months ended December 31, 2017 and 2016, and \$6 million and \$8 million for the nine months ended December 31, 2017 and 2016, respectively.

The Company extends commercial revolving lines of credit to dealerships to support their business activities including facilities refurbishment and general working capital requirements. The amounts borrowed are generally secured by the assets of the borrowing entity. The majority of the lines have annual renewal periods. The unused balance of commercial revolving lines of credit was \$210 million as of December 31, 2017. The Company also has commitments to finance the construction of auto dealerships. The remaining unfunded balance for these construction loans was \$39 million as of December 31, 2017.

***Legal Proceedings and Regulatory Matters***

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

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

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**(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, 2017 and 2016, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling \$3.5 billion and \$4.5 billion, respectively. The notes were secured by receivables with an initial principal balance of \$4.1 billion and \$5.1 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 upon 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, 2017	March 31, 2017
	(U.S. dollars in millions)	
<b>Assets:</b>		
Finance receivables .....	\$ 8,712	\$ 8,649
Unamortized costs and subsidy income, net .....	(164)	(125)
Allowance for credit losses .....	(14)	(12)
Finance receivables, net .....	8,534	8,512
Vehicles held for disposition .....	4	3
Restricted cash <sup>(1)</sup> .....	401	358
Accrued interest receivable <sup>(1)</sup> .....	10	9
Total assets .....	<u>\$ 8,949</u>	<u>\$ 8,882</u>
<b>Liabilities:</b>		
Secured debt .....	\$ 8,399	\$ 8,435
Unamortized discounts and fees .....	(12)	(13)
Secured debt, net .....	8,387	8,422
Accrued interest expense .....	5	4
Total liabilities .....	<u>\$ 8,392</u>	<u>\$ 8,426</u>

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

In their role as servicers, AHFC and HCFI collect principal and interest payments on the underlying receivables on behalf of the securitization trusts. Cash collected during a calendar month is required to be remitted to the trusts in the following month. AHFC and HCFI are not restricted from using the cash collected for their general purposes prior to the remittance to the trusts. As of December 31, 2017 and March 31, 2017, AHFC and HCFI had combined cash collections of \$427 million and \$462 million, respectively, which were required to be remitted to the trusts.



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**(10) Other Assets**

Other assets consisted of the following:

	<b>December 31, 2017</b>	<b>March 31, 2017</b>
	<b>(U.S. dollars in millions)</b>	
Interest receivable and other assets .....	\$ 87	\$ 76
Other receivables.....	124	148
Deferred expense.....	124	171
Software, net of accumulated amortization of \$144 and \$138 as of December 31, 2017 and March 31, 2017, respectively .....	33	33
Property and equipment, net of accumulated depreciation of \$19 and \$17 as of December 31, 2017 and March 31, 2017, respectively .....	7	8
Restricted cash .....	401	382
Other miscellaneous assets.....	67	74
Total.....	<u>\$ 843</u>	<u>\$ 892</u>

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to five years. General and administrative expenses include depreciation and amortization expense of \$3 million and \$2 million for the three months ended December 31, 2017 and 2016, respectively, and \$8 million and \$5 million for the nine months ended December 31, 2017 and 2016, respectively.

**(11) Other Liabilities**

Other liabilities consisted of the following:

	<b>December 31, 2017</b>	<b>March 31, 2017</b>
	<b>(U.S. dollars in millions)</b>	
Dealer payables .....	\$ 191	\$ 148
Accounts payable and accrued expenses.....	325	313
Lease security deposits.....	78	66
VSC unearned administrative fees (Note 6) .....	398	394
Unearned income, operating lease .....	334	330
Uncertain tax positions.....	10	14
Other liabilities.....	12	124
Total.....	<u>\$ 1,348</u>	<u>\$ 1,389</u>

**(12) Other Income, net**

Other income consisted of the following:

	<b>Three months ended December 31,</b>		<b>Nine months ended December 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>(U.S. dollars in millions)</b>			
VSC administration (Note 6) .....	\$ 28	\$ 26	\$ 81	\$ 77
Other, net.....	(14)	(3)	(40)	(10)
Total.....	<u>\$ 14</u>	<u>\$ 23</u>	<u>\$ 41</u>	<u>\$ 67</u>

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**(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:

	<b>December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(U.S. dollars in millions)</b>			
<b>Assets:</b>				
Derivative instruments:				
Interest rate swaps.....	\$ —	\$ 327	\$ —	\$ 327
Cross currency swaps.....	—	233	—	233
Total assets .....	\$ —	\$ 560	\$ —	\$ 560
<b>Liabilities:</b>				
Derivative instruments:				
Interest rate swaps.....	\$ —	\$ 193	\$ —	\$ 193
Cross currency swaps.....	—	106	—	106
Total liabilities.....	\$ —	\$ 299	\$ —	\$ 299
<b>March 31, 2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(U.S. dollars in millions)</b>			
<b>Assets:</b>				
Derivative instruments:				
Interest rate swaps.....	\$ —	\$ 237	\$ —	\$ 237
Cross currency swaps.....	—	12	—	12
Total assets .....	\$ —	\$ 249	\$ —	\$ 249
<b>Liabilities:</b>				
Derivative instruments:				
Interest rate swaps.....	\$ —	\$ 193	\$ —	\$ 193
Cross currency swaps.....	—	256	—	256
Total liabilities.....	\$ —	\$ 449	\$ —	\$ 449

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.

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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, 2017 and 2016. 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:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Lower-of-cost or fair value adjustment <sup>(1)</sup></b>
	(U.S. dollars in millions)				
<b><u>December 31, 2017</u></b>					
Vehicles held for disposition.....\$	—	\$ —	\$ 177	\$ 177	\$ 33
<b><u>December 31, 2016</u></b>					
Vehicles held for disposition.....\$	—	\$ —	\$ 346	\$ 346	\$ 61

(1) The adjustments to vehicles held for disposition as of December 31, 2017 were recognized during the three months ended December 31, 2017. The adjustments to vehicles held for disposition as of December 31, 2016 include \$2 million of adjustments that were recognized during the fiscal year ended March 31, 2016, \$5 million during the three months ended June 30, 2016, \$7 million during the three months ended September 30, 2016 and \$47 million during the three months ended December 31, 2016.

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. For vehicles affected by the recall announced in the fourth quarter of the fiscal year ended March 31, 2016, the fair value reflected the estimated impact of the delays in disposition.

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***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, 2017				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
(U.S. dollars in millions)					
<b>Assets:</b>					
Cash and cash equivalents .....	\$ 774	\$ 774	\$ —	\$ —	\$ 774
Dealer loans, net .....	4,928	—	—	4,751	4,751
Retail loans, net .....	32,514	—	—	32,653	32,653
Restricted cash .....	401	401	—	—	401
<b>Liabilities:</b>					
Commercial paper .....	\$ 5,872	\$ —	\$ 5,872	\$ —	\$ 5,872
Related party debt .....	1,114	—	1,114	—	1,114
Bank loans .....	5,445	—	5,516	—	5,516
Medium term note programs .....	23,913	—	24,040	—	24,040
Other debt .....	3,334	—	3,327	—	3,327
Secured debt .....	8,387	—	8,360	—	8,360

	March 31, 2017				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
(U.S. dollars in millions)					
<b>Assets:</b>					
Cash and cash equivalents .....	\$ 760	\$ 760	\$ —	\$ —	\$ 760
Dealer loans, net .....	5,006	—	—	4,837	4,837
Retail loans, net .....	30,523	—	—	30,724	30,724
Restricted cash .....	382	382	—	—	382
<b>Liabilities:</b>					
Commercial paper .....	\$ 4,462	\$ —	\$ 4,462	\$ —	\$ 4,462
Related party debt .....	1,201	—	1,202	—	1,202
Bank loans .....	5,883	—	5,939	—	5,939
Medium term note programs .....	23,523	—	23,723	—	23,723
Other debt .....	2,736	—	2,761	—	2,761
Secured debt .....	8,422	—	8,411	—	8,411

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.

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*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, 2017 and March 31, 2017. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been updated since those dates, and therefore, the current estimates of fair value at dates subsequent to those dates may differ significantly from the amounts presented herein.

**(14) Segment Information**

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

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

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

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Financial information for the three and nine months ended or at December 31, 2017 and 2016 is summarized in the following tables:

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
<b>Three months ended December 31, 2017</b>				
Revenues:				
Direct financing leases .....	\$ —	\$ 3	\$ —	\$ 3
Retail .....	304	49	—	353
Dealer .....	39	5	—	44
Operating leases .....	1,461	279	—	1,740
Total revenues .....	1,804	336	—	2,140
Depreciation on operating leases .....	1,149	229	—	1,378
Interest expense .....	194	35	—	229
Realized (gains)/losses on derivatives and foreign currency denominated debt .....	(1)	(2)	3	—
Net revenues .....	462	74	(3)	533
Gain/(Loss) on disposition of lease vehicles .....	2	6	—	8
Other income .....	12	2	—	14
Total net revenues .....	476	82	(3)	555
Expenses:				
General and administrative expenses .....	92	14	—	106
Provision for credit losses .....	62	3	—	65
Early termination loss on operating leases .....	21	1	—	22
Loss on lease residual values .....	—	1	—	1
(Gain)/Loss on derivative instruments .....	—	—	(62)	(62)
(Gain)/Loss on foreign currency revaluation of debt .....	—	—	53	53
Income before income taxes .....	\$ 301	\$ 63	\$ 6	\$ 370
<b>Nine months ended December 31, 2017</b>				
Revenues:				
Direct financing leases .....	\$ —	\$ 11	\$ —	\$ 11
Retail .....	871	139	—	1,010
Dealer .....	115	13	—	128
Operating leases .....	4,359	784	—	5,143
Total revenues .....	5,345	947	—	6,292
Depreciation on operating leases .....	3,441	646	—	4,087
Interest expense .....	561	90	—	651
Realized (gains)/losses on derivatives and foreign currency denominated debt .....	(11)	2	9	—
Net revenues .....	1,354	209	(9)	1,554
Gain/(Loss) on disposition of lease vehicles .....	50	21	—	71
Other income .....	36	5	—	41
Total net revenues .....	1,440	235	(9)	1,666
Expenses:				
General and administrative expenses .....	283	42	—	325
Provision for credit losses .....	182	5	—	187
Early termination loss on operating leases .....	78	3	—	81
Loss on lease residual values .....	—	2	—	2
(Gain)/Loss on derivative instruments .....	—	—	(436)	(436)
(Gain)/Loss on foreign currency revaluation of debt .....	—	—	384	384
Income before income taxes .....	\$ 897	\$ 183	\$ 43	\$ 1,123
<b>December 31, 2017</b>				
Finance receivables, net .....	\$ 32,851	\$ 4,781	\$ —	\$ 37,632
Investment in operating leases, net .....	27,367	4,852	—	32,219
Total assets .....	62,892	9,822	—	72,714

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	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
<b>Three months ended December 31, 2016</b>				
Revenues:				
Direct financing leases.....	\$ —	\$ 7	\$ —	\$ 7
Retail .....	260	41	—	301
Dealer .....	33	3	—	36
Operating leases .....	1,404	205	—	1,609
Total revenues .....	1,697	256	—	1,953
Depreciation on operating leases .....	1,137	169	—	1,306
Interest expense .....	163	23	—	186
Realized (gains)/losses on derivatives and foreign currency denominated debt .....	(11)	4	7	—
Net revenues .....	408	60	(7)	461
Gain/(Loss) on disposition of lease vehicles .....	(3)	3	—	—
Other income .....	21	2	—	23
Total net revenues .....	426	65	(7)	484
Expenses:				
General and administrative expenses .....	90	13	—	103
Provision for credit losses .....	51	3	—	54
Early termination loss on operating leases .....	17	2	—	19
Loss on lease residual values .....	—	4	—	4
(Gain)/Loss on derivative instruments .....	—	—	280	280
(Gain)/Loss on foreign currency revaluation of debt .....	—	—	(160)	(160)
Income before income taxes .....	\$ 268	\$ 43	\$ (127)	\$ 184
<b>Nine months ended December 31, 2016</b>				
Revenues:				
Direct financing leases.....	\$ —	\$ 28	\$ —	\$ 28
Retail .....	766	118	—	884
Dealer .....	98	10	—	108
Operating leases .....	4,122	568	—	4,690
Total revenues .....	4,986	724	—	5,710
Depreciation on operating leases .....	3,269	469	—	3,738
Interest expense .....	467	66	—	533
Realized (gains)/losses on derivatives and foreign currency denominated debt .....	(24)	14	10	—
Net revenues .....	1,274	175	(10)	1,439
Gain/(Loss) on disposition of lease vehicles .....	10	8	—	18
Other income .....	63	4	—	67
Total net revenues .....	1,347	187	(10)	1,524
Expenses:				
General and administrative expenses .....	270	39	—	309
Provision for credit losses .....	148	9	—	157
Early termination loss on operating leases .....	45	5	—	50
Loss on lease residual values .....	—	9	—	9
(Gain)/Loss on derivative instruments .....	—	—	337	337
(Gain)/Loss on foreign currency revaluation of debt .....	—	—	(224)	(224)
Income before income taxes .....	\$ 884	\$ 125	\$ (123)	\$ 886
<b>December 31, 2016</b>				
Finance receivables, net .....	\$ 31,345	\$ 4,406	\$ —	\$ 35,751
Investment in operating leases, net .....	27,240	3,734	—	30,974
Total assets .....	61,217	8,274	—	69,491

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

### Overview

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

A substantial portion of our consumer financing business is acquired through incentive financing programs sponsored by AHM and HCI. The volume of these incentive financing programs and the allocation of those programs between retail loans and leases may vary from fiscal period to fiscal period depending upon the respective marketing strategies of AHM and HCI. AHM and HCI's marketing strategies are based in part on their business planning and control, in which we do not participate. Therefore, we cannot predict the level of incentive financing programs AHM and HCI may sponsor in the future. Our consumer financing acquisition volumes are substantially dependent on the extent to which incentive financing programs are offered. Increases in incentive financing programs generally increase our financing penetration rates, which typically results in increased financing acquisition volumes for us. The amount of subsidy payments we receive from AHM and HCI is dependent on the terms of the incentive financing programs and the interest rate environment. Subsidy payments are received upon acquisition and recognized in revenue throughout the life of the loan or lease; therefore, a significant change in the level of incentive financing programs in a fiscal period 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 practices. Our cost of funds is facilitated by the diversity of our funding sources, and effective interest rate and foreign currency exchange risk management. We manage expenses to support our profitability, including adjusting staffing needs based upon our business volumes and centralizing certain support functions. Additionally, we use risk and compliance management practices to optimize credit and residual value risk levels and maintain compliance with our pricing, underwriting and servicing policies at the United States, Canadian, state and provincial levels.

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

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

References in this report to our “fiscal year 2018” and “fiscal year 2017” refer to our fiscal year ending March 31, 2018 and our fiscal year ended March 31, 2017, respectively.

### ***Recent Development***

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code that will affect our fiscal year ending March 31, 2018, including among other things, (1) reducing the U.S. federal corporate tax rate, (2) requiring a one-time tax (Transition Tax) on the deemed repatriation of earnings of foreign subsidiaries, (3) eliminating like-kind exchange for personal property disposed after December 31, 2017 and (4) increasing bonus depreciation to allow for full expensing of qualified property. The Tax Act reduces the federal corporate tax rate to 21%, effective January 1, 2018. In accordance with Section 15 of the Internal Revenue Code, our fiscal year ending March 31, 2018 will have a blended federal corporate tax rate of 31.55%, which is based on the applicable tax rates, prorated based on the number of days prior to and subsequent to the January 1, 2018 effective date. The impact on the changes in tax law to future periods is still being evaluated. For information on the impact of the change in tax law on the current period, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements (Unaudited)*. On the international tax side, the base erosion and anti-abuse tax (BEAT) and global intangible low-taxed income (GILTI) will be effective for our fiscal year ending March 31, 2019, and we do not expect to be continuously subject to these taxes. A policy decision regarding whether to record deferred taxes on GILTI has not been determined.



## Results of Operations

The following table presents our income before income taxes:

	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
	(U.S. dollars in millions)			
Income before income taxes:				
United States segment .....	\$ 309	\$ 122	\$ 900	\$ 734
Canada segment .....	61	62	223	152
Total income before income taxes .....	<u>\$ 370</u>	<u>\$ 184</u>	<u>\$ 1,123</u>	<u>\$ 886</u>

### *Comparison of the Three Months Ended December 31, 2017 and 2016*

Our consolidated income before income taxes was \$370 million during the third quarter of fiscal year 2018 compared to \$184 million during the same period in fiscal year 2017. This increase of \$186 million, or 101%, was primarily due to a gain on derivative instruments of \$62 million during the third quarter of fiscal year 2018 compared to a \$280 million loss during the same period of fiscal year 2017, an increase in operating lease revenue, net of depreciation, of \$59 million, and an increase in revenue from retail loans of \$52 million, partially offset by a loss on foreign currency revaluation of debt of \$53 million during the third quarter of fiscal year 2018 compared to a gain of \$160 million during the same period of fiscal year 2017, an increase in interest expense of \$43 million, and an increase in the provision for credit losses of \$11 million.

### *Comparison of the Nine Months Ended December 31, 2017 and 2016*

Our consolidated income before income taxes was \$1,123 million during the first nine months of fiscal year 2018 compared to \$886 million during the same period in fiscal year 2017. This increase of \$237 million, or 27%, was primarily due to a gain on derivative instruments of \$436 million during the first nine months of fiscal year 2018 compared to a loss of \$337 million during the same period of fiscal year 2017, an increase in revenue from retail loans of \$126 million, an increase in operating lease revenue, net of depreciation, of \$104 million, and an increase in the gain on disposition of lease vehicles of \$53 million, partially offset by a loss on foreign currency revaluation of debt of \$384 million during the first nine months of fiscal year 2018 compared to a gain of \$224 million during the same period of fiscal year 2017, an increase in interest expense of \$118 million, an increase in early termination loss on operating leases of \$31 million, an increase in the provision for credit losses of \$30 million and a decrease in other income of \$26 million.

**Segment Results—Comparison of the Three Months Ended December 31, 2017 and 2016**

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

	<u>United States Segment</u>		<u>Canada Segment</u>		<u>Consolidated</u>	
	<u>Three months ended</u>		<u>Three months ended</u>		<u>Three months ended</u>	
	<u>December 31,</u>		<u>December 31,</u>		<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(U.S. dollars in millions)					
<b>Revenues:</b>						
Direct financing leases .....	\$ —	\$ —	\$ 3	\$ 7	\$ 3	\$ 7
Retail.....	304	260	49	41	353	301
Dealer .....	39	33	5	3	44	36
Operating leases.....	1,461	1,404	279	205	1,740	1,609
Total revenues .....	1,804	1,697	336	256	2,140	1,953
Depreciation on operating leases .....	1,149	1,137	229	169	1,378	1,306
Interest expense.....	194	163	35	23	229	186
Net revenues.....	461	397	72	64	533	461
Gain/(Loss) on disposition of lease vehicles .....	2	(3)	6	3	8	—
Other income.....	12	21	2	2	14	23
Total net revenues .....	475	415	80	69	555	484
<b>Expenses:</b>						
General and administrative expenses .....	92	90	14	13	106	103
Provision for credit losses .....	62	51	3	3	65	54
Early termination loss on operating leases.....	21	17	1	2	22	19
Loss on lease residual values.....	—	—	1	4	1	4
(Gain)/Loss on derivative instruments .....	(62)	295	—	(15)	(62)	280
(Gain)/Loss on foreign currency revaluation of debt.....	53	(160)	—	—	53	(160)
Income before income taxes.....	\$ 309	\$ 122	\$ 61	\$ 62	\$ 370	\$ 184

**Revenues**

Revenue from retail loans in the United States segment increased by \$44 million, or 17%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017. The increase in revenue was attributable to higher yields due in part to the increase in volume of retail loans with longer terms which typically have higher interest rates, and higher average outstanding balances. Revenue from retail loans in the Canada segment increased by \$8 million, or 20%, due to higher average outstanding balances, higher yields, and the effect of foreign currency translation adjustments.

Operating lease revenue in the United States segment increased by \$57 million, or 4%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017 due to higher average outstanding operating lease assets. Operating lease revenue in the Canada segment increased by \$74 million, or 36%, due to higher average outstanding operating lease assets and the effect of foreign currency translation adjustments.

Direct financing lease revenue, which is generated only in Canada, declined by \$4 million, or 57%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017 due to the run-off of direct financing lease assets.

Revenue from dealer loans in the United States segment increased by \$6 million, or 18%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017, due to higher yields. Revenue from dealer loans in the Canada segment increased by \$2 million, or 67%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017, due to higher yields and the effect of foreign currency translation adjustments.

Consolidated subsidy income from AHM and HCI sponsored incentive programs increased by \$57 million, or 18%, to \$369 million during the third quarter of fiscal year 2018 compared to \$312 million during the same period in fiscal year 2017. The increase was attributable to higher average outstanding incentive leases and incentive retail loans.

#### *Depreciation on operating leases*

Depreciation on operating leases in the United States segment increased by \$12 million, or 1%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017 primarily due to higher average outstanding operating lease assets. Depreciation on operating leases in the Canada segment increased by \$60 million, or 36%, primarily due to higher average outstanding operating lease assets and the effect of foreign currency translation adjustments.

Operating lease revenue, net of depreciation, in the United States segment increased by \$45 million, or 17%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017. The increase was primarily attributable to higher net revenue on more recently acquired operating lease assets and higher average outstanding operating lease assets. Operating lease revenue, net of depreciation, in the Canada segment increased by \$14 million, or 39%, due to higher average outstanding operating lease assets.

#### *Interest expense*

Interest expense in the United States segment increased by \$31 million, or 19%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017 primarily due to higher average interest rates. Interest expense in the Canada segment increased by \$12 million, or 52%, due to an increase in average outstanding debt and higher average interest rates. 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 \$2 million during the third quarter of fiscal year 2018 compared to a loss of \$3 million during the same period in fiscal year 2017. The loss during the third quarter of fiscal year 2017 was due to a decline in average auction prices during the period and increased valuation adjustments of vehicles held for disposition. In the Canada segment, the gain on disposition of lease vehicles increased by \$3 million during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017. The increases in gains were primarily the result of higher volume of units with more favorable disposition proceeds than the assumptions that were reflected in their estimated residual values. See “—*Financial Condition—Lease Residual Value Risk*” below for more information.

#### *Provision for credit losses*

The provision for credit losses in the United States segment increased by \$11 million, or 22%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017. The increase in the provision was due to the trend in increasing charge-offs we have been experiencing since fiscal year 2016. The provision for credit losses in the Canada segment were consistent during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017. See “—*Financial Condition—Credit Risk*” below for more information.

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

Early termination losses on operating leases in the United States segment increased by \$4 million, or 24%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017. The increase was primarily due to the growth in operating lease assets and an increase in the mix of leases with lower credit grades. Early termination losses on operating leases in the Canada segment declined by \$1 million, or 50%, during the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017. See “—*Financial Condition—Credit Risk*” below for more information.

#### *Gain/loss on derivative instruments*

In the United States segment, we recognized a gain on derivative instruments of \$62 million during the third quarter of fiscal year 2018 compared to a loss of \$295 million during the same period in fiscal year 2017. The gain in the third quarter of fiscal year 2018 was attributable to gains on pay fixed interest rate swaps of \$85 million and cross currency swaps of \$39 million, offset by losses on pay float interest rate swaps of \$62 million. The gains on cross currency swaps during the third quarter of fiscal year 2018 were primarily attributable to the U.S. dollar weakening against the Euro and Sterling during the period. The gains on pay fixed interest rate swaps and losses on pay float interest rate swaps during the third quarter of fiscal year 2018 were due to an increase in applicable swap rates during the period. In the Canada segment, we recognized a gain of less than \$1 million during the third quarter of fiscal year 2018 compared to a gain of \$15 million during the same period in fiscal year 2017. See “—*Derivatives*” below for more information.

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

In the United States segment, we recognized a loss on the revaluation of foreign currency denominated debt of \$53 million during the third quarter of fiscal year 2018 compared to a gain of \$160 million during the same period in fiscal year 2017. The loss during the third quarter of fiscal year 2018 was primarily due to the U.S. dollar weakening against the Euro and Sterling during the period.

### Income tax expense

On December 22, 2017, the U.S. government enacted comprehensive tax legislation referred to as the Tax Act. The primary impact on the effective tax rate is the reduction of the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018. In accordance with Section 15 of the Internal Revenue Code, our fiscal year ending March 31, 2018 will have a blended federal corporate tax rate of 31.55%.

The consolidated effective tax rate was (810.8)% for the third quarter of fiscal year 2018 and 35.3% for the same period in fiscal year 2017. The decrease in the effective tax rate for the three months ended December 31, 2017 was primarily due to the impact of the U.S. federal corporate tax rate reduction on the repricing of the current and prior years' deferred taxes, partially offset by the one-time Transition Tax on the previously untaxed accumulated and current earnings and profits (E&P) of HCFI, the foreign tax rate differential, and the changes in apportionment methods and tax rates enacted in certain states. For additional information regarding income taxes, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements (Unaudited)*.

### Segment Results—Comparison of the Nine Months Ended December 31, 2017 and 2016

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

	United States Segment		Canada Segment		Consolidated	
	Nine months ended		Nine months ended		Nine months ended	
	December 31,		December 31,		December 31,	
	2017	2016	2017	2016	2017	2016
	(U.S. dollars in millions)					
<b>Revenues:</b>						
Direct financing leases .....	\$ —	\$ —	\$ 11	\$ 28	\$ 11	\$ 28
Retail.....	871	766	139	118	1,010	884
Dealer .....	115	98	13	10	128	108
Operating leases.....	4,359	4,122	784	568	5,143	4,690
Total revenues .....	5,345	4,986	947	724	6,292	5,710
Depreciation on operating leases .....	3,441	3,269	646	469	4,087	3,738
Interest expense.....	561	467	90	66	651	533
Net revenues .....	1,343	1,250	211	189	1,554	1,439
Gain on disposition of lease vehicles.....	50	10	21	8	71	18
Other income.....	36	63	5	4	41	67
Total net revenues .....	1,429	1,323	237	201	1,666	1,524
<b>Expenses:</b>						
General and administrative expenses .....	283	270	42	39	325	309
Provision for credit losses .....	182	148	5	9	187	157
Early termination loss on operating leases.....	78	45	3	5	81	50
Loss on lease residual values.....	—	—	2	9	2	9
(Gain)/Loss on derivative instruments .....	(398)	350	(38)	(13)	(436)	337
(Gain)/Loss on foreign currency revaluation of debt.....	384	(224)	—	—	384	(224)
Income before income taxes.....	\$ 900	\$ 734	\$ 223	\$ 152	\$ 1,123	\$ 886

### *Revenues*

Revenue from retail loans in the United States segment increased by \$105 million, or 14%, during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017. The increase in revenue was attributable to higher yields due in part to the increase in volume of retail loans with longer terms which typically have higher interest rates, and higher average outstanding balances. Revenue from retail loans in the Canada segment increased by \$21 million, or 18%, due to higher average outstanding balances, higher yields and the effect of foreign currency translation adjustments.

Operating lease revenue increased by \$237 million, or 6%, in the United States segment and by \$216 million, or 38%, in the Canada segment during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017. The increases in revenue were attributable to higher average outstanding operating lease assets in both the United States and Canada segments.

Direct financing lease revenue, which is generated only in Canada, declined by \$17 million, or 61%, during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017 due to the run-off of direct financing lease assets.

Revenue from dealer loans in the United States segment increased by \$17 million, or 17%, during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017 primarily due to higher yields. Revenue from dealer loans in the Canada segment increased by \$3 million, or 30%, primarily due to higher average outstanding balances and higher yields.

Consolidated subsidy income from AHM and HCI sponsored incentive programs increased by \$157 million, or 17%, to \$1,067 million during the first nine months of fiscal year 2018 compared to \$910 million during the same period in fiscal year 2017. The increase was attributable to higher average outstanding incentive leases and incentive retail loans.

### *Depreciation on operating leases*

Depreciation on operating leases in the United States and Canada segments increased by \$172 million, or 5%, and \$177 million, or 38%, respectively, during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017. The increases were primarily attributable to higher average outstanding operating lease assets in both the United States and Canada segments.

Operating lease revenue, net of depreciation, increased by \$65 million, or 8%, in the United States segment and by \$39 million, or 39%, in the Canada segment during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017. The increases in operating lease revenue, net of depreciation, were primarily attributable to higher average outstanding operating lease assets and higher net revenue on more recently acquired operating lease assets in both the United States and Canada segments.

### *Interest expense*

Interest expense in the United States increased by \$94 million, or 20%, during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017 primarily due to higher average interest rates. Interest expense in the Canada segment increased by \$24 million, or 36%, due to an increase in average outstanding debt and higher average interest rates. See “—*Liquidity and Capital Resources*” below for more information.

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

The gain on disposition of lease vehicles in the United States segment increased by \$40 million during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017. The gain on disposition of lease vehicles in the Canada segment increased by \$13 million. The increases in gains were primarily the result of higher volume of units with more favorable disposition proceeds than the assumptions that were reflected in their estimated residual values including proceeds from AHM sponsored lease termination programs in the United States. See “—*Financial Condition—Lease Residual Value Risk*” below for more information.

### *Provision for credit losses*

The provision for credit losses in the United States segment increased by \$34 million, or 23%, during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017. The increase in the provision was due to the trend in increasing charge-offs in the United States segment we have been experiencing since fiscal year 2016. The provision for credit losses in the Canada segment declined by \$4 million, or 44%, due to a decline in net charge-offs and a reduction in the allowance for credit losses to reflect improving credit performance. See “—*Financial Condition—Credit Risk*” below for more information.

### *Early termination losses on operating leases*

Early termination losses on operating leases in the United States segment increased by \$33 million, or 73%, during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017. The increase was primarily due to the growth in operating lease assets and an increase in the mix of leases with lower credit grades. Early termination losses on operating leases in the Canada segment declined by \$2 million, or 40%. The decrease was primarily due to the reduction in our estimate of early termination losses as a result of improving credit performance. See “—*Financial Condition—Credit Risk*” below for more information.

### *Gain/loss on derivative instruments*

In the United States segment, we recognized a gain on derivative instruments of \$398 million during the first nine months of fiscal year 2018 compared to a loss of \$350 million during the same period in fiscal year 2017. The gain in the first nine months of fiscal year 2018 was attributable to gains on cross currency swaps of \$349 million and pay fixed interest rate swaps of \$69 million, offset by losses on pay float interest rate swaps of \$20 million. The gains on cross currency swaps during the first nine months of fiscal year 2018 were primarily attributable to the U.S. dollar weakening against the Euro and Sterling during the period. The gains on pay fixed interest rate swaps and losses on pay float interest rate swaps during the first nine months of fiscal year 2018 were primarily due to increase in applicable swap rates during the period. In the Canada segment, we recognized a gain on derivative instruments of \$38 million during the first nine months of fiscal year 2018 compared to a gain of \$13 million during the same period in fiscal year 2017. The gains during the first nine months of fiscal year 2018 were due to a rise in Canadian swap rates. See “—*Derivatives*” below for more information.

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

In the United States segment, we recognized a loss on the revaluation of foreign currency denominated debt of \$384 million during the first nine months of fiscal year 2018 compared to a gain of \$224 million during the same period in fiscal year 2017. The loss during the first nine months of fiscal year 2018 was primarily due to the U.S. dollar weakening against the Euro and Sterling during the period.

### *Income tax expense*

The primary impact on the effective tax rate is the reduction of the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018, as a result of the Tax Act. In accordance with Section 15 of the Internal Revenue Code, our fiscal year ending March 31, 2018 will have a blended federal corporate tax rate of 31.55%.

The consolidated effective tax rate was (241.9)% for the first nine months of fiscal year 2018 and 37.7% for the same period in fiscal year 2017. The decrease in the effective tax rate for the nine months ended December 31, 2017 was primarily due to impact of the U.S. federal corporate tax rate reduction on the repricing of the current and prior years’ deferred taxes. For additional information regarding income taxes, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements (Unaudited)*.

## Financial Condition

### Consumer Financing

#### Consumer Financing Acquisition Volumes

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

	Three months ended December 31,				Nine months ended December 31,			
	2017		2016		2017		2016	
	Acquired	Sponsored <sup>(2)</sup>	Acquired	Sponsored <sup>(2)</sup>	Acquired	Sponsored <sup>(2)</sup>	Acquired	Sponsored <sup>(2)</sup>
(Units <sup>(1)</sup> in thousands)								
<b>United States Segment</b>								
Retail loans:								
New auto.....	126	77	117	85	371	249	348	239
Used auto .....	30	14	21	2	79	23	66	5
Motorcycle.....	19	2	17	3	58	8	58	9
Other .....	—	—	—	—	1	—	1	1
Total retail loans..	<u>175</u>	<u>93</u>	<u>155</u>	<u>90</u>	<u>509</u>	<u>280</u>	<u>473</u>	<u>254</u>
Leases.....	102	74	113	104	353	289	398	368
<b>Canada Segment</b>								
Retail loans:								
New auto.....	17	17	16	15	59	58	54	50
Used auto .....	1	1	2	1	7	5	7	3
Motorcycle.....	2	1	1	1	7	6	4	3
Other .....	—	—	1	—	—	—	1	—
Total retail loans..	<u>20</u>	<u>19</u>	<u>20</u>	<u>17</u>	<u>73</u>	<u>69</u>	<u>66</u>	<u>56</u>
Leases.....	20	20	19	19	69	68	63	63
<b>Consolidated</b>								
Retail loans:								
New auto.....	143	94	133	100	430	307	402	289
Used auto .....	31	15	23	3	86	28	73	8
Motorcycle.....	21	3	18	4	65	14	62	12
Other .....	—	—	1	—	1	—	2	1
Total retail loans..	<u>195</u>	<u>112</u>	<u>175</u>	<u>107</u>	<u>582</u>	<u>349</u>	<u>539</u>	<u>310</u>
Leases.....	122	94	132	123	422	357	461	431

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

*Consumer Financing Penetration Rates*

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

	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
<b>United States Segment</b>				
New auto .....	56%	56%	57%	58%
Motorcycle .....	38%	36%	38%	38%
<b>Canada Segment</b>				
New auto .....	89%	78%	82%	78%
Motorcycle .....	35%	23%	33%	24%
<b>Consolidated</b>				
New auto .....	59%	58%	60%	60%
Motorcycle .....	38%	35%	37%	37%



## Consumer Financing Asset Balances

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

	<u>December 31,</u> <u>2017</u>	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2017</u>	<u>March 31,</u> <u>2017</u>
	(U.S. dollars in millions)		(Units <sup>(1)</sup> in thousands)	
<b>United States Segment</b>				
Retail loans:				
New auto .....	\$ 23,757	\$ 22,837	1,610	1,610
Used auto .....	3,599	3,154	261	234
Motorcycle .....	1,050	993	197	191
Other .....	51	51	4	4
Total retail loans .....	<u>\$ 28,457</u>	<u>\$ 27,035</u>	<u>2,072</u>	<u>2,039</u>
Securitized retail loans <sup>(2)</sup> .....	\$ 7,569	\$ 7,748	683	690
Investment in operating leases .....	\$ 27,367	\$ 27,380	1,310	1,294
<b>Canada Segment</b>				
Retail loans:				
New auto .....	\$ 3,624	\$ 3,067	244	219
Used auto .....	339	345	39	44
Motorcycle .....	91	73	19	16
Other .....	3	3	1	2
Total retail loans .....	<u>\$ 4,057</u>	<u>\$ 3,488</u>	<u>303</u>	<u>281</u>
Securitized retail loans <sup>(2)</sup> .....	\$ 965	\$ 764	72	59
Direct financing leases .....	\$ 190	\$ 375	18	34
Investment in operating leases .....	\$ 4,852	\$ 3,930	253	212
<b>Consolidated</b>				
Retail loans:				
New auto .....	\$ 27,381	\$ 25,904	1,854	1,829
Used auto .....	3,938	3,499	300	278
Motorcycle .....	1,141	1,066	216	207
Other .....	54	54	5	6
Total retail loans .....	<u>\$ 32,514</u>	<u>\$ 30,523</u>	<u>2,375</u>	<u>2,320</u>
Securitized retail loans <sup>(2)</sup> .....	\$ 8,534	\$ 8,512	755	749
Direct financing leases .....	\$ 190	\$ 375	18	34
Investment in operating leases .....	\$ 32,219	\$ 31,310	1,563	1,506

(1) A unit represents one retail loan or lease contract, 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, retail loan acquisition volumes increased by 8% during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017 primarily due to the increase in used auto loan incentive financing program volumes and the increase in non-sponsored new auto loan acquisition volumes. Lease acquisition volumes declined by 11% during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017 primarily due to the 21% reduction in incentive program volumes.

In the Canada segment, retail loan acquisition volumes increased by 11% during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017 primarily due to higher retail loan incentive volumes. Lease acquisition volumes increased by 10% during the first nine months of fiscal year 2018 compared to the same period in fiscal year 2017. Outstanding direct financing lease assets continued to decline and operating lease assets continued to increase during the first nine months of fiscal year 2017 as the result of our remaining direct financing leases maturing and all newly acquired leases being classified as operating leases.

## Dealer Financing

### Wholesale Flooring Financing Penetration Rates

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

	December 31, 2017	March 31, 2017
<b>United States Segment</b>		
Automobile .....	28%	28%
Motorcycle.....	97%	97%
Other.....	21%	21%
<b>Canada Segment</b>		
Automobile .....	36%	35%
Motorcycle.....	94%	95%
Other.....	94%	95%
<b>Consolidated</b>		
Automobile .....	30%	29%
Motorcycle.....	97%	97%
Other.....	24%	24%

### Wholesale Flooring Financing Percentage of Sales

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

	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
<b>United States Segment</b>				
Automobile .....	29%	27%	29%	27%
Motorcycle .....	98%	97%	98%	97%
Other .....	9%	9%	11%	9%
<b>Canada Segment</b>				
Automobile .....	31%	31%	31%	31%
Motorcycle .....	96%	95%	94%	97%
Other .....	91%	96%	94%	97%
<b>Consolidated</b>				
Automobile .....	29%	27%	29%	27%
Motorcycle .....	98%	97%	97%	97%
Other .....	12%	12%	14%	12%

## Dealer Financing Asset Balances

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

	December 31, 2017	March 31, 2017	December 31, 2017	March 31, 2017
	(U.S. dollars in millions)		(Units <sup>(1)</sup> in thousands)	
<b>United States Segment</b>				
Wholesale flooring loans:				
Automobile .....	\$ 2,810	\$ 2,823	104	111
Motorcycle .....	615	684	87	93
Other .....	52	64	49	73
Total wholesale flooring loans .....	<u>\$ 3,477</u>	<u>\$ 3,571</u>	<u>240</u>	<u>277</u>
Commercial loans.....	\$ 917	\$ 841		
<b>Canada Segment</b>				
Wholesale flooring loans:				
Automobile .....	\$ 373	\$ 414	15	18
Motorcycle .....	67	86	9	13
Other .....	27	29	22	32
Total wholesale flooring loans .....	<u>\$ 467</u>	<u>\$ 529</u>	<u>46</u>	<u>63</u>
Commercial loans.....	\$ 67	\$ 65		
<b>Consolidated</b>				
Wholesale flooring loans:				
Automobile .....	\$ 3,183	\$ 3,237	119	129
Motorcycle .....	682	770	96	106
Other .....	79	93	71	105
Total wholesale flooring loans .....	<u>\$ 3,944</u>	<u>\$ 4,100</u>	<u>286</u>	<u>340</u>
Commercial loans.....	\$ 984	\$ 906		

(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 monitoring the payment performance and creditworthiness of these dealers on an ongoing basis. In the event of default by a dealer, we seek all available legal remedies pursuant to related dealer agreements, guarantees, security interests on collateral, or liens on dealership assets. Additionally, we have entered into agreements with AHM and HCI that provide for their repurchase, at the outstanding financed amount, of new, unused, undamaged and unregistered vehicles or equipment that have been repossessed from dealers who defaulted under the terms of its wholesale flooring agreement.

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 for estimated probable losses incurred 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 presents information with respect to our allowance for credit losses and credit loss experience of our finance receivables and losses related to lessee defaults on our operating leases:

	As of or for the three months ended December 31,		As of or for the nine months ended December 31,	
	2017	2016	2017	2016

(U.S. dollars in millions)

### United States Segment

#### Finance receivables:

Allowance for credit losses at beginning of period .....	\$ 161	\$ 112	\$ 124	\$ 82
Provision for credit losses.....	54	45	159	131
Charge-offs, net of recoveries .....	(45)	(41)	(113)	(97)
Allowance for credit losses at end of period .....	<u>\$ 170</u>	<u>\$ 116</u>	<u>\$ 170</u>	<u>\$ 116</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup> .....			0.51%	0.37%
Charge-offs as a percentage of average receivable balance <sup>(1)</sup> .....	0.54%	0.52%	0.46%	0.42%
Delinquencies (60 or more days past due):				
Delinquent amount <sup>(2)</sup> .....			\$ 94	\$ 78
As a percentage of ending receivable balance <sup>(1), (2)</sup> .....			0.28%	0.25%

#### Operating leases:

Early termination loss on operating leases .....	\$ 21	\$ 17	\$ 78	\$ 45
Provision for past due operating lease rental payments <sup>(3)</sup> .....	8	6	23	17

### Canada Segment

#### Finance receivables:

Allowance for credit losses at beginning of period .....	\$ 8	\$ 11	\$ 9	\$ 11
Provision for credit losses.....	2	2	4	8
Charge-offs, net of recoveries .....	(2)	(3)	(6)	(9)
Effect of translation adjustment.....	—	—	1	—
Allowance for credit losses at end of period .....	<u>\$ 8</u>	<u>\$ 10</u>	<u>\$ 8</u>	<u>\$ 10</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup> .....			0.16%	0.21%
Charge-offs as a percentage of average receivable balance <sup>(1)</sup> .....	0.17%	0.23%	0.16%	0.23%
Delinquencies (60 or more days past due):				
Delinquent amount <sup>(2)</sup> .....			\$ 9	\$ 9
As a percentage of ending receivable balance <sup>(1), (2)</sup> .....			0.18%	0.20%

#### Operating leases:

Early termination loss on operating leases .....	\$ 1	\$ 2	\$ 3	\$ 5
Provision for past due operating lease rental payments <sup>(3)</sup> .....	1	1	1	1

### Consolidated

#### Finance receivables:

Allowance for credit losses at beginning of period .....	\$ 169	\$ 123	\$ 133	\$ 93
Provision for credit losses.....	56	47	163	139
Charge-offs, net of recoveries .....	(47)	(44)	(119)	(106)
Effect of translation adjustment.....	—	—	1	—
Allowance for credit losses at end of period .....	<u>\$ 178</u>	<u>\$ 126</u>	<u>\$ 178</u>	<u>\$ 126</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup> .....			0.46%	0.35%
Charge-offs as a percentage of average receivable balance <sup>(1)</sup> .....	0.50%	0.48%	0.42%	0.39%
Delinquencies (60 or more days past due):				
Delinquent amount <sup>(2)</sup> .....			\$ 103	\$ 87
As a percentage of ending receivable balance <sup>(1), (2)</sup> .....			0.27%	0.24%

#### Operating leases:

Early termination loss on operating leases .....	\$ 22	\$ 19	\$ 81	\$ 50
Provision for past due operating lease rental payments <sup>(3)</sup> .....	9	7	24	18

- (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 nine months ended December 31, 2017 and 2016 have been annualized.

In the United States segment, the provision for credit losses on our finance receivables was \$159 million during the first nine months of fiscal year 2018 compared to \$131 million during the same period in fiscal year 2017. The increase in the provision was due to the trend in increasing charge-offs we have been experiencing since fiscal year 2016. The increase in charge-offs is primarily due to the increase in the volume of retail loans with longer terms which typically have higher loan-to-value ratios and as a result, higher loss severities, and the increase in the volume of retail loans in our lowest credit grade tier which has also been experiencing increasing charge-off frequencies. Changes in general economic conditions, a rise in unemployment rates, and declines in used vehicle prices could result in increases in our credit losses. Our allowance for credit losses as a percentage of the ending receivable balance as of December 31, 2017 was increased to 0.51% as compared to 0.37% as of December 31, 2016 to reflect the weaker credit performance. We recognized early termination losses on operating lease assets of \$78 million during the first nine months of fiscal year 2018 compared to \$45 million during the same period in fiscal year 2017. The increase in early termination losses during the first nine months of fiscal year 2018 was due to the growth in operating lease assets and an increase in the mix of leases with lower credit grades.

In the Canada segment, the provision for credit losses on our finance receivables was \$4 million during the first nine months of fiscal year 2018 compared to \$8 million during the same period in fiscal year 2017. The decline in the provision for credit losses was due to a decline in net charge-offs and a reduction in the allowance for credit losses to reflect improving credit performance. Early termination losses on operating lease assets was \$3 million during the first nine months of fiscal year 2018 compared to \$5 million during the same period in fiscal year 2017. The decrease was primarily due to the reduction in our estimate of early termination losses as a result of improving credit performance.

### ***Lease Residual Value Risk***

Contractual residual values of lease vehicles are determined at lease inception based on expectations of future used vehicle values, taking into consideration external industry data and our own historical experience. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or for a market based price. Returned lease vehicles that are not purchased by the grounding dealers are sold through online and physical auctions. We are exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values 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 expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends, and market information on new and used vehicles. Our leasing volumes and leasing volumes across the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years which could negatively impact used vehicle prices. For operating leases, adjustments to estimated residual values are made on a straight-line basis over the remaining term of the lease and recognized 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. We did not recognize impairment losses due to declines in estimated residual values during the first nine months of fiscal year 2018 or the same period in fiscal year 2017.

Certain Honda and Acura vehicles were recalled during the fourth quarter of fiscal year 2016 based on a determination of a safety related defect in driver's airbag inflators. AHM and HCI instructed their authorized dealers to cease the sale of affected new and used vehicles until the recall repairs were completed. During the second half of fiscal year 2017, we began repairing and selling the affected returned lease vehicles. As of September 30, 2017, we had disposed all of the vehicles affected by the recall.

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

	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
<b>(Units <sup>(1)</sup> in thousands)</b>				
<b>United States Segment</b>				
Termination units:				
Sales at outstanding contractual balances <sup>(2)</sup> .....	62	57	203	203
Sales through auctions and dealer direct programs <sup>(3)</sup> .....	33	29	124	84
Total termination units.....	<u>95</u>	<u>86</u>	<u>327</u>	<u>287</u>
<b>Canada Segment</b>				
Termination units:				
Sales at outstanding contractual balances <sup>(2)</sup> .....	13	11	38	35
Sales through auctions and dealer direct programs <sup>(3)</sup> .....	1	2	5	6
Total termination units.....	<u>14</u>	<u>13</u>	<u>43</u>	<u>41</u>
<b>Consolidated</b>				
Termination units:				
Sales at outstanding contractual balances <sup>(2)</sup> .....	75	68	241	238
Sales through auctions and dealer direct programs <sup>(3)</sup> .....	34	31	129	90
Total termination units.....	<u>109</u>	<u>99</u>	<u>370</u>	<u>328</u>

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

## Liquidity and Capital Resources

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

In an effort to minimize liquidity risk and interest rate risk and the resulting negative effects on our margins, results of operations and cash flows, our funding strategy incorporates investor diversification and the utilization of multiple funding sources including commercial paper, medium term notes, bank loans and asset-backed securities. AHFC has reduced the use of related party debt as a funding source. As of December 31, 2017, AHFC had no outstanding notes issued to AHM. We incorporate a funding strategy that takes into consideration factors such as the interest rate environment, domestic and foreign capital market conditions, maturity profiles, and economic conditions. We believe that our funding sources, combined with cash provided by operating and investing activities, will provide sufficient liquidity for us to meet our debt service and working capital requirements over the next twelve months.

The summary of outstanding debt presented in the tables below in this section “—*Liquidity and Capital Resources*” as of December 31, 2017 and March 31, 2017 include foreign currency denominated debt which were translated into U.S. dollars using the relevant exchange rates as of December 31, 2017 and March 31, 2017, as applicable. Additionally, the amounts in this section that are presented in “C\$” (Canadian dollar) were converted into U.S. dollars solely for your convenience based on the exchange rate on December 31, 2017 of 1.2571 per U.S. dollar. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or that they could be converted into U.S. dollars at the rates indicated.

### Summary of Outstanding Debt

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

	December 31, 2017	March 31, 2017	Weighted average contractual interest rate	
			December 31, 2017	March 31, 2017
(U.S. dollars in millions)				
<b>United States Segment</b>				
Unsecured debt:				
Commercial paper.....	\$ 4,807	\$ 3,609	1.45%	1.02%
Bank loans.....	4,393	4,890	2.07%	1.68%
Private MTN program.....	2,447	2,946	4.23%	3.77%
Public MTN program.....	20,280	19,491	1.77%	1.63%
Euro MTN programme .....	1,186	1,086	1.92%	1.83%
Total unsecured debt.....	33,113	32,022		
Secured debt .....	7,458	7,680	1.50%	1.24%
Total debt.....	\$ 40,571	\$ 39,702		
<b>Canada Segment</b>				
Unsecured debt:				
Commercial paper.....	\$ 1,065	\$ 853	1.33%	0.87%
Related party debt .....	1,114	1,201	1.44%	0.95%
Bank loans.....	1,052	993	2.04%	1.50%
Other debt .....	3,334	2,736	2.12%	1.90%
Total unsecured debt.....	6,565	5,783		
Secured debt .....	929	742	1.78%	1.24%
Total debt.....	\$ 7,494	\$ 6,525		
<b>Consolidated</b>				
Unsecured debt:				
Commercial paper.....	\$ 5,872	\$ 4,462	1.43%	0.99%
Related party debt .....	1,114	1,201	1.44%	0.95%
Bank loans.....	5,445	5,883	2.06%	1.65%
Private MTN program.....	2,447	2,946	4.23%	3.77%
Public MTN program.....	20,280	19,491	1.77%	1.63%
Euro MTN programme .....	1,186	1,086	1.92%	1.83%
Other debt .....	3,334	2,736	2.12%	1.90%
Total unsecured debt.....	39,678	37,805		
Secured debt .....	8,387	8,422	1.53%	1.24%
Total debt.....	\$ 48,065	\$ 46,227		



### *Commercial Paper*

As of December 31, 2017, we had commercial paper programs in the United States of \$7.0 billion and in Canada of C\$2.0 billion (\$1.6 billion). Interest rates on the commercial paper are fixed at the time of issuance. During the nine months ended December 31, 2017, consolidated commercial paper month-end outstanding principal balances ranged from \$4.7 billion to \$6.0 billion and the outstanding daily balance averaged \$5.6 billion.

### *Related Party Debt*

AHFC issues fixed rate notes to AHM to help fund AHFC's general corporate operations. As of December 31, 2017, AHFC had no issued and outstanding notes to AHM. HCFI issues fixed rate notes to HCI to help fund HCFI's general corporate operations. Interest rates are based on prevailing rates of debt with comparable terms. Generally, the term of these notes is less than 120 days. During the nine months ended December 31, 2017, HCFI related party debt outstanding daily balance averaged \$1.2 billion.

### *Bank Loans*

During the nine months ended December 31, 2017, AHFC did not enter into any term loan agreements. HCFI entered into two floating term loan agreements for an aggregate of C\$200 million (\$159 million). As of December 31, 2017, we had bank loans denominated in U.S. dollars and Canadian dollars with floating interest rates, in principal amounts ranging from \$40 million to \$600 million. As of December 31, 2017, the remaining maturities of all bank loans outstanding ranged from 214 days to approximately 6.7 years. The weighted average remaining maturities on all bank loans was 2.9 years as of December 31, 2017.

Our bank loans contain customary restrictive covenants, including limitations on liens, mergers, consolidations and asset sales, and a financial covenant that requires us to maintain positive consolidated tangible net worth. In addition to other customary events of default, the bank loans include cross-default provisions and provisions for default if HMC does not maintain ownership, whether directly or indirectly, of at least 80% of the outstanding capital stock of AHFC or HCFI, as applicable. All of these covenants and events of default are subject to important limitations and exceptions under the agreements governing the bank loans. As of December 31, 2017, management believes that AHFC and HCFI were in compliance with all covenants contained in our bank loans.

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

#### *Private MTN Program*

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. As of December 31, 2017, the remaining maturities of Private MTNs outstanding ranged from 47 days to approximately 3.7 years. The weighted average remaining maturities of Private MTNs was 1.6 years as of December 31, 2017. Interest rates on outstanding Private MTNs were fixed. Private MTNs were 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, 2017, management believes that AHFC was in compliance with all covenants contained in the Private MTNs.

#### *Public MTN Program*

AHFC is a well-known seasoned issuer under SEC rules and issues Public MTNs pursuant to a registration statement on Form S-3 filed with the SEC. In August 2016, AHFC filed a registration statement with the SEC under which it may issue from time to time up to \$30.0 billion aggregate principal amount of Public MTNs. During fiscal year 2016, AHFC began issuing foreign currency denominated notes into international markets under this program. The aggregate principal amount of MTNs offered under this program may be increased from time to time.

The Public MTNs may have original maturities of 9 months or more from the date of issue, may be interest bearing with either fixed or floating interest rates, or may be discounted notes. During the nine months ended December 31, 2017, AHFC issued \$1.8 billion aggregate principal amount of U.S. dollar denominated fixed rate MTNs, with an original maturity ranging from 2.0 years to 5.0 years, and \$2.4 billion aggregate principal amount of U.S. dollar denominated floating rate MTNs, with an original maturity ranging from 1.0 years to 5.0 years. As of December 31, 2017, the remaining maturities of all Public MTNs outstanding ranged from 67 days to approximately 8.7 years. The weighted average remaining maturities of all Public MTNs was 2.5 years as of December 31, 2017.

The Public MTNs are issued pursuant to an indenture, which requires AHFC to comply with certain covenants, including negative pledge provisions and restrictions on AHFC's ability to merge, consolidate or transfer substantially all of its assets or the assets of its subsidiaries, and includes customary events of default. As of December 31, 2017, 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. As of December 31, 2017, the remaining maturities of Euro MTNs outstanding under this program ranged from 81 days to approximately 5.1 years. The weighted average remaining maturities of all Euro MTNs was 1.5 years as of December 31, 2017. Interest rates on outstanding Euro MTNs are fixed or floating. Euro MTNs were 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, 2017, management believes that AHFC was in compliance with all covenants contained in the Euro MTNs.

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

	<u>December 31,</u> <u>2017</u>	<u>March 31,</u> <u>2017</u>
	(U.S. dollars in millions)	
U.S. dollar .....	\$ 20,146	\$ 20,141
Euro .....	2,933	2,607
Sterling .....	807	748
Japanese yen.....	27	27
Total.....	<u>\$ 23,913</u>	<u>\$ 23,523</u>

## Other Debt

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During the nine months ended December 31, 2017, HCFI entered into four private placement trades for an aggregate of C\$1.4 billion (\$1.1 billion). As of December 31, 2017, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 155 days to approximately 5.2 years. The weighted average remaining maturities of these notes was 2.9 years as of December 31, 2017.

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, 2017, 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 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.

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

We are required to consolidate the 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, 2017, we issued notes through asset-backed securitizations totaling \$3.5 billion, which were secured by consumer finance receivables with an initial principal balance of \$4.1 billion.

### ***Credit Agreements***

#### ***Syndicated Bank Credit Facilities***

AHFC maintains a \$3.5 billion 364-day credit agreement, which expires on March 2, 2018, a \$2.1 billion three-year credit agreement, which expires on March 3, 2020, and a \$1.4 billion five-year credit agreement, which expires on March 3, 2022. As of December 31, 2017, no amounts were drawn upon under the AHFC credit agreements. AHFC intends to renew or replace these credit agreements prior to or on their respective expiration dates.

HCFI maintains a C\$1.6 billion (\$1.3 billion) credit agreement which provides that HCFI may borrow up to C\$800 million (\$636 million) on a one-year and up to C\$800 million (\$636 million) on a five-year revolving basis. The one-year tranche of the credit agreement expires on March 24, 2018 and the five-year tranche of the credit agreement expires on March 24, 2022. As of December 31, 2017, no amounts were drawn upon under the HCFI credit agreement. HCFI intends to renew or replace the credit agreement prior to or on the expiration date of each respective tranche.

The credit agreements contain customary conditions to borrowing and customary restrictive covenants, including limitations on liens and limitations on mergers, consolidations and asset sales. The credit agreements also require AHFC and HCFI, respectively, to maintain a positive consolidated tangible net worth as defined in their respective credit agreements. The credit agreements, in addition to other customary events of default, include cross-default provisions and provisions for default if HMC does not maintain ownership, whether directly or indirectly, of at least 80% of the outstanding capital stock of AHFC or HCFI, as applicable. In addition, the AHFC and HCFI credit agreements contain provisions for default if HMC's obligations under the HMC-AHFC Keep Well Agreement or the HMC-HCFI Keep Well Agreement, as applicable, become invalid, voidable, or unenforceable. All of these conditions, covenants and events of default are subject to important limitations and exceptions under the agreements governing the credit agreements. As of December 31, 2017, management believes that AHFC and HCFI were in compliance with all covenants contained in the respective credit agreements.

#### ***Other Credit Agreements***

AHFC maintains other committed lines of credit that allow the Company access to an additional \$1.0 billion in unsecured funding with multiple banks. The credit agreements contain customary covenants, including limitations on liens, mergers, consolidations and asset sales and a requirement for AHFC to maintain a positive consolidated tangible net worth. As of December 31, 2017, no amounts were drawn upon under these agreements. These agreements expire in September 2018. AHFC intends to renew these credit agreements prior to or on their expiration dates.

### ***Keep Well Agreements***

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

- own and hold, at all times, directly or indirectly, at least 80% of each of AHFC's and HCFI's issued and outstanding shares of voting stock and not pledge, directly or indirectly, encumber, or otherwise dispose of any such shares or permit any of HMC's subsidiaries to do so, except to HMC or wholly-owned subsidiaries of HMC;
- cause each of AHFC and HCFI to, on the last day of each of AHFC's and HCFI's respective fiscal years, have a positive consolidated tangible net worth (with "tangible net worth" meaning (a) shareholders' equity less (b) any intangible assets, as determined in accordance with GAAP with respect to AHFC and generally accepted accounting principles in Canada with respect to HCFI); and
- ensure that, at all times, each of AHFC and HCFI has sufficient liquidity and funds to meet their payment obligations under any Debt (with "Debt" defined as AHFC's or HCFI's debt, as applicable, for borrowed money that HMC has confirmed in writing is covered by the respective Keep Well Agreement) in accordance with the terms of such Debt, or where necessary, HMC will make available to AHFC or HCFI, as applicable, or HMC will procure for AHFC or HCFI, as applicable, sufficient funds to enable AHFC or HCFI, as applicable, to pay its Debt in accordance with its terms. AHFC or HCFI Debt does not include the notes issued by 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, 2017 under AHFC's and HCFI's bank loan agreements.

As consideration for HMC's obligations under the Keep Well Agreements, we have agreed to pay HMC a quarterly fee based on the amount of outstanding Debt pursuant to support compensation agreements, dated October 1, 2005. We incurred expenses of \$5 million during both the three months ended December 31, 2017 and 2016, and \$16 million and \$15 million during the nine months ended December 31, 2017 and 2016, respectively, pursuant to these support compensation agreements.

### ***Indebtedness of Consolidated Subsidiaries***

As of December 31, 2017, AHFC and its consolidated subsidiaries had \$56.1 billion of outstanding indebtedness and other liabilities, including current liabilities, of which \$16.1 billion consisted of indebtedness and liabilities of our consolidated subsidiaries. None of AHFC's consolidated subsidiaries had any outstanding preferred equity.

### ***Derivatives***

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

All derivative financial instruments are recorded on our consolidated balance sheet as assets or liabilities, and carried at fair value. Changes in the fair value of derivatives are recognized in our consolidated statements of income in the period of the change. Since we do not elect to apply hedge accounting, the impact to earnings resulting from these valuation adjustments as reported under GAAP is not representative of our results of operations as evaluated by management. Realized gains and losses on derivative instruments, net of realized gains and losses on foreign currency denominated debt, are included in the measure of net revenues when we evaluate segment performance. Refer to Note 14—Segment Information of *Notes to Consolidated Financial Statements (Unaudited)* for additional information about segment information and Note 5—Derivative Instruments of *Notes to Consolidated Financial Statements (Unaudited)* for additional information on derivative instruments.

### ***Off-Balance Sheet Arrangements***

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

## Contractual Obligations

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

	Payments due for the twelve month periods ending December 31,						
	Total	2018	2019	2020	2021	2022	Thereafter
	(U.S. dollars in millions)						
Unsecured debt obligations <sup>(1)</sup> .....	\$ 39,755	\$ 14,925	\$ 7,738	\$ 6,025	\$ 4,856	\$ 4,107	\$ 2,104
Secured debt obligations <sup>(1)</sup> .....	8,399	4,568	2,485	1,056	290	—	—
Interest payments on debt <sup>(2)</sup> .....	2,014	745	510	345	216	112	86
Operating lease obligations .....	73	8	8	8	8	8	33
Total .....	<u>\$ 50,241</u>	<u>\$ 20,246</u>	<u>\$ 10,741</u>	<u>\$ 7,434</u>	<u>\$ 5,370</u>	<u>\$ 4,227</u>	<u>\$ 2,223</u>

- (1) Debt obligations reflect the remaining principal obligations of our outstanding debt and do not reflect unamortized debt discounts and fees. Repayment schedule of secured debt reflects payment performance assumptions on underlying receivables. Foreign currency denominated debt principal is based on exchange rates as of December 31, 2017.
- (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, 2017.

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 lease 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 monitored on an ongoing basis 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, collateral types, and loan terms. Market and economic factors such as used vehicle prices, unemployment rates, and consumer debt service burdens are also incorporated into these models. 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 dealership 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, 2017, our provision for credit losses would have increased by approximately \$34 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, 2017, we would have recognized an additional \$17 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, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer at the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market based price. Returned lease vehicles that are not purchased by the grounding dealer are sold through online and physical auctions. We are exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values at the end of lease term. We assess our estimates for end of term market values of the leased vehicles, at minimum, on a quarterly basis. The primary factors affecting the estimates are the percentage of leased vehicles that we expect to be returned by the lessee at the end of lease term and expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends and market information on new and used vehicles. Our leasing volumes and leasing volumes across the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years which could negatively impact used vehicle prices.

For operating leases, adjustments to estimated residual values are made on a straight-line basis over the remaining term of each lease and recognized as depreciation expense. 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, 2017 were to decrease by \$100 per unit from our current estimates, the total impact would be an increase of approximately \$74 million in depreciation expense, which would be recognized over the remaining lease terms. If future return rates for all operating leases were to increase by one percentage point from our current estimates, the total impact would be an increase of approximately \$13 million in depreciation expense, which would be recognized over the remaining lease terms. This sensitivity analysis may be asymmetric and is specific to the conditions in effect as of December 31, 2017. Additionally, any declines in auction values are likely to have a negative effect on return rates which could affect the severity of the impact on our results of operations.

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

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

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

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

Our Principal Executive Officer and Principal Financial Officer have performed an evaluation of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Exchange Act, as of December 31, 2017, 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, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

There are no material changes to the risk factors set forth under “*Item 1A. Risk Factors*” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017, which was filed with the SEC on June 22, 2017.

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

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

### **Item 3. Defaults Upon Senior Securities**

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

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**



Exhibit Number	Description
3.1 <sup>(1)</sup>	Articles of Incorporation of American Honda Finance Corporation, dated February 6, 1980, and Certificates of Amendment to the Articles of Incorporation, dated March 29, 1984, November 13, 1988, December 4, 1989, July 2, 1991, April 3, 1997, November 30, 1999, and December 17, 2003.
3.2 <sup>(1)</sup>	Amended and Restated Bylaws of American Honda Finance Corporation, dated April 27, 2010.
4.1 <sup>(1)</sup>	Form of Specimen Common Stock of American Honda Finance Corporation.
4.2	American Honda Finance Corporation agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of American Honda Finance Corporation and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the American Honda Finance Corporation and its subsidiaries.
4.3 <sup>(2)</sup>	Amended and Restated Issuing and Paying Agency Agreement between American Honda Finance Corporation and The Bank of New York Mellon, dated as of August 27, 2012.
4.4	Trust Indenture between Honda Canada Finance Inc., as issuer, and BNY Trust Company of Canada (as successor to CIBC Mellon Trust Company), as trustee, dated as of September 26, 2005 <sup>(3)</sup> , as supplemented by supplemental indentures from time to time, and the Form of Debenture <sup>(4)</sup> .
4.5 <sup>(5)</sup>	Indenture, dated September 5, 2013, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.6 <sup>(8)</sup>	First Supplemental Indenture, dated February 8, 2018, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.7	Form of Fixed Rate Medium-Term Note, Series A <sup>(6)</sup> and Form of Floating Rate Medium-Term Note, Series A <sup>(7)</sup> .
12.1 <sup>(8)</sup>	Statement regarding computation of ratio of earnings to fixed charges
31.1 <sup>(8)</sup>	Certification of Principal Executive Officer
31.2 <sup>(8)</sup>	Certification of Principal Financial Officer
32.1 <sup>(9)</sup>	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2 <sup>(9)</sup>	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS <sup>(8)</sup>	XBRL Instance Document
101.SCH <sup>(8)</sup>	XBRL Taxonomy Extension Schema Document
101.CAL <sup>(8)</sup>	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB <sup>(8)</sup>	XBRL Taxonomy Extension Label Linkbase Document
101.PRE <sup>(8)</sup>	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF <sup>(8)</sup>	XBRL Taxonomy Extension Definition Linkbase Document

- (1) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, dated June 28, 2013.
- (2) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
- (3) Incorporated herein by reference to Exhibit number 4.5 filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
- (4) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 12, 2015.
- (5) Incorporated herein by reference to Exhibit number 4.1 filed with our registration statement on Form S-3, dated September 5, 2013.
- (6) Incorporated herein by reference to Exhibit number 4.1 filed with our current report on Form 8-K, dated February 12, 2014.
- (7) Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 10, 2016.
- (8) Filed herewith.
- (9) Furnished herewith.

**Signature**

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

Dated: February 8, 2018

**AMERICAN HONDA FINANCE  
CORPORATION**

By: /s/ Paul C. Honda

Paul C. Honda

Vice President and Assistant Secretary

(Principal Accounting Officer)

AMERICAN HONDA FINANCE CORPORATION,

*Issuer*

— and —

DEUTSCHE BANK TRUST COMPANY AMERICAS,

*Trustee*

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FIRST SUPPLEMENTAL INDENTURE

Dated as of February 8, 2018

to

INDENTURE

Dated as of September 5, 2013

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Debt Securities

FIRST SUPPLEMENTAL INDENTURE, dated as of February 8, 2018 (the “**Supplemental Indenture**”), between AMERICAN HONDA FINANCE CORPORATION, a corporation duly organized and existing under the laws of the State of California (the “**Company**”), having its principal executive office located at 20800 Madrona Avenue, Torrance, California 90503, and DEUTSCHE BANK TRUST COMPANY AMERICAS, a New York banking corporation, as trustee (the “**Trustee**”).

#### RECITALS

WHEREAS, the Company has executed and delivered to the Trustee, the Indenture, dated as of September 5, 2013 (the “**Base Indenture**”), to provide for the issuance of the Company’s senior unsecured debentures, notes or other evidences of indebtedness, to be issued in one or more series;

WHEREAS, this Supplemental Indenture is being entered into pursuant to the provisions of Sections 901(10) and 903 of the Base Indenture;

WHEREAS, Section 901(10) of the Base Indenture provides that without the consent of any Holders of the Securities or Coupons, the Company and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental to the Base Indenture to amend or supplement any provision contained in the Base Indenture or in any supplemental indenture or in any Securities (which amendment or supplement may apply to one or more series of Securities or to one or more Securities within any series as specified in such supplemental indenture or indentures), *provided* that such amendment or supplement does not apply to any Outstanding Security issued prior to the date of such supplemental indenture and entitled to the benefits of such provision;

WHEREAS, the Company desires to amend Sections 101, 1001 and 1105 of the Base Indenture as described in this Supplemental Indenture and the Company, pursuant to the foregoing authority, proposes in and by this Supplemental Indenture to amend the Base Indenture as hereinafter provided but only with respect to Securities which are not Outstanding on the date hereof;

WHEREAS, the Company has requested that the Trustee execute and deliver this Supplemental Indenture; and

WHEREAS, the Company has duly authorized the execution and delivery of this Supplemental Indenture. All things necessary to make this Supplemental Indenture a legally valid and binding agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of any series thereof and any Coupons (as herein defined) as follows:

**ARTICLE ONE  
DEFINITIONS**

Section 101. (a) For all purposes of this Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires:

(1) terms used herein in capitalized form and defined in the Base Indenture shall have the meanings specified in the Base Indenture;

(2) the words “herein,” “hereof” and “hereto” and other words of similar import used in this Supplemental Indenture refer to this Supplemental Indenture as a whole and not to any particular Article, Section or other subdivision of this Supplemental Indenture; and

(3) the terms defined in the Recitals or in Article Two herein shall have the meanings specified therein.

(b) For all purposes of the Base Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article and Article Two herein shall have the meanings assigned to them in this Article and Article Two herein, and include the plural, as well as the singular; and

(2) “First Supplemental Indenture” or “this Supplemental Indenture” means this instrument as originally executed or, if amended or supplemented pursuant to the applicable provisions of the Base Indenture, as amended or supplemented.

**ARTICLE TWO  
MODIFICATIONS**

Section 201.

*Addition to Section 101 of the Base Indenture.*

Section 101 of the Base Indenture is hereby amended to add the following new definition thereto:

**“Principal Financial Center”** means the capital city of the country issuing the Currency, except, that with respect to Dollars, euros, Australian dollars, Canadian dollars, New Zealand dollars, South African rand and Swiss francs, the “Principal Financial Center” will be The City of New York, Brussels, Sydney, Toronto, Wellington, Johannesburg and Zurich, respectively.

Section 202. *Amendment to Section 1001 of the Base Indenture.* Section 1001 of the Base Indenture is hereby amended by replacing the text “10:00 am New York City time” with the following text:

“12:00 pm (local time in the Principal Financial Center of the country issuing the Currency)”

Section 203.

*Amendment to Section 1105 of the Base Indenture.*

Section 1105 of the Base Indenture is hereby amended by replacing the text “10:00 am (local time in New York City)” with the following text:

“12:00 pm (local time in the Principal Financial Center of the country issuing the Currency)”

**ARTICLE THREE  
MISCELLANEOUS PROVISIONS**

Section 301.

*Effectiveness of Amendments.* Notwithstanding any other provisions hereof, all amendments to the Base Indenture made hereby shall have effect only with respect to Securities which are not Outstanding on the date hereof, and not with respect to Securities which are Outstanding on the date hereof.

Section 302.

*Governing Law; Waiver of Jury Trial.* This

Supplemental Indenture shall be governed by, and construed in accordance with, the laws of the State of New York without regard to conflicts of law provisions of such State other than New York General Obligations Law Section 5-1401. EACH OF THE COMPANY AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL ACTION, SUIT OR PROCEEDING ARISING OUT OF OR IN CONNECTION WITH THIS SUPPLEMENTAL INDENTURE, THE SECURITIES, ANY COUPONS OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 303.

*Effect of Headings.* The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 304.

*Separability Clause.* In case any provision in this

Supplemental Indenture, the Base Indenture, any Security or any Coupon shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not, to the fullest extent permitted by law, in any way be affected or impaired thereby.

Section 305.

*Ratification of Indenture.* The Base Indenture, as supplemented by this Supplemental Indenture, is in all respects ratified and confirmed, and this Supplemental Indenture shall be deemed part of the Base Indenture in the manner and to the extent herein and therein provided; *provided, however*, that the provisions of this Supplemental Indenture shall apply solely with respect to Securities which are not Outstanding on the date hereof.

Section 306.

*Trustee's Disclaimer.* The Trustee accepts the amendments of the Base Indenture effected by this Supplemental Indenture, but on the terms and conditions set forth in the Base Indenture, including the terms and provisions defining and limiting the

liabilities and responsibilities of the Trustee. The recitals contained herein shall be taken as the statements of the Company and the Trustee does not assume any responsibility for their correctness. Without limiting the generality of the foregoing, the Trustee makes no representations as to (i) the validity or sufficiency of this Supplemental Indenture (ii) the proper authorization hereof by the Company by action or otherwise, or (iii) the due execution hereof by the Company; provided that the Trustee represents that it is duly authorized to execute and deliver this Supplemental Indenture and perform its obligations hereunder.

Section 307.

*Counterparts.* This Supplemental Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

Section 308.

*Continued Effect of Base Indenture.* Except as amended or supplemented by this Supplemental Indenture, the terms, conditions, covenants and agreements set forth in the Base Indenture shall continue in full force and effect.

*[Remainder of Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed, all as of the day and year first above written.

**AMERICAN HONDA FINANCE  
CORPORATION,**  
*as Issuer*

By: /s/ Paul C. Honda

Name: Paul C. Honda

Title: Vice President, Assistant Secretary



**DEUTSCHE BANK TRUST COMPANY**  
**AMERICAS, *as Trustee***

By: /s/ Carol Ng

Name: Carol Ng

Title: Vice President

By: /s/ Scott Dodic

Name: Scott Dodic

Title: Assistant Vice President

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

	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
<b>Earnings</b>				
Consolidated income before provision for income taxes .....	\$ 370	\$ 184	\$ 1,123	\$ 886
Fixed Charges .....	230	187	653	536
Earnings.....	<u>\$ 600</u>	<u>\$ 371</u>	<u>\$ 1,776</u>	<u>\$ 1,422</u>
<b>Fixed Charges</b>				
Interest expense .....	\$ 229	\$ 186	\$ 651	\$ 533
Interest portion of rental expense <sup>(1)</sup> .....	1	1	2	3
Total fixed charges .....	<u>\$ 230</u>	<u>\$ 187</u>	<u>\$ 653</u>	<u>\$ 536</u>
Ratio of earnings to fixed charges .....	2.61x	1.98x	2.72x	2.65x

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

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

I, Hideo Moroe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended December 31, 2017 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (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 8, 2018

By: /s/ Hideo Moroe  
Hideo Moroe  
President  
(Principal Executive Officer)

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

I, Shinji Kubaru, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended December 31, 2017 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (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 8, 2018

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



