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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 001-36111

AMERICAN HONDA FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation or organization)

20800 Madrona Avenue, Torrance, California

(Address of principal executive offices)

95-3472715

(IRS Employer Identification No.)

90503

(Zip Code)

(310) 972-2555

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 July 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.

REDUCED DISCLOSURE FORMAT

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

AMERICAN HONDA FINANCE CORPORATION
QUARTERLY REPORT ON FORM 10-Q
For the quarter ended June 30, 2018

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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 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, 2018 filed with the Securities and Exchange Commission on June 21, 2018. 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)

	June 30, 2018	March 31, 2018
Assets		
Cash and cash equivalents.....	\$ 744	\$ 783
Finance receivables, net	38,468	37,956
Investment in operating leases, net	31,955	31,817
Due from Parent and affiliated companies	199	139
Income taxes receivable	16	16
Vehicles held for disposition.....	228	231
Other assets	994	934
Derivative instruments	616	750
Total assets	<u>\$ 73,220</u>	<u>\$ 72,626</u>
Liabilities and Equity		
Debt.....	\$ 47,887	\$ 47,861
Due to Parent and affiliated companies.....	113	87
Accrued interest expense	207	146
Income taxes payable	148	105
Deferred income taxes	6,083	6,035
Other liabilities.....	1,408	1,382
Derivative instruments	501	414
Total liabilities.....	<u>56,347</u>	<u>56,030</u>
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 June 30, 2018 and March 31, 2018.....	1,366	1,366
Retained earnings	14,733	14,449
Accumulated other comprehensive loss	(102)	(85)
Total shareholder's equity	15,997	15,730
Noncontrolling interest in subsidiary	876	866
Total equity.....	16,873	16,596
Total liabilities and equity	<u>\$ 73,220</u>	<u>\$ 72,626</u>

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

	June 30, 2018	March 31, 2018
Finance receivables, net	\$ 8,838	\$ 8,895
Vehicles held for disposition.....	3	4
Other assets	496	452
Total assets	<u>\$ 9,337</u>	<u>\$ 9,351</u>
Secured debt.....	\$ 8,418	\$ 8,733
Accrued interest expense	7	6
Total liabilities.....	<u>\$ 8,425</u>	<u>\$ 8,739</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	Three months ended June 30,	
	2018	2017
Revenues:		
Direct financing leases.....	\$ 2	\$ 5
Retail	374	318
Dealer	55	42
Operating leases.....	1,769	1,676
Total revenues	2,200	2,041
Depreciation on operating leases	1,375	1,346
Interest expense.....	274	204
Net revenues.....	551	491
Gain on disposition of lease vehicles	47	29
Other income.....	15	14
Total net revenues	613	534
Expenses:		
General and administrative expenses.....	110	108
Provision for credit losses.....	44	39
Early termination loss on operating leases.....	17	17
Loss on lease residual values.....	—	1
(Gain)/Loss on derivative instruments.....	263	(229)
(Gain)/Loss on foreign currency revaluation of debt.....	(247)	209
Total expenses	187	145
Income before income taxes	426	389
Income tax expense	116	141
Net income	310	248
Less: Net income attributable to noncontrolling interest	26	27
Net income attributable to American Honda Finance Corporation.....	\$ 284	\$ 221

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

	Three months ended June 30,	
	2018	2017
Net income	\$ 310	\$ 248
Other comprehensive income/(loss):		
Foreign currency translation adjustment.....	(33)	42
Comprehensive income	277	290
Less: Comprehensive income attributable to noncontrolling interest	10	47
Comprehensive income attributable to American Honda Finance Corporation.....	\$ 267	\$ 243

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	Total	Retained earnings	Accumulated other comprehensive income/(loss)	Common stock	Noncontrolling interest
Balance at March 31, 2017	\$ 12,786	\$ 10,787	\$ (110)	\$ 1,366	\$ 743
Net income	248	221	—	—	27
Other comprehensive income.....	42	—	22	—	20
Balance at June 30, 2017.....	<u>\$ 13,076</u>	<u>\$ 11,008</u>	<u>\$ (88)</u>	<u>\$ 1,366</u>	<u>\$ 790</u>
 Balance at March 31, 2018	 \$ 16,596	 \$ 14,449	 \$ (85)	 \$ 1,366	 \$ 866
Net income	310	284	—	—	26
Other comprehensive loss	(33)	—	(17)	—	(16)
Balance at June 30, 2018.....	<u>\$ 16,873</u>	<u>\$ 14,733</u>	<u>\$ (102)</u>	<u>\$ 1,366</u>	<u>\$ 876</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)

	Three months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income.....	\$ 310	\$ 248
Adjustments to reconcile net income to net cash provided by operating activities:		
Debt and derivative instrument valuation adjustments.....	22	(16)
Loss on lease residual values and provision for credit losses.....	44	40
Early termination loss on operating leases and impairment on operating leases.....	17	17
Depreciation and amortization	1,378	1,348
Accretion of unearned subsidy income	(390)	(342)
Amortization of deferred dealer participation and other deferred costs	82	78
Gain on disposition of lease vehicles and fixed assets	(47)	(29)
Deferred income taxes.....	54	152
Changes in operating assets and liabilities:		
Income taxes receivable/payable	42	(26)
Other assets	(20)	(17)
Accrued interest/discounts on debt	29	15
Other liabilities	36	17
Due to/from Parent and affiliated companies	(35)	38
Net cash provided by operating activities.....	1,522	1,523
Cash flows from investing activities:		
Finance receivables acquired.....	(4,731)	(4,365)
Principal collected on finance receivables.....	3,991	3,937
Net change in wholesale loans.....	16	139
Purchase of operating lease vehicles	(4,214)	(3,949)
Disposal of operating lease vehicles	2,524	2,224
Cash received for unearned subsidy income.....	509	465
Other investing activities, net	(1)	(38)
Net cash used in investing activities.....	(1,906)	(1,587)

Statement continues on the next page.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	Three months ended June 30,	
	2018	2017
Cash flows from financing activities:		
Proceeds from issuance of commercial paper.....	6,816	8,579
Paydown of commercial paper	(6,620)	(7,365)
Proceeds from issuance of short-term debt.....	600	—
Proceeds from issuance of related party debt	1,006	968
Paydown of related party debt	(1,161)	(968)
Proceeds from issuance of medium term notes and other debt.....	387	—
Paydown of medium term notes and other debt.....	(335)	(1,348)
Proceeds from issuance of secured debt	989	1,401
Paydown of secured debt.....	(1,288)	(1,238)
Net cash provided by financing activities.....	394	29
Effect of exchange rate changes on cash and cash equivalents.....	(5)	—
Net increase/(decrease) in cash and cash equivalents.....	5	(35)
Cash and cash equivalents and restricted cash at beginning of period.....	1,226	1,142
Cash and cash equivalents and restricted cash at end of period	<u>\$ 1,231</u>	<u>\$ 1,107</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 198	\$ 145
Income taxes paid	\$ 14	\$ 15

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

	June 30,	
	2018	2017
Cash and cash equivalents.....	\$ 744	\$ 703
Restricted cash included in other assets ⁽¹⁾	487	404
Total.....	<u>\$ 1,231</u>	<u>\$ 1,107</u>

(1) Restricted cash balances relate primarily to securitization arrangements (Note 9).

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, 2018 included in the Company’s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on June 21, 2018. All significant intercompany balances and transactions have been eliminated upon consolidation.

(c) Recently Adopted Accounting Standards

Effective April 1, 2018, the Company adopted Accounting Standard Update (ASU) 2014-09 and the subsequent ASUs that modified ASU 2014-09, which have been codified in Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, and ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets*. 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 Company’s primary sources of revenue are from lease and loan contracts which are not within the scope of ASC 606 as they are within the scope of other accounting standards. All of the Company’s other revenue sources that are within the scope of ASC 606 are insignificant, with the exception of revenue from Vehicle Service Contract Administration. The adoption of this standard did not change the timing or amount of revenue from Vehicle Service Contract Administration, see Note 6—Transactions Involving Related Parties. Gains or losses related to the sale of lease vehicles are within the scope of ASC 610-20. The adoption of this standard did not impact the timing or amount of gains or losses from the disposition of lease vehicles. ASU 2014-09 was adopted using the modified retrospective transition method. The adoption of this standard did not require any adjustments to opening retained earnings as of April 1, 2018.

Effective April 1, 2018, the Company adopted 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 adoption of this standard did not have a material impact on the consolidated financial statements.

Effective April 1, 2018, the Company adopted 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 on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this standard did not have a material impact on the consolidated statements of cash flows.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

Effective April 1, 2018, the Company adopted 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 consolidated statements of cash flows. Under the amended guidance, transfers between restricted and unrestricted cash accounts are not reported as cash flows. The amendments in this update require that amounts classified as restricted cash and restricted cash equivalents be included within the beginning-of-period and end-of-period amounts along with cash and cash equivalents on the statement of cash flows. The amendments were applied retrospectively to all periods presented within the consolidated statements of cash flows.

(d) Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the guidance in ASC 840, *Leases*. The new standard will require the Company to record right-of-use assets and lease liabilities for the current operating leases as a lessee. The Company anticipates that adoption of this standard will require the present value of all the future minimum lease payments to be made by the Company to be included in the Company's consolidated balance sheets, as disclosed in Note 8—Commitments and Contingencies. 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.

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 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:

June 30, 2018				
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Finance receivables	\$ 97	\$ 33,753	\$ 5,469	\$ 39,319
Allowance for credit losses.....	—	(183)	—	(183)
Write-down of lease residual values.....	(6)	—	—	(6)
Unearned interest income and fees	(1)	—	—	(1)
Deferred dealer participation and other deferred costs	—	411	—	411
Unearned subsidy income.....	(1)	(1,071)	—	(1,072)
Finance receivables, net	<u>\$ 89</u>	<u>\$ 32,910</u>	<u>\$ 5,469</u>	<u>\$ 38,468</u>

March 31, 2018				
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Finance receivables	\$ 154	\$ 33,140	\$ 5,495	\$ 38,789
Allowance for credit losses.....	—	(179)	—	(179)
Write-down of lease residual values.....	(9)	—	—	(9)
Unearned interest income and fees	(2)	—	—	(2)
Deferred dealer participation and other deferred costs	—	396	—	396
Unearned subsidy income.....	(2)	(1,037)	—	(1,039)
Finance receivables, net	<u>\$ 141</u>	<u>\$ 32,320</u>	<u>\$ 5,495</u>	<u>\$ 37,956</u>

Finance receivables include retail loans with a principal balance of \$9.1 billion as of both June 30, 2018 and March 31, 2018, 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 \$23 million and \$35 million at June 30, 2018 and March 31, 2018, 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 \$21 million and \$17 million for the three months ended June 30, 2018 and 2017, 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
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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, 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 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 three months ended June 30, 2018 and 2017.

The Company generally does not grant concessions on consumer finance receivables that are considered troubled debt restructurings other than modifications of retail loans in reorganization proceedings pursuant to the U.S. Bankruptcy Code. Retail loans modified under bankruptcy protection were not material to the Company's consolidated financial statements during the three months ended June 30, 2018 and 2017. The Company does allow payment deferrals on consumer finance receivables. However, these payment deferrals are not considered troubled debt restructurings since the deferrals are deemed insignificant and interest continues to accrue during the deferral period.

**AMERICAN HONDA FINANCE CORPORATION
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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:

	Three months ended June 30, 2018			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Beginning balance, April 1, 2018.....	\$ —	\$ 179	\$ —	179
Provision.....	—	35	(1)	34
Charge-offs.....	—	(55)	—	(55)
Recoveries.....	—	24	1	25
Effect of translation adjustment.....	—	—	—	—
Ending balance, June 30, 2018.....	<u>\$ —</u>	<u>\$ 183</u>	<u>\$ —</u>	<u>\$ 183</u>
Allowance for credit losses – ending balance:				
Individually evaluated for impairment.....	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment.....	—	183	—	183
Finance receivables – ending balance:				
Individually evaluated for impairment.....	\$ —	\$ —	\$ 121	\$ 121
Collectively evaluated for impairment.....	95	33,093	5,348	38,536

	Three months ended June 30, 2017			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Beginning balance, April 1, 2017.....	\$ 1	\$ 132	\$ —	\$ 133
Provision.....	—	33	—	33
Charge-offs.....	—	(48)	—	(48)
Recoveries.....	—	20	—	20
Effect of translation adjustment.....	—	—	—	—
Ending balance, June 30, 2017.....	<u>\$ 1</u>	<u>\$ 137</u>	<u>\$ —</u>	<u>\$ 138</u>
Allowance for credit losses – ending balance:				
Individually evaluated for impairment.....	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment.....	1	137	—	138
Finance receivables – ending balance:				
Individually evaluated for impairment.....	\$ —	\$ —	\$ 2	\$ 2
Collectively evaluated for impairment.....	298	31,100	4,900	36,298

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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)						
June 30, 2018						
Retail loans:						
New auto.....	\$ 203	\$ 49	\$ 11	\$ 263	\$ 27,352	\$ 27,615
Used and certified auto	68	15	3	86	4,173	4,259
Motorcycle and other	11	4	2	17	1,202	1,219
Total retail	282	68	16	366	32,727	33,093
Direct financing leases	2	—	—	2	93	95
Dealer loans:						
Wholesale flooring.....	5	3	5	13	4,415	4,428
Commercial loans	—	—	—	—	1,041	1,041
Total dealer loans	5	3	5	13	5,456	5,469
Total finance receivables.....	<u>\$ 289</u>	<u>\$ 71</u>	<u>\$ 21</u>	<u>\$ 381</u>	<u>\$ 38,276</u>	<u>\$ 38,657</u>
March 31, 2018						
Retail loans:						
New auto.....	\$ 188	\$ 35	\$ 10	\$ 233	\$ 27,034	\$ 27,267
Used and certified auto	59	11	2	72	3,967	4,039
Motorcycle and other	10	3	2	15	1,178	1,193
Total retail	257	49	14	320	32,179	32,499
Direct financing leases	2	—	—	2	148	150
Dealer loans:						
Wholesale flooring.....	2	1	2	5	4,447	4,452
Commercial loans	—	—	—	—	1,043	1,043
Total dealer loans	2	1	2	5	5,490	5,495
Total finance receivables.....	<u>\$ 261</u>	<u>\$ 50</u>	<u>\$ 16</u>	<u>\$ 327</u>	<u>\$ 37,817</u>	<u>\$ 38,144</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)				
June 30, 2018					
Performing	\$ 27,555	\$ 4,241	\$ 1,213	\$ 95	\$ 33,104
Nonperforming	60	18	6	—	84
Total	<u>\$ 27,615</u>	<u>\$ 4,259</u>	<u>\$ 1,219</u>	<u>\$ 95</u>	<u>\$ 33,188</u>
March 31, 2018					
Performing	\$ 27,222	\$ 4,026	\$ 1,188	\$ 150	\$ 32,586
Nonperforming	45	13	5	—	63
Total	<u>\$ 27,267</u>	<u>\$ 4,039</u>	<u>\$ 1,193</u>	<u>\$ 150</u>	<u>\$ 32,649</u>

Dealer Loan Portfolio Segment

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

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 significant.

		June 30, 2018			March 31, 2018	
	<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	\$ 2,651	\$ 659	\$ 3,310	\$ 2,791	\$ 684	\$ 3,475
Group B	1,777	382	2,159	1,661	359	2,020
Total	<u>\$ 4,428</u>	<u>\$ 1,041</u>	<u>\$ 5,469</u>	<u>\$ 4,452</u>	<u>\$ 1,043</u>	<u>\$ 5,495</u>

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(3) Investment in Operating Leases

Investment in operating leases consisted of the following:

	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)	
Operating lease vehicles	\$ 41,464	\$ 41,285
Accumulated depreciation	(8,134)	(8,169)
Deferred dealer participation and other deferred costs	118	117
Unearned subsidy income.....	(1,392)	(1,317)
Estimated early termination losses	(101)	(99)
Investment in operating leases, net	<u>\$ 31,955</u>	<u>\$ 31,817</u>

The Company recognized \$17 million of estimated early termination losses due to lessee defaults for both the three months ended June 30, 2018 and 2017. Actual net losses realized for the three months ended June 30, 2018 and 2017 totaled \$15 million and \$14 million, respectively.

Included in the provision for credit losses for the three months ended June 30, 2018 and 2017 are provisions related to past due receivables on operating leases in the amounts of \$10 million and \$6 million, respectively.

No impairment losses due to declines in estimated residual values were recognized during the three months ended June 30, 2018 and 2017.

(4) Debt

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

			Weighted average contractual interest rate		Contractual interest rate ranges	
	June 30, 2018	March 31, 2018	June 30, 2018	March 31, 2018	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)					
Unsecured debt:						
Commercial paper	\$ 5,349	\$ 5,167	2.11%	1.86%	1.50 - 2.31%	1.07 - 2.21%
Related party debt	914	1,085	1.74%	1.64%	1.70 - 1.77%	1.43 - 1.72%
Bank loans.....	5,402	5,419	2.83%	2.48%	2.09 - 3.18%	2.02 - 3.15%
Private MTN program..	1,698	1,698	5.40%	5.40%	3.80 - 7.63%	3.80 - 7.63%
Public MTN program...	21,808	21,398	2.05%	1.92%	0.08 - 3.50%	0.07 - 3.50%
Euro MTN programme	1,031	1,111	2.02%	1.95%	1.88 - 2.96%	1.88 - 2.33%
Other debt.....	3,267	3,250	2.35%	2.20%	1.63 - 3.44%	1.63 - 2.76%
Total unsecured debt	39,469	39,128				
Secured debt	8,418	8,733	1.92%	1.74%	1.04 - 3.16%	1.04 - 2.83%
Total debt.....	\$ 47,887	\$ 47,861				

As of June 30, 2018, the outstanding principal balance of long-term debt with floating interest rates totaled \$12.9 billion, long-term debt with fixed interest rates totaled \$27.7 billion, and short-term debt totaled \$7.3 billion. As of March 31, 2018, the outstanding principal balance of long-term debt with floating interest rates totaled \$13.2 billion, long-term debt with fixed interest rates totaled \$27.8 billion, and short-term debt totaled \$7.0 billion.

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Commercial Paper

As of June 30, 2018 and March 31, 2018, the Company had commercial paper programs that provide the Company with available funds of up to \$8.5 billion and \$8.6 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 \$5.4 billion and \$5.5 billion during the three months ended June 30, 2018 and 2017, respectively. The maximum balance outstanding at any month-end during both the three months ended June 30, 2018 and 2017 was \$5.7 billion.

Related Party Debt

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 June 30, 2018 and 2017, respectively.

Bank Loans

Outstanding bank loans at June 30, 2018 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 June 30, 2018 were supported by the Keep Well Agreements with HMC described in Note 6. Outstanding bank loans contain certain covenants, including limitations on liens, mergers, consolidations and asset sales.

Medium Term Note (MTN) Programs

Private MTN Program

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. Notes outstanding under the Private MTN Program as of June 30, 2018 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 June 30, 2018 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.

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 June 30, 2018 were long-term with either fixed or floating interest rates. 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 June 30, 2018 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.

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Secured Debt

The Company issues notes through financing transactions that are secured by assets held by the issuing securitization trusts. Notes outstanding as of June 30, 2018 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 1, 2019, a \$2.1 billion three-year credit agreement, which expires on March 3, 2021, and a \$1.4 billion five-year credit agreement, which expires on March 3, 2023. As of June 30, 2018, 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 \$1.2 billion credit agreement which provides that HCFI may borrow up to \$609 million on a one-year and up to \$609 million on a five-year revolving basis. The one-year tranche of the credit agreement expires on March 24, 2019 and the five-year tranche of the credit agreement expires on March 24, 2023. As of June 30, 2018, 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 June 30, 2018, 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.

(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.

	June 30, 2018			March 31, 2018		
	Notional balances	Assets	Liabilities (U.S. dollars in millions)	Notional balances	Assets	Liabilities
Interest rate swaps	\$ 55,014	\$ 472	\$ 326	\$ 56,043	\$ 465	\$ 342
Cross currency swaps	4,310	144	175	4,310	285	72
Gross derivative assets/liabilities		616	501		750	414
Counterparty netting adjustment and collateral		(375)	(373)		(372)	(371)
Net derivative assets/liabilities		<u>\$ 241</u>	<u>\$ 128</u>		<u>\$ 378</u>	<u>\$ 43</u>

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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.

	Three months ended June 30,	
	2018	2017
	(U.S. dollars in millions)	
Interest rate swaps	\$ 12	\$ 36
Cross currency swaps	(275)	193
Total gain/(loss) on derivative instruments	<u>\$ (263)</u>	<u>\$ 229</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. In Canada, HCFI is a party to credit support agreements that require posting of cash collateral to mitigate credit risk on derivative positions.

(6) Transactions Involving Related Parties

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

	Three months ended June 30,	
	2018	2017
	(U.S. dollars in millions)	
Income Statement		
Revenue:		
Subsidy income	\$ 387	\$ 339
Interest expense:		
Related party debt	4	3
Other income, net:		
VSC administration fees	27	26
Support Service Fee	(9)	(7)
General and administrative expenses:		
Support Compensation Agreement fees	6	5
Benefit plan expenses	3	3
Shared services	15	16

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Balance Sheet	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)	
Assets:		
Finance receivables, net:		
Unearned subsidy income	\$ (1,064)	\$ (1,030)
Investment in operating leases, net:		
Unearned subsidy income	(1,388)	(1,313)
Due from Parent and affiliated companies	199	139
Liabilities:		
Debt:		
Related party debt	\$ 914	\$ 1,085
Due to Parent and affiliated companies	113	87
Accrued interest expense:		
Related party debt	2	3
Other liabilities:		
VSC unearned administrative fees	396	396
Accrued benefit expenses	73	71

Support Agreements

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

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

Debt programs supported by the Keep Well Agreements consist of the Company's commercial paper programs, Private MTN Program, Public MTN Program, Euro MTN Programme, and HCFI's private placement debt. 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.

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Related Party Debt

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 performs administrative services for VSCs issued by AHM and its subsidiaries. AHFC's performance obligations for the services are satisfied over the term of the underlying contracts and revenue is recognized proportionate to the anticipated amount of services to be performed. Contract terms range between 2 to 8 years with the majority of contracts having original terms between 6 and 8 years. The majority of the administrative service revenue is recognized during the latter years of the underlying contracts as this is the period in which the majority of VSC claims are processed. AHFC receives fees for performing the administrative services when the contracts are acquired. Unearned VSC administration fees represents AHFC's contract liabilities and are included in other liabilities (Note 11). VSC administration income is recognized in other income (Note 12). HCFI receives fees for marketing VSCs issued by HCI. The fees are 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 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.

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 June 30, 2018 and 2017, the Company recognized \$6 million and \$10 million, respectively, under these programs which were reflected as proceeds on the disposition of the returned lease vehicles.

The majority of the amounts due from the Parent and affiliated companies at June 30, 2018 and March 31, 2018 related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at June 30, 2018 and March 31, 2018 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 2018, AHFC declared and paid a cash dividend of \$235 million to its parent, AHM.

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(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.

The Company adopted Staff Accounting Bulletin No. 118 (SAB 118) which provides guidance on accounting for the tax effects of the Tax Act in the Company's interim quarter ended December 31, 2017 to record re-measurement of deferred taxes and a one-time deemed repatriation transition tax (Transition Tax). As of March 31, 2018, the Company completed the accounting for the effect of re-measurement of deferred taxes at the new 21% tax rate. At March 31, 2018, the Company provisionally accrued a total of \$52 million for the Transition Tax. As of June 30, 2018, the Company's accounting for the Transition Tax remains provisional, pending further analysis of relevant U.S. federal and state interpretive guidance which continues to evolve, and no additional measurement period adjustment has been recorded. The Company expects to complete the accounting for this item within the twelve-month measurement period afforded by SAB 118. The Company has elected not to record deferred taxes for a Global Intangible Low-Taxed Income (GILTI) related book-tax differences, and will treat taxes due on future U.S. inclusions in taxable income related to GILTI as current period expense when incurred. Other domestic and international effects of the Tax Act to the total tax expense are immaterial as of June 30, 2018.

The Company's effective tax rate was 27.3% and 36.1% for the three months ended June 30, 2018 and 2017, respectively. The decrease in the effective tax rate for the three months ended June 30, 2018 was primarily due to the impact of the U.S. federal corporate tax rate reduction from 35% to 21%, offset by the net effects of tax credits, foreign rate differential, uncertain tax positions, and state taxes.

Prior to the passage of the Tax Act, foreign undistributed earnings were generally subject to U.S. taxation when repatriated and may generally be offset by foreign tax credits. The Tax Act imposes a one-time Transition Tax on the previously untaxed U.S. federal tax based on "earnings and profits" ("E&P") as of December 31, 2017 and generally eliminates future U.S. federal income taxes on dividends from foreign subsidiaries. The Company has provisionally provided for federal and certain states Transition Tax in the period ended March 31, 2018. 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 June 30, 2018, \$896 million of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of June 30, 2018 were to be distributed, the tax liability associated with these indefinitely reinvested earnings would be \$33 million.

The changes in the unrecognized tax benefits for the three months ended June 30, 2018 were insignificant. 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, 2019.

As of June 30, 2018, 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 examination for returns filed for the taxable years ended March 31, 2009, and 2011 through 2017 federally, and returns filed for the taxable years ended March 31, 2009 through 2017 provincially. The Company believes appropriate provision has been made for all outstanding issues for all open years.

(8) Commitments and Contingencies

The Company leases certain premises and equipment on a long-term basis under noncancelable leases. Some of these leases require the Company to pay property taxes, insurance, and other expenses. Lease expense was \$3 million and \$2 million for the three months ended June 30, 2018 and 2017, 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 \$209 million as of June 30, 2018. The Company also has commitments to finance the construction of auto dealership facilities. The remaining unfunded balance for these construction loans was \$25 million as of June 30, 2018.

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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.

(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 three months ended June 30, 2018 and 2017, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling \$1.0 billion and \$1.4 billion, respectively. The notes were secured by receivables with an initial principal balance of \$1.3 billion and \$1.8 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.

	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)	
Assets:		
Finance receivables	\$ 9,063	\$ 9,112
Unamortized costs and subsidy income, net	(211)	(203)
Allowance for credit losses	(14)	(14)
Finance receivables, net	8,838	8,895
Vehicles held for disposition.....	3	4
Restricted cash ⁽¹⁾	487	443
Accrued interest receivable ⁽¹⁾	9	9
Total assets.....	<u>\$ 9,337</u>	<u>\$ 9,351</u>
Liabilities:		
Secured debt.....	\$ 8,431	\$ 8,745
Unamortized discounts and fees.....	(13)	(12)
Secured debt, net.....	8,418	8,733
Accrued interest expense	7	6
Total liabilities	<u>\$ 8,425</u>	<u>\$ 8,739</u>

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

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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 June 30, 2018 and March 31, 2018, AHFC and HCFI had combined cash collections of \$444 million and \$466 million, respectively, which were required to be remitted to the trusts.

(10) Other Assets

Other assets consisted of the following:

	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)	
Interest receivable and other assets.....	\$ 89	\$ 84
Other receivables	162	144
Deferred expense	125	122
Software, net of accumulated amortization of \$147 and \$146 as of June 30, 2018 and March 31, 2018, respectively	32	33
Property and equipment, net of accumulated depreciation of \$20 and \$20 as of June 30, 2018 and March 31, 2018, respectively	6	6
Restricted cash.....	487	443
Other miscellaneous assets	93	102
Total.....	<u>\$ 994</u>	<u>\$ 934</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 June 30, 2018 and 2017, respectively.

(11) Other Liabilities

Other liabilities consisted of the following:

	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)	
Dealer payables	\$ 188	\$ 174
Accounts payable and accrued expenses	365	363
Lease security deposits	79	78
VSC unearned administrative fees (Note 6)	396	396
Unearned income, operating lease	345	347
Uncertain tax positions	17	10
Other liabilities	18	14
Total.....	<u>\$ 1,408</u>	<u>\$ 1,382</u>

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(12) Other Income, net

Other income consisted of the following:

	Three months ended June 30,	
	2018	2017
	(U.S. dollars in millions)	
VSC administration (Note 6).....	\$ 27	\$ 26
Other, net	(12)	(12)
Total.....	\$ 15	\$ 14

(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:

June 30, 2018				
	Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)			
Assets:				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 472	\$ —	\$ 472
Cross currency swaps	—	144	—	144
Total assets	<u>\$ —</u>	<u>\$ 616</u>	<u>\$ —</u>	<u>\$ 616</u>
Liabilities:				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 326	\$ —	\$ 326
Cross currency swaps	—	175	—	175
Total liabilities	<u>\$ —</u>	<u>\$ 501</u>	<u>\$ —</u>	<u>\$ 501</u>

March 31, 2018				
	Level 1	Level 2	Level 3	Total
	(U.S. dollars in millions)			
Assets:				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 465	\$ —	\$ 465
Cross currency swaps	—	285	—	285
Total assets	<u>\$ —</u>	<u>\$ 750</u>	<u>\$ —</u>	<u>\$ 750</u>
Liabilities:				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 342	\$ —	\$ 342
Cross currency swaps	—	72	—	72
Total liabilities	\$ —	\$ 414	\$ —	\$ 414

Notes to Consolidated Financial Statements (Unaudited)

Derivative Instruments

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 three months ended June 30, 2018 and 2017. Refer to Note 5 for additional information on derivative instruments.

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.

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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.

June 30, 2018					
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
(U.S. dollars in millions)					
Assets:					
Cash and cash equivalents...	\$ 744	\$ 744	\$ —	\$ —	\$ 744
Dealer loans, net.....	5,469	—	—	5,262	5,262
Retail loans, net.....	32,910	—	—	32,848	32,848
Restricted cash	487	487	—	—	487
Liabilities:					
Commercial paper	\$ 5,349	\$ —	\$ 5,350	\$ —	\$ 5,350
Related party debt	914	—	914	—	914
Bank loans.....	5,402	—	5,453	—	5,453
Medium term note programs	24,537	—	24,436	—	24,436
Other debt.....	3,267	—	3,246	—	3,246
Secured debt.....	8,418	—	8,372	—	8,372

March 31, 2018					
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
			(U.S. dollars in millions)		
Assets:					
Cash and cash equivalents...	\$ 783	\$ 783	\$ —	\$ —	\$ 783
Dealer loans, net.....	5,495	—	—	5,299	5,299
Retail loans, net.....	32,320	—	—	32,295	32,295
Restricted cash	443	443	—	—	443
Liabilities:					
Commercial paper	\$ 5,167	\$ —	\$ 5,167	\$ —	\$ 5,167
Related party debt	1,085	—	1,085	—	1,085
Bank loans.....	5,419	—	5,480	—	5,480
Medium term note programs	24,207	—	24,176	—	24,176
Other debt.....	3,250	—	3,229	—	3,229
Secured debt.....	8,733	—	8,683	—	8,683

Fair value information presented in the tables above is based on information available at June 30, 2018 and March 31, 2018. 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.

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Notes to Consolidated Financial Statements (Unaudited)

(14) Segment Information

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

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

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

Financial information for the three months ended or at June 30, 2018 and 2017 is summarized in the following tables:

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
Three months ended June 30, 2018				
Revenues:				
Direct financing leases	\$ —	\$ 2	\$ —	\$ 2
Retail	324	50	—	374
Dealer	50	5	—	55
Operating leases	1,468	301	—	1,769
Total revenues	1,842	358	—	2,200
Depreciation on operating leases	1,133	242	—	1,375
Interest expense	234	40	—	274
Realized (gains)/losses on derivatives and foreign currency denominated debt	(2)	(3)	5	—
Net revenues	477	79	(5)	551
Gain on disposition of lease vehicles	38	9	—	47
Other income	13	2	—	15
Total net revenues	528	90	(5)	613
Expenses:				
General and administrative expenses	96	14	—	110
Provision for credit losses	42	2	—	44
Early termination loss on operating leases	16	1	—	17
(Gain)/Loss on derivative instruments	—	—	263	263
(Gain)/Loss on foreign currency revaluation of debt ..	—	—	(247)	(247)
Income before income taxes	\$ 374	\$ 73	\$ (21)	\$ 426
June 30, 2018				
Finance receivables, net	\$ 33,900	\$ 4,568	\$ —	\$ 38,468
Investment in operating leases, net	27,028	4,927	—	31,955
Total assets	63,488	9,732	—	73,220

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Notes to Consolidated Financial Statements (Unaudited)

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
Three months ended June 30, 2017				
Revenues:				
Direct financing leases	\$ —	\$ 5	\$ —	\$ 5
Retail	276	42	—	318
Dealer	38	4	—	42
Operating leases	1,442	234	—	1,676
Total revenues	1,756	285	—	2,041
Depreciation on operating leases	1,152	194	—	1,346
Interest expense	179	25	—	204
Realized (gains)/losses on derivatives and foreign currency denominated debt				
Net revenues	(6)	3	3	—
Gain on disposition of lease vehicles	431	63	(3)	491
Other income	21	8	—	29
Total net revenues	12	2	—	14
	464	73	(3)	534
Expenses:				
General and administrative expenses	94	14	—	108
Provision for credit losses	37	2	—	39
Early termination loss on operating leases	16	1	—	17
Loss on lease residual values	—	1	—	1
(Gain)/Loss on derivative instruments	—	—	(229)	(229)
(Gain)/Loss on foreign currency revaluation of debt ..	—	—	209	209
Income before income taxes	\$ 317	\$ 55	\$ 17	\$ 389
June 30, 2017				
Finance receivables, net	\$ 31,528	\$ 4,622	\$ —	\$ 36,150
Investment in operating leases, net	27,481	4,332	—	31,813
Total assets	61,446	9,117	—	70,563

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 typically only has a limited impact on our results of operations for that period. The amount of subsidy income we recognize in a fiscal period is dependent on the cumulative level of subsidized contracts outstanding that were acquired through incentive financing programs.

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

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

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

References in this report to our “fiscal year 2019” and “fiscal year 2018” refer to our fiscal year ending March 31, 2019 and our fiscal year ended March 31, 2018, respectively.

Results of Operations

The following table presents our income before income taxes:

	Three months ended June 30,	
	2018	2017
(U.S. dollars in millions)		
Income before income taxes:		
United States segment	\$ 353	\$ 314
Canada segment	73	75
Total income before income taxes	<u>\$ 426</u>	<u>\$ 389</u>

Comparison of the Three Months Ended June 30, 2018 and 2017

Our consolidated income before income taxes was \$426 million during the first quarter of fiscal year 2019 compared to \$389 million during the same period in fiscal year 2018. This increase of \$37 million, or 10%, was due to the following:

	Three months ended			
	June 30,			
	2018	2017	Difference	% Change
	(U.S. dollars in millions)			
Net revenues:				
Retail	374	318	56	18%
Dealer	55	42	13	31%
Operating lease, net of depreciation	394	330	64	19%
Interest expense	(274)	(204)	(70)	34%
Gain on disposition of lease vehicles.....	47	29	18	62%
Other	17	19	(2)	(11%)
Total net revenues	613	534	79	15%
Expenses:				
(Gain)/Loss on derivative instruments.....	263	(229)	492	n/m
(Gain)/Loss on foreign currency revaluation of debt.....	(247)	209	(456)	n/m
Other	171	165	6	4%
Total expenses	187	145	42	29%
Total income before income taxes.....	\$ 426	\$ 389	\$ 37	10%

n/m = not meaningful

Segment Results—Comparison of the Three Months Ended June 30, 2018 and 2017

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

	United States Segment		Canada Segment		Consolidated	
	Three months ended June 30,		Three months ended June 30,		Three months ended June 30,	
	2018	2017	2018	2017	2018	2017
(U.S. dollars in millions)						
Revenues:						
Direct financing leases	\$ —	\$ —	\$ 2	\$ 5	\$ 2	\$ 5
Retail	324	276	50	42	374	318
Dealer	50	38	5	4	55	42
Operating leases	1,468	1,442	301	234	1,769	1,676
Total revenues	1,842	1,756	358	285	2,200	2,041
Depreciation on operating leases	1,133	1,152	242	194	1,375	1,346
Interest expense	234	179	40	25	274	204
Net revenues	475	425	76	66	551	491
Gain on disposition of lease vehicles	38	21	9	8	47	29
Other income	13	12	2	2	15	14
Total net revenues	526	458	87	76	613	534
Expenses:						
General and administrative expenses	96	94	14	14	110	108
Provision for credit losses	42	37	2	2	44	39
Early termination loss on operating leases	16	16	1	1	17	17
Loss on lease residual values	—	—	—	1	—	1
(Gain)/Loss on derivative instruments	266	(212)	(3)	(17)	263	(229)
(Gain)/Loss on foreign currency revaluation of debt	(247)	209	—	—	(247)	209
Income before income taxes	<u>\$ 353</u>	<u>\$ 314</u>	<u>\$ 73</u>	<u>\$ 75</u>	<u>\$ 426</u>	<u>\$ 389</u>

Revenues

Revenue from retail loans in the United States segment increased by \$48 million, or 17%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. The increase in revenue was attributable to higher yields due to the rising interest rate environment and, 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 19%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. The increase in revenue was attributable to higher yields due to the rising interest rate environment, higher average outstanding balances and the effect of foreign currency translation adjustments.

Operating lease revenue in the United States segment increased by \$26 million, or 2%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018 primarily due to higher net revenue on more recently acquired operating lease assets. Operating lease revenue in the Canada segment increased by \$67 million, or 29%, 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 \$3 million, or 60%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018 due to the run-off of direct financing lease assets.

Revenue from dealer loans in the United States segment increased by \$12 million, or 32%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018 primarily due to higher yields and higher average outstanding balances. Revenue from dealer loans in the Canada segment increased by \$1 million, or 25%, primarily due to higher yields and the effect of foreign currency translation adjustments.

Consolidated subsidy income from AHM and HCI sponsored incentive programs increased by \$48 million, or 14%, to \$387 million during the first quarter of fiscal year 2019 compared to \$339 million during the same period in fiscal year 2018 primarily due to the increase in average subsidy payments received. As a result of the rising interest rate environment, the average amount of subsidy payments necessary for us to realize market yields on incentive programs has also been rising.

Depreciation on operating leases

Depreciation on operating leases in the United States segment decreased by \$19 million, or 2%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. The decrease in depreciation was primarily due to improvements in expected used vehicle values during the first quarter of fiscal year 2019 as compared to the same period in fiscal year 2018. Depreciation on operating lease assets in the Canada segment increased by \$48 million, or 25%, due to higher average outstanding operating lease assets and the effect of foreign currency translation adjustments.

Operating lease revenue, net of depreciation, increased by \$45 million, or 16%, in the United States segment and by \$19 million, or 48%, in the Canada segment during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. The increases in operating lease revenue, net of depreciation, were attributable to higher net revenue on more recently acquired operating lease assets in the United States segment and higher average outstanding operating lease assets in the Canada segment.

Interest expense

Interest expense in the United States segment increased by \$55 million, or 31%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018 primarily due to higher average interest rates. Interest expense in the Canada segment increased by \$15 million, or 60%, due to higher average interest rates, an increase in average outstanding debt and the effect of foreign currency translation adjustments. See “—*Liquidity and Capital Resources*” below for more information.

Gain on disposition of lease vehicles

The gain on disposition of lease vehicles in the United States segment increased by \$17 million, or 81%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. The gain on disposition of lease vehicles in the Canada segment increased by \$1 million, or 13%. The increases in gains were primarily the result of a 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 \$5 million, or 14%, during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018, primarily due to the increase in provision for past due operating lease rental payments. The provision for credit losses in the Canada segment was consistent during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. See “—*Financial Condition—Credit Risk*” below for more information.

Early termination loss on operating leases

Early termination losses on operating leases in the United States and Canada segments were flat during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. See “—*Financial Condition—Credit Risk*” below for more information.

Gain/loss on derivative instruments

In the United States segment, we recognized a loss on derivative instruments of \$266 million during the first quarter of fiscal year 2019 compared to a gain of \$212 million during the same period in fiscal year 2018. The loss in the first quarter of fiscal year 2019 was attributable to a loss on cross currency swaps of \$275 million and pay float interest rate swaps of \$46 million, offset by gains on pay fixed interest rate swaps of \$55 million. The loss on cross currency swaps during the first quarter of fiscal year 2019 was primarily attributable to the U.S. dollar strengthening 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 quarter of fiscal year 2019 were primarily due to an increase in applicable swap rates during the period. In the Canada segment, we recognized a gain on derivative instruments of \$3 million during the first quarter of fiscal year 2019 compared to a gain of \$17 million during the same period in fiscal year 2018. The gains during fiscal year 2019 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 gain on the revaluation of foreign currency denominated debt of \$247 million during the first quarter of fiscal year 2019 compared to a loss of \$209 million during the same period in fiscal year 2018. The gain during the first quarter of fiscal year 2019 was primarily due to the U.S. dollar strengthening against the Euro and Sterling during the period.

Income tax expense

The consolidated effective tax rate was 27.3% for the first quarter of fiscal year 2019 and 36.1% for the same period in fiscal year 2018. The decrease in the effective tax rate for the first quarter of fiscal year 2019 was primarily due to the impact of the U.S. federal corporate tax rate reduction from 35% to 21%, offset by the net effects of tax credits, foreign rate differential, uncertain tax positions, and state 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:

	2018		2017	
	Acquired	Sponsored ⁽²⁾	Acquired	Sponsored ⁽²⁾
(Units ⁽¹⁾ in thousands)				
United States Segment				
Retail loans:				
New auto.....	122	80	119	86
Used auto	31	4	22	3
Motorcycle.....	19	2	21	3
Total retail loans	172	86	162	92
Leases.....	128	114	125	108
Canada Segment				
Retail loans:				
New auto.....	18	18	21	20
Used auto	1	—	3	3
Motorcycle.....	3	3	3	3
Total retail loans	22	21	27	26
Leases.....	28	28	26	26
Consolidated				
Retail loans:				
New auto.....	140	98	140	106
Used auto	32	4	25	6
Motorcycle.....	22	5	24	6
Total retail loans	194	107	189	118
Leases.....	156	142	151	134

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

Consumer Financing Penetration Rates

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

	Three months ended June 30,	
	2018	2017
<u>United States Segment</u>		
New auto.....	59%	57%
Motorcycle.....	35%	37%
<u>Canada Segment</u>		
New auto.....	80%	79%
Motorcycle.....	30%	31%
<u>Consolidated</u>		
New auto.....	61%	60%
Motorcycle.....	34%	36%

Consumer Financing Asset Balances

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

	June 30, 2018	March 31, 2018	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)		(Units ⁽¹⁾ in thousands)	
<u>United States Segment</u>				
Retail loans:				
New auto.....	\$ 24,019	\$ 23,700	1,574	1,590
Used auto.....	3,935	3,685	281	268
Motorcycle.....	1,060	1,028	194	193
Other.....	46	46	4	4
Total retail loans.....	<u>\$ 29,060</u>	<u>\$ 28,459</u>	<u>2,053</u>	<u>2,055</u>
Securitized retail loans ⁽²⁾	\$ 7,717	\$ 7,633	677	691
Investment in operating leases.....	\$ 27,028	\$ 27,040	1,296	1,301
<u>Canada Segment</u>				
Retail loans:				
New auto.....	\$ 3,470	\$ 3,463	250	245
Used auto.....	284	309	34	36
Motorcycle.....	93	86	20	19
Other.....	3	3	2	2
Total retail loans.....	<u>\$ 3,850</u>	<u>\$ 3,861</u>	<u>306</u>	<u>302</u>
Securitized retail loans ⁽²⁾	\$ 1,121	\$ 1,262	85	89
Direct financing leases.....	\$ 89	\$ 141	10	15
Investment in operating leases.....	\$ 4,927	\$ 4,777	271	259
<u>Consolidated</u>				
Retail loans:				
New auto.....	\$ 27,489	\$ 27,163	1,824	1,835
Used auto.....	4,219	3,994	315	304
Motorcycle.....	1,153	1,114	214	212
Other.....	49	49	6	6
Total retail loans.....	<u>\$ 32,910</u>	<u>\$ 32,320</u>	<u>2,359</u>	<u>2,357</u>
Securitized retail loans ⁽²⁾	\$ 8,838	\$ 8,895	762	780
Direct financing leases.....	\$ 89	\$ 141	10	15
Investment in operating leases.....	\$ 31,955	\$ 31,817	1,567	1,560

(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 6% during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018 primarily due to the increase in non-sponsored new and used auto loan acquisition volumes. Lease acquisition volumes increased by 2% during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018 primarily due to the increase in incentive program volumes.

In the Canada segment, retail loan acquisition volumes declined by 19% during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018 primarily due to decline in retail loan incentive volumes. Lease acquisition volumes increased by 8% during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. Outstanding direct financing lease assets continued to decline and operating lease assets continued to increase during the first quarter of fiscal year 2019 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:

	June 30, 2018	March 31, 2018
United States Segment		
Automobile	29%	28%
Motorcycle	98%	98%
Other	21%	21%
Canada Segment		
Automobile	35%	36%
Motorcycle	94%	95%
Other	95%	95%
Consolidated		
Automobile	30%	30%
Motorcycle	97%	97%
Other	23%	23%

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 June 30,	
	2018	2017
United States Segment		
Automobile	28%	29%
Motorcycle	97%	97%
Other	11%	10%
Canada Segment		
Automobile	31%	31%
Motorcycle	91%	93%
Other	97%	96%
Consolidated		
Automobile	29%	29%
Motorcycle	96%	97%
Other	16%	14%

Dealer Financing Asset Balances

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

	June 30, 2018	March 31, 2018	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)		(Units ⁽¹⁾ in thousands)	
United States Segment				
Wholesale flooring loans:				
Automobile	\$ 3,148	\$ 3,075	114	113
Motorcycle.....	663	738	87	100
Other	50	60	53	67
Total wholesale flooring loans	<u>\$ 3,861</u>	<u>\$ 3,873</u>	<u>254</u>	<u>280</u>
Commercial loans	<u>\$ 978</u>	<u>\$ 978</u>		
Canada Segment				
Wholesale flooring loans:				
Automobile	\$ 462	\$ 452	18	18
Motorcycle.....	75	98	10	13
Other	30	29	33	31
Total wholesale flooring loans	<u>\$ 567</u>	<u>\$ 579</u>	<u>61</u>	<u>62</u>
Commercial loans	<u>\$ 63</u>	<u>\$ 65</u>		
Consolidated				
Wholesale flooring loans:				
Automobile	\$ 3,610	\$ 3,527	132	131
Motorcycle.....	738	836	97	113
Other	80	89	86	98
Total wholesale flooring loans	<u>\$ 4,428</u>	<u>\$ 4,452</u>	<u>315</u>	<u>342</u>
Commercial loans	<u>\$ 1,041</u>	<u>\$ 1,043</u>		

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

Credit Risk

Credit losses are an expected cost of extending credit. The majority of our credit risk is in consumer financing and to a lesser extent in dealer financing. Credit risk of our portfolio of consumer finance receivables can be affected by general economic conditions. Adverse changes such as a rise in unemployment can increase the likelihood of defaults. Declines in used vehicle prices can reduce the amount of recoveries on repossessed collateral. We manage our exposure to credit risk in retail loans 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 agreements with AHM and HCI that provide for their repurchase of new, unused, undamaged and unregistered vehicles or equipment that have been repossessed from dealers who defaulted under the terms of its wholesale flooring agreement.

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 June 30,	
	2018	2017
	(U.S. dollars in millions)	
United States Segment		
Finance receivables:		
Allowance for credit losses at beginning of period.....	\$ 173	\$ 124
Provision for credit losses.....	32	31
Charge-offs, net of recoveries.....	(28)	(26)
Allowance for credit losses at end of period.....	<u>\$ 177</u>	<u>\$ 129</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.51%	0.40%
Charge-offs as a percentage of average receivable balance ^{(1), (4)}	0.33%	0.32%
Delinquencies (60 or more days past due):		
Delinquent amount ⁽²⁾	\$ 85	\$ 67
As a percentage of ending receivable balance ^{(1), (2)}	0.25%	0.21%
Operating leases:		
Early termination loss on operating leases.....	\$ 16	\$ 16
Provision for past due operating lease rental payments ⁽³⁾	10	6
Canada Segment		
Finance receivables:		
Allowance for credit losses at beginning of period.....	\$ 6	\$ 9
Provision for credit losses.....	2	2
Charge-offs, net of recoveries.....	(2)	(2)
Effect of translation adjustment	—	—
Allowance for credit losses at end of period.....	<u>\$ 6</u>	<u>\$ 9</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.13%	0.20%
Charge-offs as a percentage of average receivable balance ^{(1), (4)}	0.11%	0.16%
Delinquencies (60 or more days past due):		
Delinquent amount ⁽²⁾	\$ 6	\$ 8
As a percentage of ending receivable balance ^{(1), (2)}	0.13%	0.16%
Operating leases:		
Early termination loss on operating leases.....	\$ 1	\$ 1
Provision for past due operating lease rental payments ⁽³⁾	—	—
Consolidated		
Finance receivables:		
Allowance for credit losses at beginning of period.....	\$ 179	\$ 133
Provision for credit losses.....	34	33
Charge-offs, net of recoveries.....	(30)	(28)
Effect of translation adjustment	—	—
Allowance for credit losses at end of period.....	<u>\$ 183</u>	<u>\$ 138</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.46%	0.37%
Charge-offs as a percentage of average receivable balance ^{(1), (4)}	0.30%	0.30%
Delinquencies (60 or more days past due):		
Delinquent amount ⁽²⁾	\$ 91	\$ 75
As a percentage of ending receivable balance ^{(1), (2)}	0.23%	0.20%
Operating leases:		
Early termination loss on operating leases.....	\$ 17	\$ 17
Provision for past due operating lease rental payments ⁽³⁾	10	6

- (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 each respective period.
- (2) For the purposes of determining whether a contract is delinquent, payment is generally considered to have been made, in the case of (i) dealer finance receivables, upon receipt of 100% of the payment when due and (ii) consumer finance receivables, upon receipt of 90% of the sum of the current monthly payment plus any overdue monthly payments. Delinquent amounts presented are the aggregated principal balances of delinquent finance receivables.
- (3) Provisions for past due operating lease rental payments are also included in total provision for credit losses in our consolidated statements of income.
- (4) Percentages for the three months ended June 30, 2018 and 2017 have been annualized.

In the United States segment, the provision for credit losses on our finance receivables was \$32 million during the first quarter of fiscal year 2019 compared to \$31 million during the same period in fiscal year 2018. Net charge-offs increased by \$2 million during the first quarter of fiscal year 2019 compared to the same period in fiscal year 2018. We have been experiencing an increasing trend in charge-offs since fiscal year 2016 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. The increasing trend in charge-offs was also the result of higher charge-off frequencies due to the increase in the volume of retail loans in our lowest credit grade tier and used auto loans. We recognized early termination losses on operating lease assets of \$16 million during the first quarter of fiscal year 2019 which was flat compared to the same period in fiscal year 2018. There was an increase in the frequency of lessee defaults which was partially offset by lower loss severities on early terminations. The increase in lessee defaults contributed to the increase in provision for credit losses on past due rental payments.

In the Canada segment, the provision for credit losses on our finance receivables was \$2 million during the first quarter of fiscal year 2019, which was flat compared to the same period in fiscal year 2018. Early termination losses on operating lease assets was \$1 million during the first quarter of fiscal year 2019, which was flat compared to the same period in fiscal year 2018.

Lease Residual Value Risk

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

We assess our estimates for end of lease term market values of leased vehicles, at minimum, on a quarterly basis. The primary factors affecting the estimates are the percentage of leased vehicles that we expect to be returned by the lessee at the end of lease term and expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends, and market information on new and used vehicles. Our leasing volumes and those across the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years, which could negatively impact used vehicle prices. 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 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 quarter of fiscal year 2019 or the same period in fiscal year 2018.

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

	Three months ended June 30,	
	2018	2017
	(Units ⁽¹⁾ in thousands)	
<u>United States Segment</u>		
Termination units:		
Sales at outstanding contractual balances ⁽²⁾	82	72
Sales through auctions and dealer direct programs ⁽³⁾	45	48
Total termination units	<u>127</u>	<u>120</u>
<u>Canada Segment</u>		
Termination units:		
Sales at outstanding contractual balances ⁽²⁾	19	14
Sales through auctions and dealer direct programs ⁽³⁾	<u>2</u>	<u>2</u>
Total termination units	<u>21</u>	<u>16</u>
<u>Consolidated</u>		
Termination units:		
Sales at outstanding contractual balances ⁽²⁾	101	86
Sales through auctions and dealer direct programs ⁽³⁾	47	50
Total termination units	148	136

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

Liquidity and Capital Resources

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

In an effort to minimize liquidity risk and interest rate risk and the resulting negative effects on our margins, results of operations and cash flows, our funding strategy incorporates investor diversification and the utilization of multiple funding sources including commercial paper, medium term notes, bank loans and asset-backed securities. We incorporate a funding strategy that takes into consideration factors such as the interest rate environment, domestic and foreign capital market conditions, maturity profiles, and economic conditions. 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 June 30, 2018 and March 31, 2018 includes foreign currency denominated debt which were translated into U.S. dollars using the relevant exchange rates as of June 30, 2018 and March 31, 2018, as applicable. Additionally, the amounts in this section that are presented in “C\$” (Canadian dollar) were converted into U.S. dollars solely for the reader’s convenience based on the exchange rate on June 30, 2018 of 1.3133 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:

			Weighted average contractual interest rate	
	June 30, 2018	March 31, 2018	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)			
United States Segment				
Unsecured debt:				
Commercial paper.....	\$ 4,256	\$ 4,437	2.23%	1.91%
Bank loans	4,394	4,393	2.95%	2.52%
Private MTN program	1,698	1,698	5.40%	5.40%
Public MTN program.....	21,808	21,398	2.05%	1.92%
Euro MTN programme	1,031	1,111	2.02%	1.95%
Total unsecured debt.....	33,187	33,037		
Secured debt.....	7,344	7,521	1.89%	1.68%
Total debt.....	<u>\$ 40,531</u>	<u>\$ 40,558</u>		
Canada Segment				
Unsecured debt:				
Commercial paper.....	\$ 1,093	\$ 730	1.66%	1.55%
Related party debt.....	914	1,085	1.74%	1.64%
Bank loans	1,008	1,026	2.33%	2.27%
Other debt	3,267	3,250	2.35%	2.20%
Total unsecured debt.....	6,282	6,091		
Secured debt.....	1,074	1,212	2.14%	2.09%
Total debt.....	<u>\$ 7,356</u>	<u>\$ 7,303</u>		
Consolidated				
Unsecured debt:				
Commercial paper.....	\$ 5,349	\$ 5,167	2.11%	1.86%
Related party debt.....	914	1,085	1.74%	1.64%
Bank loans	5,402	5,419	2.83%	2.48%
Private MTN program	1,698	1,698	5.40%	5.40%
Public MTN program.....	21,808	21,398	2.05%	1.92%
Euro MTN programme	1,031	1,111	2.02%	1.95%
Other debt	3,267	3,250	2.35%	2.20%
Total unsecured debt.....	39,469	39,128		
Secured debt.....	8,418	8,733	1.92%	1.74%
Total debt.....	<u>\$ 47,887</u>	<u>\$ 47,861</u>		

Commercial Paper

As of June 30, 2018, we had commercial paper programs in the United States of \$7.0 billion and in Canada of C\$2.0 billion (\$1.5 billion). Interest rates on the commercial paper are fixed at the time of issuance. During the three months ended June 30, 2018, consolidated commercial paper month-end outstanding principal balances ranged from \$5.0 billion to \$5.7 billion.

Related Party Debt

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.

Bank Loans

During the three months ended June 30, 2018, AHFC and HCFI did not enter into any term loan agreements. As of June 30, 2018, we had bank loans denominated in U.S. dollars and Canadian dollars with floating interest rates, in principal amounts ranging from \$38 million to \$600 million. As of June 30, 2018, the remaining maturities of all bank loans outstanding ranged from 33 days to approximately 6.2 years. The weighted average remaining maturities on all bank loans was 2.4 years as of June 30, 2018.

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 June 30, 2018, 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 June 30, 2018, the remaining maturities of Private MTNs outstanding did not exceed 3.2 years. 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 June 30, 2018, 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 three months ended June 30, 2018, AHFC issued \$600 million aggregate principal amount of U.S. dollar denominated floating rate MTNs, with an original maturity of 1.0 year. The weighted average remaining maturities of all Public MTNs was 2.4 years as of June 30, 2018.

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 June 30, 2018, 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 maturities. As of June 30, 2018, the remaining maturities of Euro MTNs outstanding under this program did not exceed 4.6 years. 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 June 30, 2018, 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:

	June 30, 2018	March 31, 2018
	(U.S. dollars in millions)	
U.S. dollar	\$ 20,292	\$ 19,717
Euro	3,430	3,623
Sterling	788	839
Japanese yen	27	28
Total	<u>\$ 24,537</u>	<u>\$ 24,207</u>

Other Debt

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During the three months ended June 30, 2018, HCFI entered into a private placement transaction for C\$500 million (\$381 million). As of June 30, 2018, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 156 days to approximately 6.9 years. The weighted average remaining maturities of these notes was 3.2 years as of June 30, 2018.

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 June 30, 2018, 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 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 three months ended June 30, 2018, we issued notes through asset-backed securitizations totaling \$1.0 billion, which were secured by consumer finance receivables with an initial principal balance of \$1.3 billion.

Credit Agreements

Syndicated Bank Credit Facilities

AHFC maintains a \$3.5 billion 364-day credit agreement, which expires on March 1, 2019, a \$2.1 billion three-year credit agreement, which expires on March 3, 2021, and a \$1.4 billion five-year credit agreement, which expires on March 3, 2023. As of June 30, 2018, 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 (\$1.2 billion) credit agreement which provides that HCFI may borrow up to C\$800 million (\$609 million) on a one-year and up to C\$800 million (\$609 million) on a five-year revolving basis. The one-year tranche of the credit agreement expires on March 24, 2019 and the five-year tranche of the credit agreement expires on March 24, 2023. As of June 30, 2018, 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 June 30, 2018, 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 June 30, 2018, 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 June 30, 2018 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 \$6 million and \$5 million during the three months ended June 30, 2018 and 2017, respectively, pursuant to these support compensation agreements.

Indebtedness of Consolidated Subsidiaries

As of June 30, 2018, AHFC and its consolidated subsidiaries had \$56.3 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 June 30,						
	Total	2019	2020	2021	2022	2023	Thereafter
	(U.S. dollars in millions)						
Unsecured debt obligations ⁽¹⁾	\$ 39,550	\$ 15,052	\$ 7,522	\$ 5,476	\$ 5,395	\$ 3,565	\$ 2,540
Secured debt obligations ⁽¹⁾	8,431	4,405	2,491	1,277	220	38	—
Interest payments on debt ⁽²⁾	2,290	828	581	377	215	114	175
Operating lease obligations	76	9	10	10	9	8	30
Total.....	\$ 50,347	\$ 20,294	\$ 10,604	\$ 7,140	\$ 5,839	\$ 3,725	\$ 2,745

(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 June 30, 2018.

(2) Interest payments on floating rate and foreign currency denominated debt based on the applicable floating rates and/or exchange rates as of June 30, 2018.

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, 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 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 and operating leases.

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 June 30, 2018, 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 June 30, 2018, we would have recognized an additional \$18 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 those across the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years which could negatively impact used vehicle prices.

For operating leases, adjustments to estimated residual values are made on a straight-line basis over the remaining term of each lease and recognized as depreciation expense. For direct financing leases, downward adjustments for declines in estimated residual values deemed 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 June 30, 2018 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 \$12 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 June 30, 2018. 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 June 30, 2018, 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 June 30, 2018, 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, 2018, which was filed with the SEC on June 21, 2018.

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 ⁽¹⁾	Articles of Incorporation of American Honda Finance Corporation, dated February 6, 1980, and Certificates of Amendment to the Articles of Incorporation, dated March 29, 1984, November 13, 1988, December 4, 1989, July 2, 1991, April 3, 1997, November 30, 1999, and December 17, 2003.
3.2 ⁽¹⁾	Amended and Restated Bylaws of American Honda Finance Corporation, dated April 27, 2010.
4.1 ⁽¹⁾	Form of Specimen Common Stock of American Honda Finance Corporation.
4.2	American Honda Finance Corporation agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of American Honda Finance Corporation and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the American Honda Finance Corporation and its subsidiaries.
4.3 ⁽²⁾	Amended and Restated Issuing and Paying Agency Agreement between American Honda Finance Corporation and The Bank of New York Mellon, dated as of August 27, 2012.
4.4	Trust Indenture between Honda Canada Finance Inc., as issuer, and BNY Trust Company of Canada (as successor to CIBC Mellon Trust Company), as trustee, dated as of September 26, 2005 ⁽³⁾ , as supplemented by supplemental indentures from time to time, and the Form of Debenture ⁽⁴⁾ .
4.5 ⁽⁵⁾	Indenture, dated September 5, 2013, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.6 ⁽⁶⁾	First Supplemental Indenture, dated February 8, 2018, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.7	Form of Fixed Rate Medium-Term Note, Series A ⁽⁷⁾ and Form of Floating Rate Medium-Term Note, Series A ⁽⁸⁾ .
12.1 ⁽⁹⁾	Statement regarding computation of ratio of earnings to fixed charges
31.1 ⁽⁹⁾	Certification of Principal Executive Officer
31.2 ⁽⁹⁾	Certification of Principal Financial Officer
32.1 ⁽¹⁰⁾	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2 ⁽¹⁰⁾	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS ⁽⁹⁾	XBRL Instance Document
101.SCH ⁽⁹⁾	XBRL Taxonomy Extension Schema Document
101.CAL ⁽⁹⁾	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB ⁽⁹⁾	XBRL Taxonomy Extension Label Linkbase Document
101.PRE ⁽⁹⁾	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF ⁽⁹⁾	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 4.6 filed with our quarterly report on Form 10-Q, dated February 8, 2018.
- (7) Incorporated herein by reference to Exhibit number 4.1 filed with our current report on Form 8-K, dated February 12, 2014.
- (8) Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 10, 2016.
- (9) Filed herewith.
- (10) 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: August 9, 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 and Subsidiaries
Calculation of Ratio of Earnings to Fixed Charges
(U.S. dollars in millions)

	Three months ended June 30,	
	2018	2017
Earnings		
Consolidated income before provision for income taxes	\$ 426	\$ 389
Fixed Charges	275	205
Earnings	<u>\$ 701</u>	<u>\$ 594</u>
Fixed Charges		
Interest expense	\$ 274	\$ 204
Interest portion of rental expense ⁽¹⁾	1	1
Total fixed charges	<u>\$ 275</u>	<u>\$ 205</u>
Ratio of earnings to fixed charges	2.55x	2.9x

(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 June 30, 2018 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: August 9, 2018

By: /s/ Hideo Moroe

Hideo Moroe

President

(Principal Executive Officer)

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

I, Masahiro Nakamura, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 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: August 9, 2018

By: /s/ Masahiro Nakamura

Masahiro Nakamura

Vice President and Treasurer

(Principal Financial Officer)

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

In connection with the Quarterly Report of American Honda Finance Corporation (the “Company”) on Form 10-Q for the quarter ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Hideo Moroe, President and Principal Executive Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Dated: August 9, 2018

By: /s/ Hideo Moroe

Hideo Moroe

President

(Principal Executive Officer)

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

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

In connection with the Quarterly Report of American Honda Finance Corporation (the “Company”) on Form 10-Q for the quarter ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Masahiro Nakamura, Vice President, Treasurer and Principal Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Dated: August 9, 2018

By: /s/ Masahiro Nakamura

Masahiro Nakamura
Vice President and Treasurer
(Principal Financial Officer)

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