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

**FORM 10-K/A
(Amendment No. 1)**

(Mark One)

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

For the fiscal year ended March 31, 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)

95-3472715
(IRS Employer Identification No.)

20800 Madrona Avenue, Torrance, California
(Address of principal executive offices)

90503
(Zip Code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
2.125% Medium-Term Notes, Series A Due October 10, 2018	New York Stock Exchange
Floating Rate Medium-Term Notes, Series A Due March 11, 2019	New York Stock Exchange
1.300% Medium-Term Notes, Series A Due March 21, 2022	New York Stock Exchange
2.625% Medium-Term Notes, Series A Due October 14, 2022	New York Stock Exchange
1.375% Medium-Term Notes, Series A Due November 10, 2022	New York Stock Exchange
0.550% Medium-Term Notes, Series A Due March 17, 2023	New York Stock Exchange
0.750% Medium-Term Notes, Series A Due January 17, 2024	New York Stock Exchange

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

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

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

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

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

As of May 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.

Documents incorporated by reference: None

REDUCED DISCLOSURE FORMAT

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

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this “Amendment”) amends the Annual Report on Form 10-K of American Honda Finance Corporation (the “Company”) for the fiscal year ended March 31, 2018, as filed with the Securities and Exchange Commission (the “SEC”) on June 21, 2018 (the “Original Filing”). This Amendment is being filed, at the request of KPMG LLP, solely to provide an amended version of KPMG LLP’s report contained in Part IV, Item 15 of the Original Filing to replace the original version provided by KPMG LLP. The amended KPMG LLP report includes language that was inadvertently omitted from the previously filed version that confirms that the Company’s independent registered public accounting firm did not audit the Company’s internal control over financial reporting. These changes do not in any way affect the unqualified opinion of KPMG LLP on the Company’s consolidated financial statements included in the Original Filing and this Amendment or otherwise change the conclusions expressed by KPMG LLP in the original report, or any other disclosure included in the Original Filing.

In accordance with applicable SEC rules and as required by Rule 12b-15 of the Securities Exchange Act of 1934, as amended, this Amendment includes new certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, dated as of the filing date of this Amendment.

The information contained in this Amendment is as of the date of the Original Filing. As such, it does not reflect events that may have occurred after the date of the Original Filing and does not modify or update in any way the disclosures made in the Original Filing, except as described above. This Amendment should be read in conjunction with the Company’s subsequent filings with the SEC.

AMERICAN HONDA FINANCE CORPORATION
ANNUAL REPORT ON FORM 10-K
For the fiscal year ended March 31, 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 set forth in “*Part I, Item 1A. Risk Factors*” in this Annual Report on Form 10-K, as such risks and uncertainties may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. We do not intend, and undertake no obligation to, update any forward-looking information to reflect actual results or future events or circumstances, except as required by applicable law.

PART I

Item 1. Business

Overview

American Honda Finance Corporation (AHFC) is a California corporation that was incorporated on February 6, 1980. Unless otherwise indicated by the context, all references to the “Company”, “we”, “us”, and “our” in this report include AHFC and its consolidated subsidiaries, and references to “AHFC” refer solely to American Honda Finance Corporation (excluding its subsidiaries). AHFC is a wholly-owned subsidiary of American Honda Motor Co., Inc. (AHM). Honda Canada Finance Inc. (HCFI) is a majority-owned subsidiary of AHFC. Noncontrolling interest in HCFI is held by Honda Canada Inc. (HCI), an affiliate. AHM is a wholly-owned subsidiary and HCI is an indirect wholly-owned subsidiary of Honda Motor Co., Ltd. (HMC). AHM and HCI are the sole authorized distributors of Honda and Acura products, including motor vehicles, parts, and accessories in the United States and Canada. AHFC’s principal executive offices are located at 20800 Madrona Avenue, Torrance, California 90503.

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

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

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

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

Public Filings

Our filings with the Securities and Exchange Commission (SEC) may be found by accessing the SEC website at www.sec.gov under “Company Filings”. The SEC website contains reports, registration statements, and other information regarding issuers that file with the SEC. The public may obtain additional information by calling the “SEC Toll-Free Investor Information Service” line at 1-800-SEC-0330 (1-800-732-0330). A direct link to the SEC website and certain of our filings is contained on our website located at www.hondafinancialservices.com under “Investor Relations, SEC Filings”. Additionally, we have made available on our website, without charge, electronic copies of our periodic and current reports that have been filed with the SEC.

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

Consumer Financing

Retail Loans

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

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

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

Retail Leases

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

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

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

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

Underwriting and Pricing of Consumer Financing

Dealers submit customer credit applications electronically through our online system. In addition, AHFC customers are able to submit their own credit applications for pre-approval directly through our website. If our requirements are met, an application received from a dealer is approved automatically. Our system is programmed to review application information for purchase policy and legal compliance. Applications that are not automatically approved are routed to credit buyers located in our regional offices, who will evaluate and make purchase decisions within the framework of our purchase policy and legal requirements.

We utilize our proprietary credit scoring system to evaluate the credit risk of applicants. Factors used by our credit scoring system to develop a customer’s credit grade include the term of the contract, the loan or lease-to-value ratio, the customer’s debt ratios, and credit bureau attributes, number of trade lines, utilization ratio, and number of credit inquiries. A customer’s credit grade is determined only at the time of origination and is not reassessed during the life of the contract. We utilize different scorecards depending on the type of product we finance and we regularly review and analyze our consumer-financing portfolio to ensure the effectiveness of our underwriting guidelines, purchasing criteria and scorecard predictability of our customers.

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

Servicing of Consumer Financing

We have eight regional offices in the United States that are responsible for the acquisition, servicing, collection, and customer service activities related to our automobile retail loans and leases. These offices are located in California, Texas, Massachusetts, Illinois, North Carolina, Delaware, and Georgia. We also have one office in Georgia that is responsible for the underwriting of motorcycle, power equipment, and marine engine loans, customer service related to those contracts and collection efforts for past due accounts on a national basis.

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

- *National Processing Center.* The National Processing Center is responsible for processing customer payments that cannot be processed through our automated servicing system, providing service to our Regional Offices and other services.
- *Lease Maturity Center.* Lease accounts are transferred from our regional offices to the Lease Maturity Center six months prior to the end of the lease term. The Lease Maturity Center assumes responsibility for servicing the lease from this time, including providing the leaseholder with end of term options, responding to customer service issues and coordinating end of term vehicle inspections. Once a vehicle is returned to us, the Lease Maturity Center transfers the account to the Remarketing Center to arrange for the disposition of the vehicle.
- *Remarketing Center.* The Remarketing Center oversees the disposition of vehicles returned at the end of leases and after repossession. In order to minimize losses at lease maturity, we have developed remarketing strategies to maximize proceeds and minimize disposition costs on vehicles sold at lease termination. We use various channels to sell vehicles returned at lease end, including a dealer direct, on-line program referred to as the Vehicle Inter-Dealer Purchase System (VIPS) and physical auctions. The goal of our VIPS program is to increase dealer purchases of off-lease vehicles thereby reducing our disposition costs of such vehicles. Through VIPS, the dealer accepting return of the leased vehicle (also referred to as the grounding dealer) initially has the exclusive right to purchase the vehicle at the contractual residual value or a market-based price. If the vehicle is not purchased by the grounding dealer, it then becomes available to Honda and Acura vehicle dealers through the VIPS online auction. If the vehicle is not sold to a Honda or Acura dealer, the auction is opened to any dealer. Off-lease vehicles that are not purchased through a VIPS auction and all repossessed vehicles are sold at physical auction sites throughout the United States. When deemed necessary, we recondition used vehicles prior to sale in order to enhance the vehicle values at auction. Additionally, vehicles to be sold at public auctions may be relocated in accordance with our goal to minimize oversupply at any given location and maximize sales proceeds.
- *Recovery and Bankruptcy Center.* The Recovery and Bankruptcy Center is responsible for collecting the deficiency balances of charged-off accounts using outside collection agencies, locating and securing the collateral of charged-off accounts, and collecting lease end of term fees. Consumer financing contracts are transferred from our regional offices to the Recovery and Bankruptcy Center after charge-off, which occurs when they become 120 days contractually past due, payments due are no longer expected to be received, or the underlying product is sold or has been held in unsold repossessed inventory for 90 days, whichever occurs first. In addition, accounts subject to bankruptcy proceedings are assigned to the Recovery and Bankruptcy Center for tracking, monitoring and handling through the life of the loan or until the related customer is discharged from bankruptcy. If the customer is discharged or dismissed from bankruptcy, the account will return to the original regional office for servicing.

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

Recovery Policies and Procedures

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

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

Incentive Financing Programs for Retail Loans and Leases

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

Honda Aviation Financing

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

Dealer Financing

Wholesale Flooring Loans

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

Wholesale flooring financing is available primarily through revolving lines of credit and may only be used by dealers to finance the purchase of inventory. AHFC will finance new automobiles and motorcycles up to 100% of the dealer invoice price and used automobiles and motorcycles up to 80% of the applicable market value determined in accordance with industry pricing guides in the United States. HCFI will finance new automobiles and motorcycles up to 100% of the dealer invoice price and used automobiles and motorcycles up to the current market value determined in accordance with industry pricing guides in Canada. Dealers pay a variable interest rate on wholesale flooring loans. Wholesale flooring loans must be prepaid at specified intervals and increments and generally must be paid in full upon the sale of the product, although a grace period of three to seven days for payment may be provided to dealers. AHM and HCI sponsor incentive-financing programs in the United States and Canada, respectively, to Honda and Acura dealers approved for wholesale flooring loans.

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

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

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

A wholesale flooring loan is considered delinquent when any payment is contractually past due. Depending on a dealer's level of credit risk, a dealer may be given a grace period of three to seven days to make payments. Collection efforts are initiated using our staff. We file replevin actions, send past due notices, enter into forbearance agreements, and renegotiate contracts with delinquent dealers. If we determine a dealer cannot meet the obligations under its wholesale flooring loan agreement, legal action may commence. Subject to recording, filing and notice requirements of state, provincial or other laws we are generally permitted by the applicable laws to repossess the underlying collateral that have not been sold to a buyer in the ordinary course of business.

In the United States, wholesale flooring loans are serviced at AHFC's regional offices in California, Texas, Massachusetts, Illinois, North Carolina, Delaware, and Georgia. In Canada, wholesale flooring loans are serviced at HCFI's headquarters in Ontario.

Commercial Loans

We provide commercial loans to Honda and Acura automobile dealers through our DFS business unit. This commercial financing is available primarily through term loans and are used primarily for financing dealership property, equipment, construction, facility improvements, and working capital. Dealers generally pay a variable interest rate on commercial loans in the United States. In Canada, dealers pay both fixed rates and variable rates on commercial loans.

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

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

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

Competition

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

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

Relationships with HMC and Other Affiliates

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

HMC and AHFC Keep Well Agreement

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

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

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

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

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

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

An amendment, modification, or termination of the HMC-AHFC Agreement (except as permitted by its terms) would constitute an event of default under certain of AHFC's Debt and failure by HMC to meet its obligations under the HMC-AHFC Agreement would constitute an event of default under such Debt if the failure continued for 30 days and was continuing at the time the default was declared.

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

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

HMC and HCFI Keep Well Agreement

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

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

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

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

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

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

An amendment, modification, or termination of the HMC-HCFI Agreement (except as permitted by its terms) would constitute an event of default under certain of HCFI's Debt and failure by HMC to meet its obligations under the HMC-HCFI Agreement would constitute an event of default under such Debt if the failure continued for 30 days and was continuing at the time the default was declared.

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

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

Incentive Financing Programs

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

Related Party Debt

AHFC no longer issues fixed rate short-term notes to AHM to fund AHFC’s general corporate operations. As of March 31, 2018, AHFC had no outstanding notes to AHM. HCFI issues fixed rate short-term notes to HCI to fund HCFI’s general corporate operations. See Note 4—Debt of *Notes to Consolidated Financial Statements* for further information regarding our related party debt.

Vehicle Service Contract Administration

Our Consumer Assurance Products and Service Group is responsible for the administration of vehicle service contracts issued by AHM, American Honda Protection Products Corporation (AHPPC) and American Honda Service Contracts Corporation (AHSCC), wholly-owned subsidiaries of AHM. HCFI performs marketing services for vehicle service contracts issued by HCI. We receive fees to perform administrative and marketing services for AHM, AHPPC, AHSCC or HCI, as applicable.

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

As the administrator, we approve claims and provide customer service to purchasers of vehicle service contracts. We do not provide the maintenance or roadside assistance provided by the vehicle service contracts.

Shared Services

Honda North America, Inc. (HNA), a wholly-owned subsidiary of HMC, provides services to Honda’s North American operations. HNA provides us with information technology, legal, internal audit, and other services pursuant to a shared services agreement. HNA is paid a compensation fee for these services.

In Canada, we also share certain common expenditures with HCI, including professional services, data processing services, insurance policies, software development and facilities.

Benefit Plans

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

Income taxes

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

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

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

Repurchase Agreements

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

Geographic Concentration

As of March 31, 2018, for the outstanding retail loans and leases we acquired in the United States, approximately 18% and 10% were from customers residing in California and New York, respectively. Any material adverse changes to the economies or applicable laws in a given state could have a material adverse effect on our financial condition and results of operations.

Seasonality

We are subject to seasonal variations in credit losses, which are historically higher in the first and fourth quarters of the calendar year. This seasonality does not have a significant impact on our results of operations.

Employee Relations

At March 31, 2018, we had 1,477 employees. We consider our employee relations to be satisfactory. We are not subject to any collective bargaining agreements with our employees.

Governmental Regulations

Our consumer financing and dealer financing operations are subject to regulation, supervision, and licensing under various United States, Canadian, state, provincial, and local statutes, ordinances and regulations. In recent years, regulators have increased their focus on the regulation of the financial services industry and consumer financing in particular. As a result, there have been and may continue to be proposals for laws and regulations that could increase the scope and nature of laws and regulations that are currently applicable to us. We actively monitor proposed changes to relevant legal and regulatory requirements in order to maintain our compliance. The cost of our ongoing compliance efforts in our consumer financing and dealer financing operations has not had a material adverse effect on our results of operations, cash flows, or financial condition to date, although future compliance efforts may have such an effect.

United States

Our consumer financing operations in the United States are regulated under both federal and state laws, including consumer protection statutes and related regulations. Management believes that AHFC is in compliance in all material respects, with the applicable federal and state laws, including consumer protection statutes and related regulations.

Federal Regulation

We are subject to extensive federal regulation, including the regulations discussed below. These laws, in part, require us to provide certain disclosures prior to and throughout the duration of consumer retail and lease financing transactions and prohibit certain credit and collection practices.

- The Truth in Lending Act and the Consumer Leasing Act place disclosure and substantive transaction restrictions on consumer credit and leasing transactions.
- The Equal Credit Opportunity Act is designed to prevent discrimination based on certain protected classes in any aspect of a credit transaction, requires the distribution of specified credit decision notices and limits the information that may be requested and considered in a credit transaction.
- The Fair Credit Reporting Act imposes restrictions and requirements regarding our use and sharing of credit reports, the reporting of data to credit reporting agencies, credit decision notices, the accuracy and integrity of information reported to the credit reporting agencies, consumer dispute handling procedures, and identity theft prevention requirements.
- The Gramm-Leach-Bliley Act requires certain communications periodically with consumers on privacy matters, restricts the disclosure of nonpublic personal information about consumers by financial institutions and prohibits the sharing of account number information for certain marketing purposes.

- The Servicemembers Civil Relief Act is federal legislation that provides special protection to certain customers in military service and is designed to protect military personnel from personal hardship or loss resulting from financial obligations while in service.
- The Right to Financial Privacy Act restricts the disclosure of customers' financial records to federal government agencies.
- The Telephone Consumer Protection Act governs communication methods that may be used to contact consumers and among other things, prohibits the use of automated dialers to call cellular telephones without consent of the consumer.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which was enacted in 2010, has broad implications for the financial services industries, including automotive financing, securitizations and derivatives, and requires the development, adoption, and implementation of many regulations which will impact the offering, marketing, and regulation of consumer financial products and services offered by financial institutions. Agencies have issued rules establishing a comprehensive framework for the regulation of derivatives, providing for the regulation of non-bank financial institutions that pose systemic risk, and requiring sponsors of asset-backed securities to retain an ownership stake in securitization transactions. Although we have analyzed these and other rulemakings, the absence of final rules in some cases and the complexity of some of the proposed rules make it difficult for us to estimate the financial, compliance and operational impacts.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB), which has broad rule-making, examination and enforcement authority with respect to the laws and regulations that apply to consumer financial products and services. The CFPB has supervisory, examination and enforcement authority over certain non-depository institutions, including those entities that are larger participants of a market for consumer financial products or services, as defined by rule. We are subject to the CFPB's supervisory authority with respect to our compliance with applicable consumer protection laws.

State Regulation

We are also subject to laws and regulations that vary among the states. A majority of states have enacted legislation establishing licensing requirements to conduct consumer-financing activities. We are also periodically subject to state audits and inquiries, which monitor our compliance with consumer and other regulations.

State rules and regulations generally include requirements as to the form and content of finance contracts and limitations on the maximum rate of consumer finance charges, including interest rate. In periods of high interest rates, interest rate limitations could have an adverse effect on our operations if we are unable to pass on our increased costs to our customers or dealers. State rules and regulations also restrict collection practices and creditor's rights regarding our consumer accounts.

Canada

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

Item 1A. Risk Factors

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

Risks Relating To Our Business

Our results of operations, cash flows, and financial condition are substantially dependent upon HMC and the sale of Honda and Acura products and any decline in the financial condition of HMC or the sales of Honda and Acura products could have a materially unfavorable impact on our financial condition, cash flows, and results of operations.

Our results of operations, cash flows, and financial condition are substantially dependent upon the sale of Honda and Acura products in the United States and Canada. Any prolonged reduction or suspension of HMC's production or sales of Honda or Acura products in the United States or Canada resulting from a decline in demand, a change in consumer preferences, a decline in the actual or perceived quality, safety, or reliability of Honda and Acura products, a reduction of incentive financing programs, volatility in fuel prices, sustained economic stagnation or the occurrence of a recession, a financial crisis, a work stoppage, governmental action, including a change in regulation, trade policies, adverse publicity, a recall, a war, a use of force by foreign countries, a terrorist attack, a multinational conflict, a natural disaster, an epidemic, or similar events could have a substantially unfavorable effect on us.

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

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

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

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

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

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

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

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

Fluctuations in interest rates could have an adverse impact on our results of operations, cash flows, and financial condition.

Our results of operations, cash flows, and financial condition could be adversely affected during any period of changing interest rates, possibly to a material degree. Interest rate risks arise from the mismatch between assets and the related liabilities used for funding. We provide consumer financing, dealer financing, incentive financing, originations and servicing, all of which are exposed, in varying degrees, to changes in value due to movements in interest rates. Further, an increase in interest rates could increase our costs of providing dealer and consumer financing originations, which could, in turn, adversely affect our financing volumes because financing can be less attractive to our dealers and customers and qualifying for financing may be more difficult.

We monitor the interest rate environment and enter into various financial instruments, including interest rate and basis swaps, to manage our exposure to the risk of interest rate fluctuations. However, our hedging strategies may not fully mitigate the impact of changes in interest rates. Further, these instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. See “—*The failure or commercial soundness of our counterparties and other financial institutions may have an adverse effect on our results of operations, cash flows, or financial condition*” below.

Our results of operations, cash flows, and financial condition may be adversely affected because of currency risk.

Currency risk or exchange rate risk refers to potential changes of value of financial assets, including Canadian dollar denominated finance receivables, foreign currency denominated debt or derivatives used to manage exposure of foreign currency denominated debt in response to fluctuations in exchange rates of various currencies. Changes in exchange rates can have adverse effects on our results of operations, cash flows, and financial condition.

We monitor the exchange rate environment and enter into various financial instruments, including currency swap agreements, to manage our exposure to the risk of exchange rate fluctuations. However, our hedging strategies may not fully mitigate the impact of changes in exchange rates. Further, these instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. See “—*The failure or commercial soundness of our counterparties and other financial institutions may have an adverse effect on our results of operations, cash flows, or financial condition*” below.

We need substantial capital to finance our operations and a disruption in our funding sources and access to the capital markets would have an adverse effect on our results of operations, cash flows, and financial condition.

We depend on a significant amount of financing to operate our business. Our business strategies utilize diverse sources to fund our operations, including the issuance of commercial paper, medium term notes, asset-backed securities, bank loans and borrowings from AHM and HCI, as applicable.

The availability of these financing sources at the prices we desire may depend on factors outside of our control, including our credit ratings, disruptions to the capital markets, the fiscal and monetary policies of government, and government regulations. In the event that we are unable to raise the funds we require at reasonable rates, we may curtail our various loan originations or incur the effects of increased costs of operation. Reducing loan originations or increasing the rates we charge consumers and dealers may adversely affect our ability to remain a preferred source of financing for consumers and dealers for Honda and Acura products and will have an adverse effect on our results of operations, cash flows, and financial condition.

Our borrowing costs and access to the debt capital markets depend significantly on our credit ratings, the credit ratings of HMC and the keep well agreements.

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

Credit rating agencies that rate the credit of HMC and its affiliates, including AHFC, may qualify, alter, or terminate their ratings at any time. Global economic conditions and other geopolitical factors may directly or indirectly affect such ratings. Any downgrade in the sovereign credit ratings of the United States, Japan, or Canada may directly or indirectly have a negative effect on the ratings of HMC and AHFC. Downgrades, the change to a negative outlook, or placement on review for possible downgrades of such ratings could result in an increase in our borrowing costs as well as reduced access to global debt capital markets. These factors would have a negative impact on our business, including our competitive position, results of operations, cash flows and financial condition.

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

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

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

We are exposed to residual value risk on the vehicles we lease.

Customers of leased vehicles typically have an option to return the vehicle to the dealer at the end of the lease term or to buy the vehicle for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market based price. Returned lease vehicles that are not purchased by the grounding dealer are sold through online and physical auctions. Residual value risk is the risk that the contractual residual value determined at lease inception will not be recoverable at the end of the lease term. When the market value of a leased vehicle at contract maturity is less than its contractual residual value, there is a higher probability that the vehicle will be returned to us. As a result, we are exposed to risk of loss on the disposition of leased vehicles to the extent that sales proceeds are not sufficient to cover the carrying value of the leased asset at termination. Among the factors that can affect the value of returned lease vehicles are the volume of vehicles returned, adverse economic conditions, preferences for particular types of vehicles, new vehicle pricing, new vehicle incentive financing programs, new vehicle sales, the actual or perceived quality, safety, or reliability of vehicles, recalls, future plans for new Honda and Acura product introductions, competitor actions and behavior, product attributes of popular vehicles, the mix of used vehicle supply, the level of current used vehicle values, and fuel prices. Our leasing volumes and those of the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years, which could negatively affect used vehicle prices. Our results of operations, cash flows, and financial condition could be adversely affected by declines in the value of returned lease vehicles.

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

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

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

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

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

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

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

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

Our results of operations may be adversely affected by the prepayment of our financing contracts.

Our financing contracts may be repaid by borrowers at any time at their option. Early repayment of contracts will limit the amount of earnings we would have otherwise generated under those contracts and we may not be able to reinvest the portions repaid early immediately into new loans or loans with similar pricing.

Changes in laws and regulations, or the application thereof, may adversely affect our business, results of operations, cash flows, and financial condition.

Our operations are subject to regulation, supervision, and licensing under various United States, Canadian, state, provincial, and local statutes, ordinances, and regulations. A failure to comply with applicable regulatory, supervisory, or licensing requirements may adversely affect our business, results of operations, cash flows, and financial condition. Due to events in the global financial markets, regulators have increased their focus on the regulation of the financial services industry. As a result, there have been and may continue to be proposals for laws and regulations that could increase the scope and nature of laws and regulations that are currently applicable to us. Any change in such laws and regulations, whether in the form of new or amended laws or regulations, regulatory policies, supervisory action, or the application of any of the above, may adversely affect our business, results of operations, cash flows, and financial condition by increasing our costs to comply with the new laws, prohibiting or limiting the amount of certain revenues we currently receive, or constraining certain collection or collateral recovery action which are currently available to us.

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

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

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

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

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

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

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

Adverse economic conditions or changes in laws in states in which we have customer concentrations may negatively affect our results of operations, cash flows, and financial condition.

We are exposed to geographic concentration risk in our consumer financing operations. Factors adversely affecting the economy and applicable laws in various states where we have concentration risk could have an adverse effect on our results of operations, cash flows, and financial condition.

A failure or interruption in our operations could adversely affect our results of operations and financial condition.

Operational risk is the risk of loss resulting from, among other factors, inadequate or failed processes, systems or internal controls, theft, fraud, cybersecurity breaches, or natural disasters. Operational risk can occur in many forms including, but not limited to, errors, business interruptions, failure of controls, inappropriate behavior or misconduct by our employees or those contracted to perform services for us, and vendors that do not perform in accordance with their contractual agreements. These events can potentially result in financial losses, regulatory inquiries or other damage to us, including damage to our reputation.

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

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

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

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

We may not be able to anticipate or implement effective preventative measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. It is also possible that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. The occurrence of any of these events could have a material adverse effect on our business.

We are subject to various privacy, data protection and information security laws, including requirements concerning security breach notification. Compliance with current and future privacy, data protection and information security laws affecting customer or employee data to which we are subject could result in higher compliance and technology costs. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions, damage to our reputation and could materially and adversely affect our profitability.

Our defined benefit plan costs and those of AHM and HCI may affect our financial condition, cash flows, and results of operations.

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

Vehicle recalls and other announcements may impact our business

From time to time, AHM and/or HCI may recall, suspend sales and production of, or initiate market actions on certain Honda or Acura products to address performance, customer satisfaction, compliance or safety-related issues. Because our business is substantially dependent upon the sale of Honda and Acura products such actions may negatively impact our business. A decrease in the level of vehicle sales would negatively impact our financing volume. Additionally, recalls may affect the demand for used recalled vehicles, or impact our timely disposal of repossessed and returned lease vehicles, which may affect the sales proceeds of those vehicles. For example, during fiscal years 2016 and 2017, we experienced delays in the disposition of returned lease vehicles due to a recall of certain Honda and Acura vehicles. The delays in disposition resulted in the recognition of impairment losses, additional depreciation expense, and lower gains on the disposition of lease vehicles due to the negative impact on the sales proceeds of the affected vehicles.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are located in Torrance, California. Our United States operations have regional offices and national servicing centers located in California, Georgia, Texas, Massachusetts, Illinois, North Carolina, and Delaware. HCFI's headquarters are located in Markham, Ontario, Canada and our Canadian operations have regional offices and national servicing centers located in Quebec and Ontario. All premises are occupied pursuant to lease agreements.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

Dividends are declared and paid by AHFC if, when, and as determined by its Board of Directors. AHFC declared and paid semi-annual cash dividends of \$141 million and \$206 million to its parent, AHM, during the fiscal year ended March 31, 2018. No dividends were declared or paid during the fiscal year ended March 31, 2017.

Item 6. Selected Financial Data

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

We derived the consolidated balance sheet data as of March 31, 2018 and 2017 and the consolidated statements of income data for the fiscal years ended March 31, 2018, 2017 and 2016 from our audited consolidated financial statements included elsewhere in this annual report. We derived the consolidated balance sheet data as of March 31, 2016 from our audited consolidated financial statements that are not included in this annual report. Our historical results are not necessarily indicative of the results to be expected in any future period.

	Years ended March 31,		
	2018	2017	2016
(U.S. dollars in millions)			
Consolidated Statement of Income Data			
Revenues:			
Retail loans and direct financing leases	\$ 1,382	\$1,222	\$1,257
Dealer loans	175	147	122
Operating leases	6,890	6,333	5,523
Total revenues	8,447	7,702	6,902
Depreciation on operating leases	5,481	5,056	4,421
Interest expense	897	728	592
Net revenues	2,069	1,918	1,889
Gain on disposition of lease vehicles	93	43	51
Other income	56	105	97
Total net revenues	2,218	2,066	2,037
Expenses:			
General and administrative expenses	439	434	403
Provision for credit losses	244	210	150
Early termination loss on operating leases	108	73	46
Impairment loss on operating leases	—	—	8
Loss on lease residual values	3	15	13
(Gain)/Loss on derivative instruments	(550)	315	(101)
(Gain)/Loss on foreign currency revaluation of debt	494	(171)	60
Total expenses	738	876	579
Income before income taxes	1,480	1,190	1,458
Income tax expense/(benefit)	(2,629)	437	548
Net income	4,109	753	910
Less: Net income attributable to noncontrolling interest	100	70	54
Net income attributable to American Honda Finance Corporation	\$ 4,009	\$ 683	\$ 856

	March 31,		
	2018	2017	2016
(U.S. dollars in millions)			
Consolidated Balance Sheet Data			
Finance receivables, net ⁽¹⁾ :			
Retail loans and direct financing leases	\$ 32,649	\$ 31,047	\$ 31,131
Dealer loans	5,495	5,006	4,771
Allowance for credit losses	(179)	(133)	(93)
Write-down of lease residual values	(9)	(16)	(16)
Total finance receivables, net	<u>\$ 37,956</u>	<u>\$ 35,904</u>	<u>\$ 35,793</u>
Investment in operating leases, net	\$ 31,817	\$ 31,310	\$ 28,247
Total assets	\$ 72,626	\$ 69,854	\$ 66,653
Debt:			
Commercial paper	\$ 5,167	\$ 4,462	\$ 4,614
Related party debt	1,085	1,201	2,284
Bank loans	5,419	5,883	7,309
Medium term note programs	24,207	23,523	21,095
Other debt	3,250	2,736	1,880
Secured debt	8,733	8,422	7,594
Total debt	<u>\$ 47,861</u>	<u>\$ 46,227</u>	<u>\$ 44,776</u>
Total shareholder's equity ⁽²⁾	\$ 15,730	\$ 12,043	\$ 11,378

	As of or for the years ended March 31,		
	2018	2017	2016
Other Key Consolidated Financial Data			
Ratio of earnings to fixed charges ⁽³⁾	2.64x	2.63x	3.45x
Ratio of debt to shareholder's equity	3.04x	3.84x	3.94x

(1) Net of unearned interest, fees and subsidy income, and deferred origination costs.

(2) Excludes noncontrolling interest in subsidiary.

(3) For the purposes of this ratio, earnings means consolidated income before income taxes plus fixed charges. Fixed charges consist of interest expense and the interest portion of rental expense. One-third of all rental expense is deemed interest.

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

Overview

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

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

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

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

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

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

Recent Developments

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code that affect our fiscal year ended March 31, 2018, including among other things, (1) reducing the U.S. federal corporate tax rate, (2) requiring a one-time tax (Transition Tax) on the deemed repatriation of earnings of foreign subsidiaries, (3) eliminating like-kind exchange for personal property disposed after December 31, 2017 and (4) increasing bonus depreciation to allow for full expensing of qualified property. The Tax Act reduced the federal corporate tax rate to 21 percent, effective January 1, 2018. In accordance with Section 15 of the Internal Revenue Code, our fiscal year ended March 31, 2018 has a blended federal corporate tax rate of 31.55 percent, which is based on the applicable tax rates, prorated based on the number of days prior to and subsequent to the January 1, 2018 effective date. The impact of certain changes in tax law to future periods is still being evaluated. For the impact on the current period, please refer to Note 7—Income Taxes of *Notes to Consolidated Financial Statements*.

International-related taxes included in the Tax Act that could affect our tax provision beginning in the fiscal year ending March 31, 2019 are: (1) a new base erosion and anti-abuse tax (BEAT) applicable to certain foreign related-party payments, (2) a global intangible low-taxed income (GILTI) tax applicable to certain income of controlled foreign corporations, and (3) a reduced tax rate on foreign-derived intangible income related to certain U.S. export sales. Interpretive guidance on these, and other provisions of the Tax Act continues to be issued by the U.S. Internal Revenue Service and relevant authorities. We are continuing to evaluate the impact of these new provisions, and monitoring ongoing developments closely.

We are required to make a policy decision regarding whether to record deferred taxes on GILTI within the twelve-month measurement period afforded by Staff Accounting Bulletin No. 118 (SAB 118). The policy decision has not been determined as of the reporting date.

Results of Operations

The following table presents our income before income taxes:

	Years ended March 31,		
	2018	2017	2016
	(U.S. dollars in millions)		
Income before income taxes:			
United States segment	\$1,194	\$ 991	\$1,302
Canada segment	286	199	156
Total income before income taxes	<u>\$1,480</u>	<u>\$1,190</u>	<u>\$1,458</u>

Comparison of Fiscal Years Ended March 31, 2018 and 2017

Our consolidated income before income taxes was \$1,480 million in fiscal year 2018 compared to \$1,190 million in fiscal year 2017. This increase of \$290 million, or 24%, was due to the following:

	Years ended March 31,			
	2018	2017	Difference	% Change
(U.S. dollars in millions)				
Net revenues:				
Direct financing leases	\$ 13	\$ 34	\$ (21)	(62%)
Retail	1,369	1,188	181	15%
Dealer	175	147	28	19%
Operating lease, net of depreciation	1,409	1,277	132	10%
Interest expense	(897)	(728)	(169)	23%
Gain on disposition of lease vehicles	93	43	50	116%
Other income	56	105	(49)	(47%)
Total net revenues	2,218	2,066	152	7%
Expenses:				
Provision for credit losses	244	210	34	16%
Early termination loss on operating leases	108	73	35	48%
(Gain)/Loss on derivative instruments	(550)	315	(865)	(275%)
(Gain)/Loss on foreign currency revaluation of debt	494	(171)	665	(389%)
Other	442	449	(7)	(2%)
Total expenses	738	876	(138)	(16%)
Total income before income taxes	<u>\$1,480</u>	<u>\$1,190</u>	<u>\$ 290</u>	24%

Comparison of Fiscal Years Ended March 31, 2017 and 2016

Our consolidated income before income taxes was \$1,190 million in fiscal year 2017 compared to \$1,458 million in fiscal year 2016. This decline of \$268 million, or 18%, was due to the following:

	Years ended March 31,			
	2017	2016	Difference	% Change
(U.S. dollars in millions)				
Net revenues:				
Direct financing leases	\$ 34	\$ 72	\$ (38)	(53%)
Dealer	147	122	25	20%
Operating lease, net of depreciation	1,277	1,102	175	16%
Interest expense	(728)	(592)	(136)	23%
Other	1,336	1,333	3	0%
Total net revenues	2,066	2,037	29	1%
Expenses:				
General and administrative expenses	434	403	31	8%
Provision for credit losses	210	150	60	40%
(Gain)/Loss on derivative instruments	315	(101)	416	(412%)
(Gain)/Loss on foreign currency revaluation of debt	(171)	60	(231)	(385%)
Other	88	67	21	31%
Total expenses	876	579	297	51%
Total income before income taxes	<u>\$1,190</u>	<u>\$1,458</u>	<u>\$ (268)</u>	(18%)

Segment Results—Comparison of Fiscal Years Ended March 31, 2018 and 2017

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

	United States Segment			Canada Segment			Consolidated		
	Years ended March 31,			Years ended March 31,			Years ended March 31,		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
	(U.S. dollars in millions)								
Revenues:									
Direct financing leases	\$ —	\$ —	\$ —	\$ 13	\$ 34	\$ 72	\$ 13	\$ 34	\$ 72
Retail	1,181	1,030	1,041	188	158	144	1,369	1,188	1,185
Dealer	158	133	109	17	14	13	175	147	122
Operating leases	<u>5,815</u>	<u>5,547</u>	<u>5,023</u>	<u>1,075</u>	<u>786</u>	<u>500</u>	<u>6,890</u>	<u>6,333</u>	<u>5,523</u>
Total revenues	7,154	6,710	6,173	1,293	992	729	8,447	7,702	6,902
Depreciation on operating leases	4,598	4,403	4,012	883	653	409	5,481	5,056	4,421
Interest expense	770	638	518	127	90	74	897	728	592
Net revenues	1,786	1,669	1,643	283	249	246	2,069	1,918	1,889
Gain on disposition of lease vehicles	66	24	46	27	19	5	93	43	51
Other income	50	100	94	6	5	3	56	105	97
Total net revenues	<u>1,902</u>	<u>1,793</u>	<u>1,783</u>	<u>316</u>	<u>273</u>	<u>254</u>	<u>2,218</u>	<u>2,066</u>	<u>2,037</u>
Expenses:									
General and administrative expenses	384	383	356	55	51	47	439	434	403
Provision for credit losses	239	199	134	5	11	16	244	210	150
Early termination loss on operating leases	105	67	41	3	6	5	108	73	46
Impairment loss on operating leases	—	—	6	—	—	2	—	—	8
Loss on lease residual values	—	—	—	3	15	13	3	15	13
(Gain)/Loss on derivative instruments	(514)	324	(116)	(36)	(9)	15	(550)	315	(101)
(Gain)/Loss on foreign currency revaluation of debt	494	(171)	60	—	—	—	494	(171)	60
Income before income taxes	<u>\$1,194</u>	<u>\$ 991</u>	<u>\$1,302</u>	<u>\$ 286</u>	<u>\$199</u>	<u>\$156</u>	<u>\$1,480</u>	<u>\$1,190</u>	<u>\$1,458</u>

Revenues

Revenue from retail loans in the United States segment increased by \$151 million, or 15%, during fiscal year 2018 compared to fiscal year 2017. The increase in revenue was attributable to higher yields due to the rising interest rate environment, 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 \$30 million, or 19%, due to higher average outstanding balances, higher yields and the effect of foreign currency translation adjustments.

Operating lease revenue in the United States segment increased by \$268 million, or 5%, during the fiscal year 2018 compared to fiscal year 2017 primarily due to higher average outstanding operating lease assets. Operating lease revenue in the Canada segment increased by \$289 million, or 37%, 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 \$21 million, or 62%, during fiscal year 2018 compared to fiscal year 2017 due to the run-off of direct financing lease assets.

Revenue from dealer loans in the United States segment increased by \$25 million, or 19%, during fiscal year 2018 compared to fiscal year 2017 primarily due to higher yields. Revenue from dealer loans in the Canada segment increased by \$3 million, or 21%, primarily due to higher yields, higher average outstanding balances and the effect of foreign currency translation adjustments.

Consolidated subsidy income from AHM and HCI sponsored incentive programs increased by \$209 million, or 17%, to \$1,441 million during fiscal year 2018 compared to \$1,232 million during fiscal year 2017. The increase was attributable to higher average outstanding incentive leases and incentive retail loans.

Depreciation on operating leases

Depreciation on operating leases in the United States segment increased by \$195 million, or 4%, during fiscal year 2018 compared to fiscal year 2017, primarily due to higher average outstanding operating lease assets. Depreciation on operating lease assets in the Canada segment increased by \$230 million, or 35%, due to higher average outstanding operating lease assets and the effect of foreign currency translation adjustments.

Operating lease revenue, net of depreciation, increased by \$73 million, or 6%, in the United States segment and by \$59 million, or 44%, in the Canada segment during fiscal year 2018 compared to fiscal year 2017. The increases in operating lease revenue, net of depreciation, were attributable to higher average outstanding operating lease assets and higher net revenue on more recently acquired operating lease assets in both the United States and Canada segments.

Interest expense

Interest expense in the United States segment increased by \$132 million, or 21%, during fiscal year 2018 compared to fiscal year 2017 primarily due to higher average interest rates. Interest expense in the Canada segment increased by \$37 million, or 41%, 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 \$42 million, or 175%, during fiscal year 2018 compared to fiscal year 2017. The gain on disposition of lease vehicles in the Canada segment increased by \$8 million, or 42%. The increases in gains were primarily the result of higher volume of units with more favorable disposition proceeds than the assumptions that were reflected in their estimated residual values including proceeds from AHM sponsored lease termination programs in the United States. See “—*Financial Condition—Lease Residual Value Risk*” below for more information.

Provision for credit losses

The provision for credit losses in the United States segment increased by \$40 million, or 20%, during fiscal year 2018 compared to fiscal year 2017. The increase in the provision was due to the trend in increasing charge-offs in the United States segment we have been experiencing since fiscal year 2016. The provision for credit losses in the Canada segment declined by \$6 million, or 55%, due to a decline in net charge-offs and a reduction in the allowance for credit losses to reflect improving credit performance. See “—*Financial Condition—Credit Risk*” below for more information.

Early termination loss on operating leases

Early termination losses on operating leases in the United States segment increased by \$38 million, or 57%, during fiscal year 2018 compared to fiscal year 2017. The increase was primarily due to the growth in operating lease assets and an increase in the mix of leases with lower credit grades. Early termination losses on operating leases in the Canada segment declined by \$3 million, or 50%. The decrease was primarily due to the reduction in the estimate of early termination losses as a result of improving credit performance. See “—*Financial Condition—Credit Risk*” below for more information.

Loss on lease residual values

Loss on lease residual values in the Canada segment decreased by \$12 million, or 80%, during fiscal year 2018 compared to fiscal year 2017, primarily due to the run-off of direct financing lease assets. See “—*Financial Condition—Lease Residual Value Risk*” below for more information.

Gain/loss on derivative instruments

In the United States segment, we recognized a gain on derivative instruments of \$514 million during fiscal year 2018 compared to a loss of \$324 million during fiscal year 2017. The gain in fiscal year 2018 was attributable to gains on cross currency swaps of \$424 million and pay fixed interest rate swaps of \$224 million, offset by losses on pay float interest rate swaps of \$134 million. The gains on cross currency swaps during fiscal year 2018 were primarily attributable to the U.S. dollar weakening against the Euro and Sterling during the period. The gains on pay fixed interest rate swaps and losses on pay float interest rate swaps during fiscal year 2018 were primarily due to increase in applicable swap rates during the period. In the Canada segment, we recognized a gain on derivative instruments of \$36 million during fiscal year 2018 compared to a gain of \$9 million during fiscal year 2017. The gains during fiscal year 2018 were due to a rise in Canadian swap rates. See “—*Derivatives*” below for more information.

Gain/loss on foreign currency revaluation of debt

In the United States segment, we recognized a loss on the revaluation of foreign currency denominated debt of \$494 million during fiscal year 2018 compared to a gain of \$171 million during fiscal year 2017. The loss during fiscal year 2018 was primarily due to the U.S. dollar weakening against the Euro and Sterling during the period.

Income tax expense

Our consolidated effective tax rate was (177.6)% for fiscal year 2018 and 36.7% for fiscal year 2017. The decrease in the effective tax rate for fiscal year 2018 was primarily due to the impact of the new U.S. federal income tax rate change and the Transition Tax under the Tax Act. The U.S. federal tax rate of 31.55% in fiscal year ended March 31, 2018 is a result of the 35% tax rate under prior U.S. federal tax law and the current 21% tax rate, each prorated based on the number of days prior to and subsequent to the January 1, 2018 effective date of the Tax Act. For additional information regarding income taxes, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements*.

Financial Condition

Consumer Financing

Consumer Financing Acquisition Volumes

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

	Years ended March 31,					
	2018		2017		2016	
	Acquired	Sponsored ⁽²⁾	Acquired (Units ⁽¹⁾ in thousands)	Sponsored ⁽²⁾	Acquired	Sponsored ⁽²⁾
United States Segment						
Retail loans:						
New auto	477	307	464	325	412	259
Used auto	104	26	88	9	71	6
Motorcycle	72	11	74	11	74	11
Other	1	—	1	—	1	—
Total retail loans	<u>654</u>	<u>344</u>	<u>627</u>	<u>345</u>	<u>558</u>	<u>276</u>
Leases	452	361	514	470	498	417
Canada Segment						
Retail loans:						
New auto	70	68	67	63	56	50
Used auto	9	6	10	6	13	6
Motorcycle	8	7	6	4	6	4
Other	—	—	1	—	1	—
Total retail loans	<u>87</u>	<u>81</u>	<u>84</u>	<u>73</u>	<u>76</u>	<u>60</u>
Leases	85	84	81	80	81	79
Consolidated						
Retail loans:						
New auto	547	375	531	388	468	309
Used auto	113	32	98	15	84	12
Motorcycle	80	18	80	15	80	15
Other	1	—	2	—	2	—
Total retail loans	<u>741</u>	<u>425</u>	<u>711</u>	<u>418</u>	<u>634</u>	<u>336</u>
Leases	537	445	595	550	579	496

- (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:

	Years ended March 31,		
	2018	2017	2016
<u>United States Segment</u>			
New auto	57%	59%	57%
Motorcycle	38%	39%	39%
<u>Canada Segment</u>			
New auto	78%	77%	75%
Motorcycle	32%	24%	26%
<u>Consolidated</u>			
New auto	59%	61%	58%
Motorcycle	37%	37%	38%

Consumer Financing Asset Balances

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

	March 31,			March 31,		
	2018	2017	2016	2018	2017	2016
	(U.S. dollars in millions)			(Units ⁽¹⁾ in thousands)		
United States Segment						
Retail loans:						
New auto	\$23,700	\$22,837	\$23,051	1,590	1,610	1,673
Used auto	3,685	3,154	2,796	268	234	220
Motorcycle	1,028	993	939	193	191	187
Other	46	51	49	4	4	5
Total retail loans	<u>\$28,459</u>	<u>\$27,035</u>	<u>\$26,835</u>	<u>2,055</u>	<u>2,039</u>	<u>2,085</u>
Securitized retail loans ⁽²⁾	\$ 7,633	\$ 7,748	\$ 7,030	691	690	636
Investment in operating leases	\$27,040	\$27,380	\$25,245	1,301	1,294	1,196
Canada Segment						
Retail loans:						
New auto	\$ 3,463	\$ 3,067	\$ 2,765	245	219	196
Used auto	309	345	411	36	44	52
Motorcycle	86	73	73	19	16	15
Other	3	3	3	2	2	2
Total retail loans	<u>\$ 3,861</u>	<u>\$ 3,488</u>	<u>\$ 3,252</u>	<u>302</u>	<u>281</u>	<u>265</u>
Securitized retail loans ⁽²⁾	\$ 1,262	\$ 764	\$ 676	89	59	45
Direct financing leases	\$ 141	\$ 375	\$ 935	15	34	69
Investment in operating leases	\$ 4,777	\$ 3,930	\$ 3,002	259	212	149
Consolidated						
Retail loans:						
New auto	\$27,163	\$25,904	\$25,816	1,835	1,829	1,869
Used auto	3,994	3,499	3,207	304	278	272
Motorcycle	1,114	1,066	1,012	212	207	202
Other	49	54	52	6	6	7
Total retail loans	<u>\$32,320</u>	<u>\$30,523</u>	<u>\$30,087</u>	<u>2,357</u>	<u>2,320</u>	<u>2,350</u>
Securitized retail loans ⁽²⁾	\$ 8,895	\$ 8,512	\$ 7,706	780	749	681
Direct financing leases	\$ 141	\$ 375	\$ 935	15	34	69
Investment in operating leases	\$31,817	\$31,310	\$28,247	1,560	1,506	1,345

(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 4% during fiscal year 2018 compared to fiscal year 2017 primarily due to the increase in used auto loan incentive financing program volumes and the increase in non-sponsored new auto loan acquisition volumes. Lease acquisition volumes declined by 12% during fiscal year 2018 compared to fiscal year 2017 primarily due to the 23% reduction in incentive program volumes.

In the Canada segment, retail loan acquisition volumes increased by 4% during fiscal year 2018 compared to fiscal year 2017 primarily due to higher retail loan incentive volumes. Lease acquisition volumes increased by 5% during fiscal year 2018 compared to fiscal year 2017. Outstanding direct financing lease assets continued to decline and operating lease assets continued to increase during fiscal year 2018 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:

	March 31,		
	2018	2017	2016
<u>United States Segment</u>			
Automobile	28%	28%	27%
Motorcycle	98%	97%	97%
Other	21%	21%	22%
<u>Canada Segment</u>			
Automobile	36%	35%	34%
Motorcycle	95%	95%	97%
Other	95%	95%	98%
<u>Consolidated</u>			
Automobile	30%	29%	28%
Motorcycle	97%	97%	97%
Other	23%	24%	24%

Wholesale Flooring Financing Percentage of Sales

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

	Years ended March 31,		
	2018	2017	2016
<u>United States Segment</u>			
Automobile	28%	27%	27%
Motorcycle	98%	97%	97%
Other	8%	7%	8%
<u>Canada Segment</u>			
Automobile	31%	31%	34%
Motorcycle	94%	96%	94%
Other	95%	98%	97%
<u>Consolidated</u>			
Automobile	28%	27%	27%
Motorcycle	97%	97%	97%
Other	10%	10%	10%

Dealer Financing Asset Balances

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

	March 31,			March 31,		
	2018	2017	2016	2018	2017	2016
	(U.S. dollars in millions)			(Units ⁽¹⁾ in thousands)		
United States Segment						
Wholesale flooring loans:						
Automobile	\$3,075	\$2,823	\$2,641	113	111	104
Motorcycle	738	684	747	100	93	107
Other	60	64	64	67	73	71
Total wholesale flooring loans	<u>\$3,873</u>	<u>\$3,571</u>	<u>\$3,452</u>	<u>280</u>	<u>277</u>	<u>282</u>
Commercial loans	\$ 978	\$ 841	\$ 793			
Canada Segment						
Wholesale flooring loans:						
Automobile	\$ 452	\$ 414	\$ 363	18	18	16
Motorcycle	98	86	69	13	13	11
Other	29	29	31	31	32	28
Total wholesale flooring loans	<u>\$ 579</u>	<u>\$ 529</u>	<u>\$ 463</u>	<u>62</u>	<u>63</u>	<u>55</u>
Commercial loans	\$ 65	\$ 65	\$ 63			
Consolidated						
Wholesale flooring loans:						
Automobile	\$3,527	\$3,237	\$3,004	131	129	120
Motorcycle	836	770	816	113	106	118
Other	89	93	95	98	105	99
Total wholesale flooring loans	<u>\$4,452</u>	<u>\$4,100</u>	<u>\$3,915</u>	<u>342</u>	<u>340</u>	<u>337</u>
Commercial loans	\$1,043	\$ 906	\$ 856			

(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 years ended		
	March 31,		
	2018	2017	2016
	(U.S. dollars in millions)		
United States Segment			
Finance receivables:			
Allowance for credit losses at beginning of period	\$ 124	\$ 83	\$ 77
Provision for credit losses	209	177	116
Charge-offs, net of recoveries	(160)	(136)	(110)
Allowance for credit losses at end of period	<u>\$ 173</u>	<u>\$ 124</u>	<u>\$ 83</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.51%	0.39%	0.26%
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.49%	0.43%	0.34%
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 56	\$ 42	\$ 47
As a percentage of ending receivable balance ^{(1), (2)}	0.17%	0.13%	0.15%
Operating leases:			
Early termination loss on operating leases	\$ 105	\$ 67	\$ 41
Provision for past due operating lease rental payments ⁽³⁾	30	22	18
Canada Segment			
Finance receivables:			
Allowance for credit losses at beginning of period	\$ 9	\$ 10	\$ 9
Provision for credit losses	4	10	15
Charge-offs, net of recoveries	(7)	(11)	(14)
Effect of translation adjustment	—	—	—
Allowance for credit losses at end of period	<u>\$ 6</u>	<u>\$ 9</u>	<u>\$ 10</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.13%	0.20%	0.21%
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.16%	0.24%	0.28%
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 8	\$ 7	\$ 7
As a percentage of ending receivable balance ^{(1), (2)}	0.16%	0.15%	0.14%
Operating leases:			
Early termination loss on operating leases	\$ 3	\$ 6	\$ 5
Provision for past due operating lease rental payments ⁽³⁾	1	1	1
Consolidated			
Finance receivables:			
Allowance for credit losses at beginning of period	\$ 133	\$ 93	\$ 86
Provision for credit losses	213	187	131
Charge-offs, net of recoveries	(167)	(147)	(124)
Effect of translation adjustment	—	—	—
Allowance for credit losses at end of period	<u>\$ 179</u>	<u>\$ 133</u>	<u>\$ 93</u>
Allowance as a percentage of ending receivable balance ⁽¹⁾	0.46%	0.36%	0.26%
Charge-offs as a percentage of average receivable balance ⁽¹⁾	0.44%	0.41%	0.33%
Delinquencies (60 or more days past due):			
Delinquent amount ⁽²⁾	\$ 64	\$ 49	\$ 54
As a percentage of ending receivable balance ^{(1), (2)}	0.17%	0.13%	0.15%
Operating leases:			
Early termination loss on operating leases	\$ 108	\$ 73	\$ 46
Provision for past due operating lease rental payments ⁽³⁾	31	23	19

(1) Ending and average receivable balances exclude the allowance for credit losses, write-down of lease residual values, unearned subvention income related to our incentive financing programs and deferred origination costs. Average receivable balances are calculated based on the average of each month's ending receivables balance for that fiscal year.

(2) For the purposes of determining whether a contract is delinquent, payment is generally considered to have been made, in the case of (i) dealer finance receivables, upon receipt of 100% of the payment when due and (ii) consumer finance receivables, upon receipt of 90% of the sum of the current monthly payment plus any overdue monthly payments. Delinquent amounts presented are the aggregated principal balances of delinquent finance receivables.

(3) Provisions for past due operating lease rental payments are also included in total provision for credit losses in our consolidated statements of income.

In the United States segment, the provision for credit losses on our finance receivables was \$209 million during fiscal year 2018 compared to \$177 million during fiscal year 2017. The increase in the provision was due to the trend in increasing charge-offs we have been experiencing since fiscal year 2016. The increase in charge-offs is primarily due to the increase in the volume of retail loans with longer terms which typically have higher loan-to-value ratios and as a result, higher loss severities. The increase in charge-offs was also due in part to the increase in the volume of retail loans in our lowest credit grade tier which has contributed to higher charge-off frequencies. Changes in general economic conditions, a rise in unemployment, and declines in used vehicle prices could result in increases in our credit losses. Our allowance for credit losses as a percentage of the ending receivable balance as of March 31, 2018 was increased to 0.51% as compared to 0.39% as of March 31, 2017 to reflect the weaker credit performance. We recognized early termination losses on operating lease assets of \$105 million during fiscal year 2018 compared to \$67 million during fiscal year 2017. The increase in early termination losses during fiscal year 2018 was due to the growth in operating lease assets and an increase in the mix of leases with lower credit grades.

In the Canada segment, the provision for credit losses on our finance receivables was \$4 million during fiscal year 2018 compared to \$10 million during fiscal year 2017. The decline in the provision for credit losses was due to a decline in net charge-offs and a reduction in the allowance for credit losses to reflect improving credit performance. Early termination losses on operating lease assets was \$3 million during fiscal year 2018 compared to \$6 million during fiscal year 2017. The decrease was primarily due to the reduction in our estimate of early termination losses as a result of improving credit performance.

Lease Residual Value Risk

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

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 of the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years, which could negatively 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.

Certain Honda and Acura vehicles were recalled during the fourth quarter of fiscal year 2016 based on a determination of a safety related defect in driver's airbag inflators. AHM and HCI instructed their authorized dealers to cease the sale of affected new and used vehicles until the recall repairs were completed. Tests for recoverability were performed on operating leases affected by this recall, which reflected the anticipated delays in the disposition of returned lease vehicles. For the operating lease assets that did not pass the test for recoverability, we recognized \$6 million of impairment losses in the United States segment and \$2 million of impairment losses in the Canada segment during fiscal year 2016. The loss on lease residual values of direct financing leases recognized in the Canada segment attributable to the expected delay in disposition of lease vehicles affected by this recall was approximately \$5 million. During the second half of fiscal year 2017, we began repairing and selling the affected returned lease vehicles. As of September 30, 2017, we had disposed all of the vehicles affected by this recall. We did not recognize impairment losses due to declines in estimated residual values during fiscal years 2018 and 2017.

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

	Years ended March 31,		
	2018	2017	2016
	(Units ⁽¹⁾ in thousands)		
United States Segment			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	264	267	261
Sales through auctions and dealer direct programs ⁽³⁾	167	132	114
Total termination units	<u>431</u>	<u>399</u>	<u>375</u>
Canada Segment			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	49	45	43
Sales through auctions and dealer direct programs ⁽³⁾	7	8	8
Total termination units	<u>56</u>	<u>53</u>	<u>51</u>
Consolidated			
Termination units:			
Sales at outstanding contractual balances ⁽²⁾	313	312	304
Sales through auctions and dealer direct programs ⁽³⁾	174	140	122
Total termination units	<u>487</u>	<u>452</u>	<u>426</u>

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

Liquidity and Capital Resources

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

In an effort to minimize liquidity risk and interest rate risk and the resulting negative effects on our margins, results of operations and cash flows, our funding strategy incorporates investor diversification and the utilization of multiple funding sources including commercial paper, medium term notes, bank loans and asset-backed securities. We incorporate a funding strategy that takes into consideration factors such as the interest rate environment, domestic and foreign capital market conditions, maturity profiles, and economic conditions. 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 March 31, 2018, 2017 and 2016 include foreign currency denominated debt which were translated into U.S. dollars using the relevant exchange rates as of March 31, 2018, 2017 and 2016, as applicable. Additionally, the amounts in this section that are presented in “C\$” (Canadian dollar), “€” (Euro) and “£” (Sterling) were converted into U.S. dollars solely for your convenience based on the exchange rate on March 31, 2018 of 1.2900, 1.2322 and 1.4034, respectively, per U.S. dollar. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or that they could be converted into U.S. dollars at the rates indicated.

Summary of Outstanding Debt

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

	March 31,			Weighted average contractual interest rate		
	2018	2017	2016	March 31,		
	2018	2017	2016	2018	2017	2016
(U.S. dollars in millions)						
United States Segment						
Unsecured debt:						
Commercial paper	\$ 4,437	\$ 3,609	\$ 3,587	1.91%	1.02%	0.54%
Related party debt	—	—	900	—%	—%	0.43%
Bank loans	4,393	4,890	6,292	2.52%	1.68%	1.14%
Private MTN program	1,698	2,946	5,443	5.40%	3.77%	2.80%
Public MTN program	21,398	19,491	14,479	1.92%	1.63%	1.47%
Euro MTN programme	1,111	1,086	1,173	1.95%	1.83%	1.72%
Total unsecured debt	33,037	32,022	31,874			
Secured debt	7,521	7,680	6,938	1.68%	1.24%	1.00%
Total debt	<u>\$40,558</u>	<u>\$39,702</u>	<u>\$38,812</u>			
Canada Segment						
Unsecured debt:						
Commercial paper	\$ 730	\$ 853	\$ 1,027	1.55%	0.87%	0.82%
Related party debt	1,085	1,201	1,384	1.64%	0.95%	0.86%
Bank loans	1,026	993	1,017	2.27%	1.50%	1.45%
Other debt	3,250	2,736	1,880	2.20%	1.90%	1.88%
Total unsecured debt	6,091	5,783	5,308			
Secured debt	1,212	742	656	2.09%	1.24%	1.19%
Total debt	<u>\$ 7,303</u>	<u>\$ 6,525</u>	<u>\$ 5,964</u>			
Consolidated						
Unsecured debt:						
Commercial paper	\$ 5,167	\$ 4,462	\$ 4,614	1.86%	0.99%	0.60%
Related party debt	1,085	1,201	2,284	1.64%	0.95%	0.69%
Bank loans	5,419	5,883	7,309	2.48%	1.65%	1.18%
Private MTN program	1,698	2,946	5,443	5.40%	3.77%	2.80%
Public MTN program	21,398	19,491	14,479	1.92%	1.63%	1.47%
Euro MTN programme	1,111	1,086	1,173	1.95%	1.83%	1.72%
Other debt	3,250	2,736	1,880	2.20%	1.90%	1.88%
Total unsecured debt	39,128	37,805	37,182			
Secured debt	8,733	8,422	7,594	1.74%	1.24%	1.01%
Total debt	<u>\$47,861</u>	<u>\$46,227</u>	<u>\$44,776</u>			

Commercial Paper

As of March 31, 2018, we had commercial paper programs in the United States of \$7.0 billion and in Canada of C\$2.0 billion (\$1.6 billion). Interest rates on the commercial paper are fixed at the time of issuance. During fiscal year 2018, consolidated commercial paper month-end outstanding principal balances ranged from \$4.3 billion to \$6.2 billion.

Related Party Debt

AHFC no longer issues fixed rate notes to AHM to help fund AHFC's general corporate operations. As of March 31, 2018, AHFC had no outstanding notes to AHM. HCFI issues fixed rate notes to HCI to help fund HCFI's general corporate operations. Interest rates are based on prevailing rates of debt with comparable terms. Generally, the term of these notes is less than 120 days.

Bank Loans

During fiscal year 2018, AHFC did not enter into any term loan agreements. HCFI entered into two floating rate term loan agreements for an aggregate of C\$200 million (\$155 million). As of March 31, 2018, we had bank loans denominated in U.S. dollars and Canadian dollars with floating interest rates, in principal amounts ranging from \$39 million to \$600 million. As of March 31, 2018, the remaining maturities of all bank loans outstanding ranged from 124 days to approximately 6.5 years. The weighted average remaining maturities on all bank loans was 2.6 years as of March 31, 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 March 31, 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 March 31, 2018, the remaining maturities of Private MTNs outstanding did not exceed 3.5 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 March 31, 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 fiscal year 2018, AHFC issued \$3.1 billion aggregate principal amount of U.S. dollar denominated fixed rate MTNs, with an original maturity ranging from 2.0 years to 10.0 years, \$2.8 billion aggregate principal amount of U.S. dollar denominated floating rate MTNs, with an original maturity ranging from 1.0 years to 5.0 years and €500 million (\$616 million) of EUR denominated fixed rate MTNs, with an original maturity of 5.0 years. The weighted average remaining maturities of all Public MTNs was 2.7 years as of March 31, 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 March 31, 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 maturity. As of March 31, 2018, the remaining maturities of Euro MTNs outstanding under this program did not exceed 4.9 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 March 31, 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:

	March 31,		
	2018	2017	2016
	(U.S. dollars in millions)		
U.S. dollar	\$19,717	\$20,141	\$18,501
Euro	3,623	2,607	2,210
Sterling	839	748	357
Japanese yen	28	27	27
Total	<u>\$24,207</u>	<u>\$23,523</u>	<u>\$21,095</u>

Other Debt

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During fiscal year 2018, HCFI entered into four private placement trades for an aggregate of C\$1.4 billion (\$1.0 billion). As of March 31, 2018, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 65 days to approximately 4.9 years. The weighted average remaining maturities of these notes was 2.7 years as of March 31, 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 March 31, 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 fiscal year 2018, we issued notes through asset-backed securitizations totaling \$5.2 billion, which were secured by consumer finance receivables with an initial principal balance of \$5.8 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 March 31, 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 (\$620 million) on a one-year and up to C\$800 million (\$620 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 March 31, 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 March 31, 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 March 31, 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. For additional information, refer to “*Part I, Item 1. Business—Relationships with HMC and Affiliates—HMC and AHFC Keep Well Agreement*” and “*Part I, Item 1. Business—Relationships with HMC and Affiliates—HMC and HCFI Keep Well Agreement.*”

As consideration for HMC’s obligations under the Keep Well Agreements, we have agreed to pay HMC a quarterly fee based on the amount of outstanding Debt pursuant to support compensation agreements, dated October 1, 2005. We incurred expenses of \$22 million, \$20 million and \$18 million during fiscal years 2018, 2017 and 2016, respectively, pursuant to these support compensation agreements.

Indebtedness of Consolidated Subsidiaries

As of March 31, 2018, AHFC and its consolidated subsidiaries had \$56.0 billion of outstanding indebtedness and other liabilities, including current liabilities, of which \$16.0 billion consisted of indebtedness and liabilities of our consolidated subsidiaries. None of AHFC’s consolidated subsidiaries had any outstanding preferred equity.

Derivatives

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table summarizes our contractual obligations, excluding lending commitments to dealers and derivative obligations, by fiscal year payment period, as of March 31, 2018:

	Payments due by period						
	Total	2019	2020	2021	2022	2023	Thereafter
			(U.S. dollars in millions)				
Unsecured debt obligations ⁽¹⁾	\$39,212	\$14,669	\$ 7,583	\$5,570	\$4,911	\$4,285	\$ 2,194
Secured debt obligations ⁽¹⁾	8,745	4,660	2,604	1,193	240	48	—
Interest payments on debt ⁽²⁾	2,225	822	560	364	211	118	150
Operating lease obligations	79	9	10	10	9	9	32
Total	<u>\$50,261</u>	<u>\$20,160</u>	<u>\$10,757</u>	<u>\$7,137</u>	<u>\$5,371</u>	<u>\$4,460</u>	<u>\$ 2,376</u>

- (1) Debt obligations reflect the remaining principal obligations of our outstanding debt and do not reflect unamortized debt discounts and fees. Repayment schedule of secured debt reflects payment performance assumptions on underlying receivables. Foreign currency denominated debt principal is based on exchange rates as of March 31, 2018.
- (2) Interest payments on floating rate and foreign currency denominated debt based on the applicable floating rates and/or exchange rates as of March 31, 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 9—Commitments and Contingencies of *Notes to Consolidated Financial Statements* for additional information on these commitments.

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

New Accounting Standards

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

Critical Accounting Policies

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

Credit Losses

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

Sensitivity Analysis

If we had experienced a 10% increase in net charge-offs of finance receivables during the twelve-month period ended March 31, 2018, our provision for credit losses would have increased by approximately \$35 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 March 31, 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 of the automotive industry have increased significantly in recent years. As a result, the supply of off-lease vehicles will continue to increase over the next several years which could negatively 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 March 31, 2018 were to decrease by \$100 per unit from our current estimates, the total impact would be an increase of approximately \$76 million in depreciation expense, which would be recognized over the remaining lease terms. If future return rates for all operating leases were to increase by one percentage point from our current estimates, the total impact would be an increase of approximately \$13 million in depreciation expense, which would be recognized over the remaining lease terms. This sensitivity analysis may be asymmetric and is specific to the conditions in effect as of March 31, 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 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

To provide a quantitative measure of the sensitivity of interest rate movements on our pre-tax cash flows, we have estimated the effect of a hypothetical 100 basis point increase and decrease to benchmark interest rates on our floating rate financial instruments for the 12-month periods ending March 31, 2019 and 2018 below. Our estimates were based upon our existing receivables, debt, and derivatives as of March 31, 2018 and 2017. We do not include any assumptions for reinvestment of maturing assets and refinancing of maturing debt. The estimates for a 100 basis point decrease assume that rates cannot fall below zero percent.

Hypothetical change in interest rate	Impact on pre-tax cash flows for the 12 months ending March 31,	
	2019	2018
100 basis point increase	\$17 million increase	\$7 million decrease
100 basis point decrease	\$17 million decrease	\$8 million increase

The impact on pre-tax cash flows of a hypothetical increase in interest rates changed from a net negative impact for the period ending March 31, 2018 to a net positive impact for the period ending March 31, 2019 due to the increase in the mix of receive float relative to pay float instruments. For the same reason, the impact on pre-tax cash flows of a hypothetical decrease in interest rates changed from a net positive impact for the period ending March 31, 2018 to a net negative impact for the period ending March 31, 2019.

Item 8. Financial Statements and Supplementary Data

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

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Principal Executive Officer and Principal Financial Officer have performed an evaluation of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Exchange Act, as of March 31, 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.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Management conducted, under the supervision of our Principal Executive Officer and Principal Financial Officer, an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria. Based on the assessment performed, management concluded that our internal control over financial reporting was effective as of March 31, 2018.

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

Changes in Internal Control over Financial Reporting

There were no changes in the internal control over financial reporting during the quarter ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

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

	Years ended March 31,	
	2018	2017
	(U.S. dollars in thousands)	
Audit fees	\$6,800	\$8,468
Audit-related fees	433	245
Tax fees	—	—
All other fees	—	—
Total	<u>\$7,233</u>	<u>\$8,713</u>

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

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

Auditor Pre-Approval Policy

We comply with pre-approval policies and procedures established by HMC which list particular audit services and non-audit services that may be provided. None of the services provided were waived from pre-approval requirements pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

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

(3) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
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 ⁽²⁰⁾	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 ⁽⁶⁾ and Form of Floating Rate Medium-Term Note, Series A ⁽⁷⁾ .
10.1 ⁽⁸⁾	\$1,300,000,000 Second Amended and Restated Credit Agreement, dated as of March 24, 2014, among HCFI, as the borrower, the lenders party thereto, and Canadian Imperial Bank of Commerce, as administrative agent, joint bookrunner and co-lead arranger, RBC Capital Markets, as joint bookrunner and co-lead arranger, BMO Capital Markets, as co-lead arranger, The Toronto-Dominion Bank, as co-arranger and co-syndication agent, Bank of Tokyo-Mitsubishi UFJ (Canada), as co-arranger and co-syndication agent, Bank of Montreal, as co-syndication agent, Royal Bank of Canada, as co-syndication agent, and Mizuho Corporate Bank, Ltd., Canada Branch, as documentation agent.
10.2 ⁽⁹⁾	Amendment, dated as of June 30, 2014, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.
10.3 ⁽¹⁰⁾	Second Amendment, dated as of March 13, 2015, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.
10.4 ⁽¹¹⁾	Third Amendment, dated as of March 23, 2016, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.
10.5 ⁽¹²⁾	Fourth Amendment dated as of March 23, 2017 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.
10.6 ⁽²¹⁾	Fifth Amendment dated as of March 13, 2018 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.
10.7 ⁽¹³⁾	\$3,500,000,000 364-day unsecured revolving credit facility pursuant to a 364 Day Credit Agreement, dated March 3, 2017, among American Honda Finance Corporation, as the borrower, the lenders party thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and The Bank of Tokyo-Mitsubishi UFJ, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and joint bookrunners.
10.8 ⁽²¹⁾	First Amendment dated as of January 26, 2018 between American Honda Finance Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent, for and on behalf of the banks party to the Credit Agreement.

<u>Exhibit Number</u>	<u>Description</u>
10.9 ⁽¹⁴⁾	\$2,100,000,000 three year unsecured revolving credit facility pursuant to a Three Year Credit Agreement, dated March 3, 2017, among American Honda Finance Corporation, as the borrower, the lenders party thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and The Bank of Tokyo-Mitsubishi UFJ, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and joint bookrunners.
10.10 ⁽²¹⁾	First Amendment dated as of January 26, 2018 between American Honda Finance Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent, for and on behalf of the banks party to the Credit Agreement.
10.11 ⁽¹⁵⁾	\$1,400,000,000 five year unsecured revolving credit facility pursuant to a Five Year Credit Agreement, dated March 3, 2017, among American Honda Finance Corporation, as the borrower, the lenders party thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent and auction agent, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America, N.A., Barclays Bank PLC, BNP Paribas and Citibank, N.A., as documentation agents and The Bank of Tokyo-Mitsubishi UFJ, Ltd., J.P. Morgan Chase Bank, N.A., Barclays Bank PLC, BNP Paribas Securities Corp, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and joint bookrunners.
10.12 ⁽²¹⁾	First Amendment dated as of January 26, 2018 between American Honda Finance Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent, for and on behalf of the banks party to the Credit Agreement.
10.13 ⁽¹⁶⁾	Keep Well Agreement between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated September 9, 2005.
10.14 ⁽¹⁷⁾	Support Compensation Agreement, between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated as of October 1, 2005.
10.15 ⁽¹⁸⁾	Keep Well Agreement between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated September 26, 2005.
10.16 ⁽¹⁹⁾	Support Compensation Agreement, between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated as of October 1, 2005.
12.1 ⁽²¹⁾	Statement regarding computation of ratio of earnings to fixed charges
23.1 ⁽²¹⁾	Consent of KPMG LLP
31.1 ⁽²¹⁾	Certification of Principal Executive Officer
31.2 ⁽²¹⁾	Certification of Principal Financial Officer
32.1 ⁽²²⁾	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2 ⁽²²⁾	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS ⁽²¹⁾	XBRL Instance Document
101.SCH ⁽²¹⁾	XBRL Taxonomy Extension Schema Document
101.CAL ⁽²¹⁾	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB ⁽²¹⁾	XBRL Taxonomy Extension Label Linkbase Document
101.PRE ⁽²¹⁾	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF ⁽²¹⁾	XBRL Taxonomy Extension Definition Linkbase Document

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

- (6) Incorporated herein by reference to Exhibit number 4.1 filed with our current report on Form 8-K, dated February 12, 2014.
- (7) Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 10, 2016.
- (8) Incorporated herein by reference to the same numbered Exhibit filed with our current report on Form 8-K, dated March 24, 2014.
- (9) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated June 30, 2014.
- (10) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 13, 2015.
- (11) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2016.
- (12) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 23, 2017.
- (13) Incorporated herein by reference to Exhibit number 10.1 filed with our current report on Form 8-K, dated March 3, 2017.
- (14) Incorporated herein by reference to Exhibit number 10.2 filed with our current report on Form 8-K, dated March 3, 2017.
- (15) Incorporated herein by reference to Exhibit number 10.3 filed with our current report on Form 8-K, dated March 3, 2017.
- (16) Incorporated herein by reference to Exhibit 10.1 filed with our registration statement on Form 10, dated June 28, 2013.
- (17) Incorporated herein by reference to Exhibit 10.2 filed with our registration statement on Form 10, dated June 28, 2013.
- (18) Incorporated herein by reference to Exhibit 10.3 filed with our registration statement on Form 10, dated June 28, 2013.
- (19) Incorporated herein by reference to Exhibit 10.4 filed with our registration statement on Form 10, dated June 28, 2013.
- (20) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 8, 2018.
- (21) Filed herewith.
- (22) Furnished herewith.

Item 16. Form 10-K Summary

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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: April 16, 2019

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**

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of
American Honda Finance Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of American Honda Finance Corporation, a wholly-owned subsidiary of American Honda Motor Co., Inc., and subsidiaries (the Company), as of March 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1989.

Los Angeles, California
June 21, 2018

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	March 31,	
	2018	2017
Assets		
Cash and cash equivalents	\$ 783	\$ 760
Finance receivables, net	37,956	35,904
Investment in operating leases, net	31,817	31,310
Due from Parent and affiliated companies	139	228
Income taxes receivable	16	256
Vehicles held for disposition	231	255
Other assets	934	892
Derivative instruments	750	249
Total assets	\$72,626	\$69,854
Liabilities and Equity		
Debt	\$47,861	\$46,227
Due to Parent and affiliated companies	87	91
Accrued interest expense	146	120
Income taxes payable	105	—
Deferred income taxes	6,035	8,792
Other liabilities	1,382	1,389
Derivative instruments	414	449
Total liabilities	56,030	57,068
Commitments and contingencies (Note 9)		
Shareholder's equity:		
Common stock, \$100 par value. Authorized 15,000,000 shares; issued and outstanding 13,660,000 shares as of March 31, 2018 and 2017	1,366	1,366
Retained earnings	14,449	10,787
Accumulated other comprehensive loss	(85)	(110)
Total shareholder's equity	15,730	12,043
Noncontrolling interest in subsidiary	866	743
Total equity	16,596	12,786
Total liabilities and equity	\$72,626	\$69,854

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

	March 31,	
	2018	2017
Finance receivables, net	\$8,895	\$8,512
Vehicles held for disposition	4	3
Other assets	452	367
Total assets	<u>\$9,351</u>	<u>\$8,882</u>
Secured debt	\$8,733	\$8,422
Accrued interest expense	6	4
Total liabilities	<u>\$8,739</u>	<u>\$8,426</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

(U.S. dollars in millions)

	Years ended March 31,		
	2018	2017	2016
Revenues:			
Direct financing leases	\$ 13	\$ 34	\$ 72
Retail	1,369	1,188	1,185
Dealer	175	147	122
Operating leases	6,890	6,333	5,523
Total revenues	8,447	7,702	6,902
Depreciation on operating leases	5,481	5,056	4,421
Interest expense	897	728	592
Net revenues	2,069	1,918	1,889
Gain on disposition of lease vehicles	93	43	51
Other income	56	105	97
Total net revenues	2,218	2,066	2,037
Expenses:			
General and administrative expenses	439	434	403
Provision for credit losses	244	210	150
Early termination loss on operating leases	108	73	46
Impairment loss on operating leases	—	—	8
Loss on lease residual values	3	15	13
(Gain)/Loss on derivative instruments	(550)	315	(101)
(Gain)/Loss on foreign currency revaluation of debt	494	(171)	60
Total expenses	738	876	579
Income before income taxes	1,480	1,190	1,458
Income tax expense/(benefit)	(2,629)	437	548
Net income	4,109	753	910
Less: Net income attributable to noncontrolling interest	100	70	54
Net income attributable to American Honda Finance Corporation	\$ 4,009	\$ 683	\$ 856

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

	<u>Years ended March 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net income	\$4,109	\$753	\$910
Other comprehensive income/(loss):			
Foreign currency translation adjustment	48	(35)	(32)
Comprehensive income	4,157	718	878
Less: Comprehensive income attributable to noncontrolling interest	123	53	39
Comprehensive income attributable to American Honda Finance Corporation	<u>\$4,034</u>	<u>\$665</u>	<u>\$839</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

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

	<u>Total</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income/(loss)</u>	<u>Common stock</u>	<u>Noncontrolling interest</u>
Balance at March 31, 2015	\$11,190	\$ 9,248	\$ (75)	\$ 1,366	\$ 651
Net income	910	856	—	—	54
Other comprehensive loss	(32)	—	(17)	—	(15)
Balance at March 31, 2016	\$12,068	\$10,104	\$ (92)	\$ 1,366	\$ 690
Net income	753	683	—	—	70
Other comprehensive loss	(35)	—	(18)	—	(17)
Balance at March 31, 2017	\$12,786	\$10,787	\$ (110)	\$ 1,366	\$ 743
Net income	4,109	4,009	—	—	100
Other comprehensive income	48	—	25	—	23
Dividends paid	(347)	(347)	—	—	—
Balance at March 31, 2018	<u>\$16,596</u>	<u>\$14,449</u>	<u>\$ (85)</u>	<u>\$ 1,366</u>	<u>\$ 866</u>

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in millions)

	Years ended March 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 4,109	\$ 753	\$ 910
Adjustments to reconcile net income to net cash provided by operating activities:			
Debt and derivative instrument valuation adjustments	(42)	161	(186)
Loss on lease residual values and provision for credit losses	247	225	163
Early termination loss on operating leases and impairment on operating leases	108	73	54
Depreciation and amortization	5,491	5,063	4,426
Accretion of unearned subsidy income	(1,451)	(1,243)	(1,089)
Amortization of deferred dealer participation and other deferred costs	318	315	316
Gain on disposition of lease vehicles and fixed assets	(93)	(43)	(51)
Deferred income taxes	(2,768)	688	969
Changes in operating assets and liabilities:			
Income taxes receivable/payable	349	257	(449)
Other assets	(43)	(72)	(7)
Accrued interest/discounts on debt	69	54	44
Other liabilities	96	124	81
Due to/from Parent and affiliated companies	88	(85)	(19)
Net cash provided by operating activities	<u>6,478</u>	<u>6,270</u>	<u>5,162</u>
Cash flows from investing activities:			
Finance receivables acquired	(17,971)	(16,761)	(14,285)
Principal collected on finance receivables	15,732	16,140	16,947
Net change in wholesale loans	(337)	(197)	(467)
Purchase of operating lease vehicles	(14,268)	(15,949)	(15,445)
Disposal of operating lease vehicles	8,304	7,364	6,765
Cash received for unearned subsidy income	1,676	1,593	1,281
Other investing activities, net	(130)	(79)	(49)
Net cash used in investing activities	<u>(6,994)</u>	<u>(7,889)</u>	<u>(5,253)</u>
Cash flows from financing activities:			
Proceeds from issuance of commercial paper	36,190	41,162	36,995
Paydown of commercial paper	(35,520)	(41,303)	(36,916)
Proceeds from issuance of short-term debt	381	—	—
Paydown of short-term debt	(325)	—	—
Proceeds from issuance of related party debt	4,135	12,514	19,491
Paydown of related party debt	(4,294)	(13,567)	(20,657)
Proceeds from issuance of medium term notes and other debt	7,238	10,488	7,951
Paydown of medium term notes and other debt	(7,174)	(8,411)	(6,948)
Proceeds from issuance of secured debt	5,149	5,708	4,500
Paydown of secured debt	(4,901)	(4,868)	(4,283)
Dividends paid	(347)	—	—
Net cash provided by financing activities	<u>532</u>	<u>1,723</u>	<u>133</u>
Effect of exchange rate changes on cash and cash equivalents	<u>7</u>	<u>(2)</u>	<u>(18)</u>
Net increase in cash and cash equivalents	23	102	24
Cash and cash equivalents at beginning of year	760	658	634
Cash and cash equivalents at end of year	<u>\$ 783</u>	<u>\$ 760</u>	<u>\$ 658</u>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 826	\$ 674	\$ 536
Income taxes paid/(received)	(206)	(508)	32

See accompanying notes to consolidated financial statements.

AMERICAN HONDA FINANCE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Business and Significant Accounting Policies

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

Unless otherwise indicated by the context, all references to the “Company” include AHFC and its consolidated subsidiaries (refer Note 1(b) *Principles of Consolidation* below), and references to “AHFC” refer solely to American Honda Finance Corporation (excluding AHFC’s subsidiaries).

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

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

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

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

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

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

(a) Business Risks

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

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

The Company is exposed to market risks, principally interest rate and foreign currency risks, and utilizes derivative instruments to manage those risks. Although the use of derivative instruments mitigates a substantial portion of these risks, not all risk is eliminated. Refer to Note 1(n) for additional discussion on derivative instruments.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of AHFC and its subsidiaries. All subsidiaries are wholly-owned, except for HCFI, which is majority-owned (52.33% as of March 31, 2018 and 2017).

The Company also consolidates variable interest entities (VIEs) where the Company is the primary beneficiary. All consolidated VIEs are statutory trusts formed by the Company to accommodate securitization structures.

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 an amount equal to AHSCC's total equity as of March 31, 2017. AHSCC was not material to the Company's operations.

All significant intercompany balances and transactions have been eliminated upon consolidation.

(c) Comprehensive Income

Comprehensive income consists of net income and the effect of foreign currency translation adjustments and is presented in the consolidated statements of comprehensive income.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments with original maturities of three months or less.

(e) Finance Receivables

Finance receivables include retail loan, direct financing lease, and dealer loan portfolio segments. The retail loan portfolio segment consists of retail installment contracts with consumers. The direct financing lease portfolio segment consists of closed-end vehicle lease contracts with consumers. The dealer loan portfolio segment consists of wholesale and commercial loans with dealers.

Finance receivables are classified as held-for-investment if the Company has the intent and ability to hold the receivables for the foreseeable future or until maturity or payoff. As of March 31, 2018 and 2017, all finance receivables were classified as held-for-investment and reported at amortized cost.

Retail and dealer loans include the outstanding principal balance, allowance for credit losses, unearned origination fees, and deferred origination costs. Direct financing leases include the gross receivable balances, unearned interest income, write-down of lease residual values, allowance for credit losses, unearned origination fees, and deferred origination costs. Origination fees include payments received from AHM and HCI for incentive programs (refer to Note 6 regarding these related party transactions). For a limited number of contracts, origination fees include payments received from dealers to buy down the interest rates charged to their customers. Origination costs include initial direct origination costs (IDC) and payments made to dealers for rate participation.

Revenue on finance receivables includes contractual interest income, accretion of origination fees, and amortization of origination costs. Interest income on retail and dealer loans is accrued as earned using the simple interest method. Unearned interest income on direct financing leases is recognized as finance revenue over the term of the lease using the interest method. Origination fees and costs are recognized as revenue using the interest method over the contractual life of the finance receivables. The recognition of finance revenue on retail loans and leases is discontinued when the underlying collateral is repossessed or accounts are charged off. The recognition of finance revenue on dealer loans is discontinued when it has been determined the Company will be unable to collect all principal and interest payments.

Retail loans and leases are considered delinquent if more than 10% of a scheduled payment is contractually past due on a cumulative basis. Dealer loans are considered delinquent when any payment is contractually past due. The contractual balance of retail loans and leases, including accrued interest and fees, are automatically charged off when they become 120 days past due or earlier if they have been specifically identified as uncollectible. Dealer loans are charged off when they have been individually identified as uncollectible. Charge-offs of loan and lease balances, including uncollected interest and fees, are recognized as a reduction to the allowance for credit losses. Subsequent recoveries of amounts previously charged off are credited to the allowance.

(f) *Investment in Operating Leases*

The investment in operating leases is reported at cost, less accumulated depreciation and net of unearned origination fees and deferred origination costs. Origination fees include payments received from AHM for incentive programs (refer to Note 6 regarding these related party transactions). For a limited number of contracts, origination fees include payments received from dealers to buy down the rental charges. Origination costs include payments made for dealer participation. Operating lease revenue is recognized on a straight-line basis over the lease term. Operating lease revenue includes accretion of origination fees and is net of amortization of origination costs, which are also recognized on a straight-line basis over the lease term. Operating lease vehicles are depreciated on a straight-line basis over the lease term to the estimated residual value. Refer to Note 1(h) regarding the determination of lease residual values.

A portion of the Company's operating leases is expected to terminate prior to their scheduled maturities when lessees default on their contractual obligations. Losses are generally realized upon the disposition of the repossessed operating lease vehicles. The methodologies used to determine the estimated losses are similar to the methodologies used to determine the allowance for credit losses on consumer finance receivables. Operating leases are collectively evaluated to determine the estimated losses incurred. Estimated early termination losses are recognized as a reduction to the carrying value of operating lease assets.

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

(g) *Allowance for Credit Losses*

The allowance for credit losses is management's estimate of probable losses incurred on finance receivables and is evaluated, at minimum, on a quarterly basis. The retail loan and direct financing lease portfolio segments consist primarily of pools of homogeneous loans and leases with relatively small balances, which are collectively evaluated for impairment. Dealer loans are individually evaluated for impairment when specifically identified as impaired. Dealer loans that have not been specifically identified as impaired are collectively evaluated. An allowance for credit losses is also maintained for estimated probable losses incurred on past due operating lease rental payments.

(h) Determination of Lease Residual Values

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

For operating leases, adjustments to the estimated residual values are made on a straight-line basis over the remaining term of the lease and recognized as depreciation expense. For direct financing leases, downward adjustments for declines in estimated residual values deemed other-than-temporary are recognized as a loss in the period in which the estimate changed.

(i) Vehicles Held for Disposition

Vehicles held for disposition consist of returned and repossessed vehicles. The vehicles are either sold at used vehicle auctions or purchased by dealers, usually within two months of return or repossession. The vehicles are valued at the lower of their carrying value or estimated fair value, less estimated disposition costs. For returned vehicles, valuation adjustments are recorded as a charge against the gain/loss on disposition of lease vehicles. Valuation adjustments made for repossessed collateral of finance receivables and operating leases are recognized as charges to the allowance for credit loss and estimated early termination losses on operating leases, respectively.

(j) Vehicle Service Contract Administration

AHFC performs administrative services for vehicle service contracts (VSC) issued by AHM and its subsidiary, American Honda Protection Products Corporation. AHFC receives fees for performing the services when the contracts are acquired, which is recognized in other income over the lives of the underlying contracts, proportionate to the anticipated amount of service to be performed. HCFI performs marketing services for vehicle service contracts issued by HCI. HCFI receives fees as the services are performed, which is recognized in other income.

(k) Securitizations and Variable Interest Entities

The Company enters into securitization transactions for funding purposes. Securitization transactions involve transferring pools of the Company's retail loans to statutory trusts. The trusts are special purpose entities formed by the Company 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 the Company and the claims of the Company's creditors. The Company continues to service the retail loans transferred to the trusts. Investors in the notes issued by the trusts only have recourse to the assets of the trusts and do not have recourse to the general credit of the Company.

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

Subordinated certificates – Securities issued by the trusts, which are retained by the Company and are subordinated in priority of payment to the notes.

Overcollateralization – Principal balance of securitized assets exceed the balance of securities issued by the trust.

Excess interest – Excess interest collections can be used to cover losses on defaulted loans.

Reserve funds – 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 – 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, 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. The Company has satisfied this obligation by retaining an eligible vertical interest of an amount equal to at least 5% of the principal amount of each class of note and certificate issued for the securitization transaction that was subject to this rule but may choose to use other structures in the future.

The securitization trusts formed by the Company are VIEs, which are required to be consolidated by their primary beneficiary. The Company is considered to be the primary beneficiary of these 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.

Consolidation of these trusts results in the securitization transactions being accounted for as on-balance sheet secured financings. The securitized receivables remain on the consolidated balance sheet of the Company along with the notes issued by the trusts. The notes are secured solely by the assets of the trusts and not by any other assets of the Company. The assets of the trusts are the only source of funds for repayment on the notes. Restricted cash accounts held by the trusts can only be used to support payments on the notes. The restricted cash accounts are included in the Company's consolidated balance sheet in other assets. Company recognizes finance revenue and provisions for credit losses on the securitized receivables and interest expense on the related secured debt.

(l) *Income Taxes*

The Company's U.S. entities are included in the consolidated U.S. federal and many consolidated or combined state and local income tax returns of the Parent, though in some cases the Company files separately as required by certain state and local jurisdictions. The Company provides its share of the consolidated or combined income tax on a modified separate return basis pursuant to an intercompany income tax allocation agreement that it has entered into with the Parent. The Company files a separate California return based on California's worldwide income and apportionment rules. To the extent the Company's U.S. entities have taxable losses in its consolidated federal, and consolidated or combined state and local tax returns, a benefit will be recognized to the extent that it is more likely than not that these losses will be utilized by the consolidated or combined return group in the current or future year and thus would be subject to current or future reimbursement by the Parent under the terms of the intercompany income tax allocation agreement. To the extent such losses are attributable to a state where the Company files a separate return, a benefit for such losses would be recognized to the extent such losses are more likely than not to be utilized in the future. All but an insignificant amount of the federal and state taxes payable or receivable shown on the consolidated balance sheets are due to or from the Parent, pursuant to the intercompany income tax allocation agreement.

The Company's Canadian subsidiary, HCFI, files Canadian federal and provincial income tax returns based on the separate legal entity financial statements. HCFI does not file U.S. federal, state, or local income tax returns. Consequently, HCFI does not participate in the intercompany income tax allocation agreement that the Company has with the Parent.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under this method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income during the period in which the enactment date occurs. A valuation allowance is provided to offset deferred tax assets if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In addition, tax benefits related to positions considered uncertain are recognized only if, based on the technical merits of the issue, the Company believes that it is more likely than not to sustain the position and then at the largest amount that is greater than 50% likely to be realized upon settlement.

(m) Foreign Currency Translation

Upon consolidation, the assets and liabilities of HCFI are translated at year-end exchange rates, and the revenues and expenses are translated at the average rates of exchange during the respective years. The resulting translation adjustment is included in other comprehensive income and the cumulative translation adjustment is reported as a separate component of equity in accumulated other comprehensive income and noncontrolling interest.

Foreign currency denominated debt is translated at year-end exchange rates, and the foreign currency transaction gains and losses are recognized through earnings.

(n) Derivative Instruments

The Company utilizes derivative instruments to manage exposures to interest rate and foreign currency risks. The Company's assets consist primarily of fixed rate receivables and operating lease assets. The Company's liabilities consist of both floating and fixed rate debt, denominated in various currencies. Interest rate and basis swaps are used to match the interest rate characteristics of the Company's assets and debt. Currency swaps are used to manage currency risk exposure on foreign currency denominated debt. Derivative instruments are not used for trading or any other speculative purposes.

All derivative financial instruments are recorded on the consolidated balance sheets at fair value. The Company elects to present derivative instruments in the Company's consolidated balance sheets on a gross basis rather than on a net basis by counterparty. Refer to Note 5 for additional information. Except in very limited circumstances involving counterparties with consolidated securitization trusts, AHFC generally has not entered into credit support (collateral) agreements with its counterparties. Changes in the fair value of derivatives are recognized in earnings in the period of the change. In Canada, HCFI is a party to credit support agreements that require posting of cash collateral to mitigate credit risk on derivative positions.

(o) Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance in this update supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the industry topics of the codification. The FASB has also issued several updates to ASU 2014-09 with targeted improvements and clarifications. Substantially all of the Company's sources of revenue are from lease and loan contracts, with the exception of revenue from Vehicle Service Contract Administration. Revenue from lease and loan contracts are not within the scope of this ASU as they are within the scope of other accounting standards. The Company does not expect this ASU to have a material impact on the timing and amount of revenue recognized from Vehicle Service Contract Administration; however, additional disclosures will be required. The Company adopted the new guidance effective April 1, 2018.

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the guidance in ASC 840, *Leases*. The effect of adopting the new standard will be the requirement to record right-of-use assets and lease liabilities for the Company's current operating leases as a lessee. We anticipate the adoption of the standard will add in our Consolidated Balance Sheets, the present value of all the future minimum lease payments to be made by the Company, as disclosed in Note 9 – Commitments and Contingencies of *Notes to Consolidated Financial Statements*. 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 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments were effective for the Company beginning April 1, 2018. The adoption of this standard is not expected to have a material impact on the consolidated statements of cash flows.

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

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

(2) **Finance Receivables**

Finance receivables consisted of the following:

	March 31, 2018			Total
	Lease	Retail	Dealer	
(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>

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

Finance receivables include retail loans with a principal balance of \$9.1 billion and \$8.6 billion as of March 31, 2018 and 2017, respectively, which have been transferred to securitization trusts and are considered to be legally isolated but do not qualify for sale accounting treatment. These finance receivables are restricted as collateral for the payment of the related secured debt obligations. Refer to Note 10 for additional information.

Contractual maturities of direct financing lease and retail loans at March 31, 2018 were as follows:

Year ending March 31:	Lease	Retail
	(U.S. dollars in millions)	
2019	\$104	\$ 9,520
2020	50	8,123
2021	—	6,651
2022	—	4,963
2023	—	2,900
Thereafter	—	983
Total	<u>\$154</u>	<u>\$33,140</u>

It is the Company's experience that a portion of the finance receivable portfolio generally is repaid before contractual maturity dates. Aggregate contractual maturities, as shown above for direct financing lease and retail finance receivables, should not be regarded as a forecast of future cash collections.

The uninsured portions of the direct financing lease residual values were \$35 million and \$78 million at March 31, 2018 and 2017, respectively. Included in the gain or loss on disposition of lease vehicles are end of term charges on both direct financing and operating leases of \$63 million, \$42 million and \$27 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

Credit Quality of Financing Receivables

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

Allowance for Credit Losses

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

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 fiscal years ended March 31, 2018, 2017 and 2016.

The Company generally does not grant concessions on consumer finance receivables that are considered troubled debt restructurings other than modifications of retail loans in reorganization proceedings pursuant to the U.S. Bankruptcy Code. Retail loans modified under bankruptcy protection were not material to the Company's consolidated financial statements during the fiscal years ended March 31, 2018, 2017 and 2016. 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.

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:

	Year ended March 31, 2018			
	Lease	Retail (U.S. dollars in millions)	Dealer	Total
Beginning balance	\$ 1	\$ 132	\$ —	\$ 133
Provision	—	211	2	213
Charge-offs	(1)	(243)	(2)	(246)
Recoveries	—	79	—	79
Effect of translation adjustment	—	—	—	—
Ending balance	<u>\$—</u>	<u>\$ 179</u>	<u>\$ —</u>	<u>\$ 179</u>
Allowance for credit losses – ending balance:				
Individually evaluated for impairment	\$—	\$ —	\$ —	\$ —
Collectively evaluated for impairment	—	179	—	179
Finance receivables – ending balance:				
Individually evaluated for impairment	\$—	\$ —	\$ 128	\$ 128
Collectively evaluated for impairment	150	32,499	5,367	38,016

	Year ended March 31, 2017			
	Lease	Retail (U.S. dollars in millions)	Dealer	Total
Beginning balance	\$ 2	\$ 91	\$ —	\$ 93
Provision	1	186	—	187
Charge-offs	(2)	(224)	—	(226)
Recoveries	—	79	—	79
Effect of translation adjustment	—	—	—	—
Ending balance	<u>\$ 1</u>	<u>\$ 132</u>	<u>\$ —</u>	<u>\$ 133</u>
Allowance for credit losses – ending balance:				
Individually evaluated for impairment	\$—	\$ —	\$ —	\$ —
Collectively evaluated for impairment	1	132	—	133
Finance receivables – ending balance:				
Individually evaluated for impairment	\$—	\$ —	\$ 1	\$ 1
Collectively evaluated for impairment	392	30,655	5,005	36,052

	Year ended March 31, 2016			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Beginning balance	\$ 2	\$ 84	\$ —	\$ 86
Provision	3	129	(1)	131
Charge-offs	(4)	(196)	—	(200)
Recoveries	1	74	1	76
Effect of translation adjustment	—	—	—	—
Ending balance	<u>\$ 2</u>	<u>\$ 91</u>	<u>\$ —</u>	<u>\$ 93</u>
Allowance for credit losses – ending balance:				
Individually evaluated for impairment	\$—	\$ —	\$ —	\$ —
Collectively evaluated for impairment	2	91	—	93
Finance receivables – ending balance:				
Individually evaluated for impairment	\$—	\$ —	\$ 1	\$ 1
Collectively evaluated for impairment	953	30,178	4,770	35,901

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.S. dollars in millions)	<u>Total past due</u>	<u>Current or less than 30 days past due</u>	<u>Total finance receivables</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	<u>257</u>	<u>49</u>	<u>14</u>	<u>320</u>	<u>32,179</u>	<u>32,499</u>
Direct financing leases	<u>2</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>148</u>	<u>150</u>
Dealer loans:						
Wholesale flooring	2	1	2	5	4,447	4,452
Commercial loans	—	—	—	—	1,043	1,043
Total dealer loans	<u>2</u>	<u>1</u>	<u>2</u>	<u>5</u>	<u>5,490</u>	<u>5,495</u>
Total finance receivables	<u>\$ 261</u>	<u>\$ 50</u>	<u>\$ 16</u>	<u>\$ 327</u>	<u>\$ 37,817</u>	<u>\$ 38,144</u>
March 31, 2017						
Retail loans:						
New auto	\$ 162	\$ 26	\$ 7	\$ 195	\$ 25,785	\$ 25,980
Used and certified auto	48	8	2	58	3,474	3,532
Motorcycle and other	10	3	2	15	1,128	1,143
Total retail	<u>220</u>	<u>37</u>	<u>11</u>	<u>268</u>	<u>30,387</u>	<u>30,655</u>
Direct financing leases	<u>3</u>	<u>2</u>	<u>—</u>	<u>5</u>	<u>387</u>	<u>392</u>
Dealer loans:						
Wholesale flooring	2	—	—	2	4,098	4,100
Commercial loans	—	—	—	—	906	906
Total dealer loans	<u>2</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>5,004</u>	<u>5,006</u>
Total finance receivables	<u>\$ 225</u>	<u>\$ 39</u>	<u>\$ 11</u>	<u>\$ 275</u>	<u>\$ 35,778</u>	<u>\$ 36,053</u>

Credit Quality Indicators

Retail Loan and Direct Financing Lease Portfolio Segments

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

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:

	Retail new auto	Retail used and certified auto	Retail motorcycle and other	Direct financing lease	Total consumer finance receivables
	(U.S. dollars in millions)				
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>
March 31, 2017					
Performing	\$25,947	\$ 3,522	\$ 1,138	\$ 390	\$ 30,997
Nonperforming	33	10	5	2	50
Total	<u>\$25,980</u>	<u>\$ 3,532</u>	<u>\$ 1,143</u>	<u>\$ 392</u>	<u>\$ 31,047</u>

Dealer Loan Portfolio Segment

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

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

	March 31,					
	2018			2017		
	Wholesale flooring	Commercial loans	Total	Wholesale flooring	Commercial loans	Total
	(U.S. dollars in millions)					
Group A	\$ 2,791	\$ 684	\$3,475	\$ 2,689	\$ 628	\$3,317
Group B	1,661	359	2,020	1,411	278	1,689
Total	<u>\$ 4,452</u>	<u>\$ 1,043</u>	<u>\$5,495</u>	<u>\$ 4,100</u>	<u>\$ 906</u>	<u>\$5,006</u>

(3) Investment in Operating Leases

Investment in operating leases consisted of the following:

	March 31,	
	2018	2017
	(U.S. dollars in millions)	
Operating lease vehicles	\$ 41,285	\$ 39,684
Accumulated depreciation	(8,169)	(7,136)
Deferred dealer participation and other deferred costs	117	118
Unearned subsidy income	(1,317)	(1,285)
Estimated early termination losses	(99)	(71)
Investment in operating leases, net	<u>\$ 31,817</u>	<u>\$ 31,310</u>

The Company recognized \$108 million, \$73 million and \$46 million of estimated early termination losses due to lessee defaults for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. Actual net losses realized for the fiscal years ended March 31, 2018, 2017 and 2016 totaled \$80 million, \$62 million and \$44 million, respectively.

Included in the provision for credit losses for the fiscal years ended March 31, 2018, 2017 and 2016 are provisions related to past due receivables on operating leases in the amounts of \$31 million, \$23 million and \$19 million, respectively.

Certain Honda and Acura vehicles were recalled during the fourth quarter of the fiscal year ended March 31, 2016 based on a determination of a safety related defect in driver's airbag inflators. AHM and HCI instructed their authorized dealers to cease the sale of affected new and used vehicles until the recall repairs are completed. Tests for recoverability were performed on operating leases affected by this recall, which reflected the anticipated delays in the disposition of returned lease vehicles. For the operating lease assets that did not pass the test for recoverability, the Company recognized \$8 million of impairment losses for the fiscal year ended March 31, 2016. No impairment losses due to declines in estimated residual values were recognized during the fiscal years ended March 31, 2018 and 2017.

Future minimum rental payments for operating leases at March 31, 2018 were as follows (U.S. dollars in millions):

<u>Year ending March 31:</u>	
2019	\$ 5,342
2020	3,358
2021	1,290
2022	224
2023	40
Total	<u>\$10,254</u>

Based on the Company's leasing experience, it is expected that a portion of the Company's operating lease vehicles will be purchased by the lessee prior to the scheduled lease term. Future minimum rental payments, as shown above, should not be regarded as a forecast of future cash collections.

(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:

	March 31,		Weighted average contractual interest rate		Contractual interest rate ranges	
	2018	2017	March 31,		March 31,	
	(U.S. dollars in millions)		2018	2017	2018	2017
Unsecured debt:						
Commercial paper	\$ 5,167	\$ 4,462	1.86%	0.99%	1.07 - 2.21%	0.78 - 1.15%
Related party debt	1,085	1,201	1.64%	0.95%	1.43 - 1.72%	0.93 - 0.96%
Bank loans	5,419	5,883	2.48%	1.65%	2.02 - 3.15%	1.28 - 2.00%
Private MTN program	1,698	2,946	5.40%	3.77%	3.80 - 7.63%	1.50 - 7.63%
Public MTN program	21,398	19,491	1.92%	1.63%	0.07 - 3.50%	0.07 - 2.90%
Euro MTN programme	1,111	1,086	1.95%	1.83%	1.88 - 2.33%	1.52 - 2.23%
Other debt	3,250	2,736	2.20%	1.90%	1.63 - 2.76%	1.28 - 2.35%
Total unsecured debt	39,128	37,805				
Secured debt	8,733	8,422	1.74%	1.24%	1.04 - 2.83%	0.77 - 2.05%
Total debt	<u>\$ 47,861</u>	<u>\$ 46,227</u>				

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

The Company's secured debt is amortizing and unsecured debt is non-amortizing. Scheduled and projected maturities of the Company's debt at March 31, 2018 are summarized below:

	2019	2020	2021	2022	2023	Thereafter	Total
	(U.S. dollars in millions)						
Unsecured debt:							
Commercial paper	\$ 5,178	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,178
Related party debt	1,085	—	—	—	—	—	1,085
Bank loans	771	1,494	1,078	1,310	697	78	5,428
Private MTN program	700	—	500	500	—	—	1,700
Public MTN program	6,116	4,700	3,100	2,791	2,630	2,116	21,453
Euro MTN programme	160	924	—	—	28	—	1,112
Other debt	659	465	892	310	930	—	3,256
Total unsecured debt	14,669	7,583	5,570	4,911	4,285	2,194	39,212
Secured debt ⁽¹⁾	4,660	2,604	1,193	240	48	—	8,745
Total debt ⁽²⁾	<u>\$19,329</u>	<u>\$10,187</u>	<u>\$ 6,763</u>	<u>\$ 5,151</u>	<u>\$ 4,333</u>	<u>\$ 2,194</u>	<u>47,957</u>
						Unamortized discounts/fees	(96)
						Total debt	<u>\$47,861</u>

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- (1) Projected repayment schedule of secured debt. Reflects payment performance assumptions on underlying receivables.
 - (2) Principal amounts.

Commercial Paper

As of March 31, 2018 and 2017, the Company had commercial paper programs that provide the Company with available funds of up to \$8.6 billion and \$8.5 billion, respectively, at prevailing market interest rates for terms up to one year. The commercial paper programs are supported by the Keep Well Agreements with HMC described in Note 6.

Outstanding commercial paper averaged \$5.6 billion and \$5.8 billion during fiscal years 2018 and 2017, respectively. The maximum balance outstanding at any month-end during fiscal years 2018 and 2017 was \$6.2 billion and \$6.6 billion, respectively.

Related Party Debt

AHFC no longer issues fixed rate short-term notes to AHM to help fund AHFC's general corporate operations. AHFC had no outstanding notes to AHM during fiscal year ended March 31, 2018. AHFC incurred interest expense on these notes totaling \$3 million for both the fiscal years ended March 31, 2017 and 2016. As of March 31, 2017, AHFC had no outstanding notes issued to AHM.

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 \$14 million, \$12 million and \$13 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

Bank Loans

Outstanding bank loans at March 31, 2018 and 2017 were either short-term or long-term, with floating interest rates, and denominated in U.S. dollars or Canadian dollars. Outstanding bank loans have prepayment options. No outstanding bank loans as of March 31, 2018 and 2017 were supported by the Keep Well Agreements with HMC described in Note 6. Outstanding bank loans contain certain covenants, including limitations on liens, mergers, consolidations and asset sales.

Medium Term Note (MTN) Programs

Private MTN Program

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. Notes outstanding under the Private MTN Program as of March 31, 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 March 31, 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 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 March 31, 2018 and 2017 consisted of private placement debt issued by HCFI which are long-term, with either fixed or floating interest rates, and denominated in Canadian dollars. Private placement debt is supported by the Keep Well Agreement with HMC described in Note 6. The notes are issued pursuant to the terms of an indenture which contains certain covenants, including negative pledge provisions.

Secured Debt

The Company issues notes through financing transactions that are secured by assets held by the issuing securitization trusts. Notes outstanding as of March 31, 2018 and 2017 were both long-term and short-term, with either fixed or floating interest rates, and denominated in U.S. dollars or Canadian dollars. Repayment on the notes is dependent on the performance of the underlying receivables. Refer to Note 10 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 March 31, 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 \$620 million on a one-year and up to \$620 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 March 31, 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 March 31, 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 14 regarding the valuation of derivative instruments.

	March 31,					
	2018			2017		
	Notional balances	Assets	Liabilities (U.S. dollars in millions)	Notional balances	Assets	Liabilities
Interest rate swaps	\$56,043	\$ 465	\$ 342	\$54,664	\$ 237	\$ 193
Cross currency swaps	4,310	285	72	3,694	12	256
Gross derivative assets/liabilities		750	414		249	449
Counterparty netting adjustment		(372)	(371)		(179)	(179)
Net derivative assets/liabilities		\$ 378	\$ 43		\$ 70	\$ 270

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

	Years ended March 31,		
	2018	2017	2016
	(U.S. dollars in millions)		
Interest rate swaps	\$126	\$ (87)	\$ (8)
Cross currency swaps	424	(228)	109
Total gain/(loss) on derivative instruments	<u>\$550</u>	<u>\$(315)</u>	<u>\$101</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:

Income Statement	Years ended March 31,		
	2018	2017	2016
	(U.S. dollars in millions)		
Revenue:			
Subsidy income	\$1,441	\$1,232	\$1,076
Interest expense:			
Related party debt	14	15	16
Other income, net:			
VSC administration fees	107	103	98
Support Service Fee	(28)	—	—
General and administrative expenses:			
Support Compensation Agreement fees	22	20	18
Benefit plan expenses	11	11	9
Shared services	62	60	58

Balance Sheet	March 31,	
	2018	2017
	(U.S. dollars in millions)	
Assets:		
Finance receivables, net:		
Unearned subsidy income	\$ (1,030)	\$ (820)
Investment in operating leases, net:		
Unearned subsidy income	(1,313)	(1,281)
Due from Parent and affiliated companies	139	228
Liabilities:		
Debt:		
Related party debt	\$ 1,085	\$ 1,201
Due to Parent and affiliated companies	87	91
Accrued interest expense:		
Related party debt	3	2
Other liabilities:		
VSC unearned administrative fees	396	394
Accrued benefit expenses	71	66

Support Agreements

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

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. Refer to Notes 1(e) and 1(f) for additional information.

Related Party Debt

AHFC no longer issues short-term notes to AHM to fund AHFC's general corporate operations. As of March 31, 2018, AHFC had no outstanding notes to AHM. HCFI issues short-term notes to HCI to fund HCFI's general corporate operations. Interest rates are based on prevailing rates of debt with comparable terms. Refer to Note 4 for additional information.

Vehicle Service Contract Administration

AHFC receives fees to perform administrative services for VSCs issued by AHM and its subsidiaries. Unearned VSC administration fees are included in other liabilities (Note 12). VSC administration income is recognized in other income (Note 13). HCFI receives fees for marketing vehicle service contracts issued by HCI, and is also recognized in other income. Refer to Note 1(j) for additional information.

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

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. Refer to Note 8 for additional information.

Income taxes

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

Other

AHM periodically sponsors programs that allow lessees to terminate their lease contracts prior to the contractual maturity date. AHM compensates the Company for rental payments that were waived under these programs. During the fiscal years ended March 31, 2018 and 2017, the Company recognized \$19 million and \$6 million, respectively, under these programs which were reflected as proceeds on the disposition of the returned lease vehicles.

As a result of the recall of certain Honda and Acura vehicles announced in the fourth quarter of the fiscal year ended March 31, 2016, the Company experienced delays in the disposition of returned lease vehicles and repossessed vehicles. HCI has compensated the Company \$6 million during the fiscal year ended March 31, 2017 for certain costs resulting from the delay in disposition of affected vehicles in Canada. The Company compensated AHM \$3 million during fiscal year ended March 31, 2017 for certain costs related to the disposition of affected vehicles in the United States.

The majority of the amounts due from the Parent and affiliated companies at March 31, 2018 and 2017 related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at March 31, 2018 and 2017 related to wholesale flooring invoices payable to the Parent. These receivable and payable accounts are non-interest-bearing and short-term in nature and are expected to be settled in the normal course of business.

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

AHFC declared and paid semi-annual cash dividends of \$141 million and \$206 million to its parent, AHM, during the fiscal year ended March 31, 2018. No dividends were declared or paid during the fiscal year ended March 31, 2017.

(7) Income Taxes

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

We adopted Staff Accounting Bulletin No. 118 (SAB 118) which provides guidance on accounting for the tax effects of the Tax Act in our 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, we recorded a measurement period adjustment of \$51 million tax expense reflecting the change in temporary differences from the estimate as of December 31, 2017 to actual as of March 31, 2018, and we have completed the re-measurement of deferred taxes to the new 21% tax rate, resulting in a tax benefit of approximately \$2,970 million as of the enactment date and the effect of a phased-in tax rate of \$209 million. As of March 31, 2018, our accounting for the Transition Tax is provisional, pending further analysis of relevant U.S. federal and state interpretive guidance which continues to evolve. As of March 31, 2018, we recorded a measurement period adjustment of \$27 million tax expense as a result of updated estimates and Treasury guidance published after December 31, 2017, and we have accrued provisionally a total of \$52 million for the Transition Tax. We expect to complete the accounting for this item within the twelve-month measurement period afforded by SAB 118. Other effects of the Tax Act to the total expense are immaterial.

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

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	(U.S. dollars in millions)		
<u>Year ended March 31, 2018</u>			
Federal	\$ 45	\$(2,838)	\$(2,793)
State and local	45	43	88
Foreign	49	27	76
Total	<u>\$ 139</u>	<u>\$(2,768)</u>	<u>\$(2,629)</u>
<u>Year ended March 31, 2017</u>			
Federal	\$ (265)	\$ 596	\$ 331
State and local	(18)	72	54
Foreign	32	20	52
Total	<u>\$ (251)</u>	<u>\$ 688</u>	<u>\$ 437</u>
<u>Year ended March 31, 2016</u>			
Federal	\$ (428)	\$ 861	\$ 433
State and local	(15)	88	73
Foreign	22	20	42
Total	<u>\$ (421)</u>	<u>\$ 969</u>	<u>\$ 548</u>

The allocation of federal tax expense between current and deferred tax expense for the fiscal years ended March 31, 2018, 2017 and 2016, reflect primarily the impact of 100% federal bonus depreciation, the elimination of personal property for like-kind exchange purposes, and the one-time Transition Tax due to the Tax Act, and 50% federal bonus depreciation due to the Protecting Americans from Tax Hikes Act of 2015.

Income tax expense differs from the expected income taxes by applying the statutory federal corporate rates of 31.55%, 35% and 35% for fiscal years ended March 31, 2018, 2017 and 2016, respectively, to income before income taxes as follows:

	<u>Years ended March 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(U.S. dollars in millions)		
Computed "expected" income taxes	\$ 467	\$416	\$510
Foreign tax rate differential	(14)	(17)	(13)
Effect of foreign dividends and foreign tax credit	(10)	4	3
State and local income taxes, net of federal income tax benefit	49	40	47
Change in valuation allowance	—	(5)	5
Change in estimated state tax rate, net of federal income tax benefit	(5)	(8)	21
Change in unrecognized tax benefit	(1)	—	(6)
Effect of state tax law changes	13	10	(16)
Effect of Tax Act	(3,127)		
Other	(1)	(3)	(3)
Income tax expense/(benefit)	<u>\$(2,629)</u>	<u>\$437</u>	<u>\$548</u>

Effect of the Tax Act includes \$(3,179) million related to re-measurement of deferred tax assets and liabilities and \$52 million related to the Transition Tax.

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

	March 31,	
	2018	2017
	(U.S. dollars in millions)	
Deferred tax assets:		
State income tax	\$ 192	\$ 294
Receivable valuation	97	90
Accrued postretirement	14	21
State loss carryforwards	47	60
Other assets	38	69
Total gross deferred tax assets	388	534
Less valuation allowance	—	—
Net deferred tax assets	388	534
Deferred tax liabilities:		
HCFI leases	319	274
AHFC leases	6,035	8,949
Derivatives	17	24
Securitizations	10	9
Other	42	70
Total gross deferred tax liabilities	6,423	9,326
Net deferred tax liabilities	\$ 6,035	\$ 8,792

The decrease in the net deferred tax liability is primarily attributable to re-measurement resulting from enactment of the 21% tax rate under the Tax Act.

The effect of translating HCFI's net deferred tax liabilities to U.S. dollars upon consolidation resulted in an increase of \$8 million during the fiscal year ended March 31, 2018, and a decrease of \$5 million during each of the fiscal years ended March 31, 2017 and 2016. The translation adjustments have been recognized as a component of other comprehensive income.

Exception to Recognition of Deferred Tax Liabilities

Prior to the passage of the Tax Act, foreign undistributed earnings were generally subject to U.S. taxation when repatriated and when subject to U.S. taxation 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 "earnings and profits" ("E&P") and generally eliminates future U.S. federal income taxes on dividends from foreign subsidiaries. The Company has provided for federal and certain states Transition Tax on the E&P of HCFI 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 March 31, 2018, \$844 million of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of March 31, 2018 were to be distributed, the tax liability associated with these indefinitely reinvested earnings would be \$73 million.

State Loss Carryforwards

Included in the Company's deferred tax assets are net operating loss (NOL) carryforwards with tax benefits resulting from operating losses incurred in various states in which the Company files tax returns in the amounts of \$47 million, \$60 million and \$60 million at March 31, 2018, 2017 and 2016, respectively. Based on the statutes of each of the applicable states, these NOL carryforwards expire at various times through March 31, 2037.

Valuation Allowance

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during those periods in which those temporary differences and carryforward deferred tax assets become deductible or utilized. The Company considers sources of income, including the reversal of deferred tax liabilities, projected future taxable income, and tax planning considerations in making this assessment. Based upon these factors, during the fiscal year ended March 31, 2018, the Company believes that it is more likely than not that the deferred tax assets of \$388 million recognized as of March 31, 2018 will be realized.

Uncertain Tax Positions

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

	Years ended March 31,		
	2018	2017	2016
	(U.S. dollars in millions)		
Balance, beginning of year	\$ 21	\$ 16	\$ 21
Additions for current year tax positions	—	—	—
Additions for prior year tax positions	1	5	—
Reductions for prior year tax positions	—	—	(10)
Settlements	—	—	5
Reductions related to a lapse in the statute of limitations	—	—	—
Foreign currency translation	—	—	—
Balance, end of year	<u>\$ 22</u>	<u>\$ 21</u>	<u>\$ 16</u>

Included in the balance of unrecognized tax benefits at March 31, 2018, 2017 and 2016 are \$21 million, \$21 million and \$15 million, net of the federal benefit of state taxes, respectively, the recognition of which would affect the Company's effective tax rate in future periods. Although it is reasonably possible that the total amounts of unrecognized tax benefits could change within the next twelve months, the Company does not believe such change would be significant. As a result of the above unrecognized tax benefits and various favorable uncertain positions, the Company has recorded a net liability for uncertain tax positions of \$10 million and \$14 million as of March 31, 2018 and 2017, respectively (Note 12).

The Company recognizes income tax-related interest income, interest expense and penalties as a component of income tax expense. During the fiscal years ended March 31, 2018 and 2017, the Company recognized interest income in an amount less than \$1 million, and interest expense in an amount less than \$1 million, respectively, as a component of income tax expense. As a result of settlements during the fiscal year ended March 31, 2016, the Company received less than \$1 million. There were no settlements during the fiscal year ended March 31, 2018 and 2017. As of March 31, 2018, 2017 and 2016, the Company's consolidated balance sheets reflect accrued interest payable of \$2 million, \$3 million and \$3 million, respectively.

As of March 31, 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) Benefit Plans

The Company participates in certain retirement and other postretirement benefit plans maintained by AHM and HCI (collectively referred to as the Sponsors).

The Company participates in defined benefit retirement plans (the Pension Plans) maintained by the Sponsors. The names of the Pension Plans maintained by AHM are the Honda Retirement Plan and the Honda Pension Equalization Plan. The name of the Pension Plan maintained by HCI is the Pension Plan for Associates of Honda Canada Inc. Employees who commenced service after September 3, 2013 are not eligible to participate in the Pension Plans maintained by AHM. Under the amendments to the Pension Plan maintained by HCI, employees who commenced service after January 1, 2014 are not eligible to participate in their Pension Plan. The Company pays for its share of the Pension Plan costs allocated by the Sponsors. The Pension Plans' expense, included in general and administrative expenses, was \$6 million for each of the fiscal years ended March 31, 2018, 2017 and 2016.

The Company participates in defined contribution savings plans (the Savings Plans) maintained by the Sponsors. These plans allow participants to make contributions subject to Internal Revenue Service or Canada Revenue Agency limits. General and administrative expenses includes \$8 million, \$7 million and \$7 million for the Company's contributions to the Savings Plans for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

The Company participates in other postretirement plans maintained by the Sponsors primarily to provide certain healthcare benefits for retired employees. Substantially all employees become eligible for these benefits if they have met certain age and service requirements at retirement. The Company's expense for the postretirement plans, included in general and administrative expenses, was \$5 million, \$5 million and \$3 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

(9) 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 \$9 million, \$10 million and \$10 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. Annual minimum lease commitments attributable to long-term noncancelable operating leases at March 31, 2018 were as follows (U.S. dollars in millions):

Year ending March 31:	
2019	\$ 9
2020	10
2021	10
2022	9
2023	9
Thereafter	<u>32</u>
Total	<u>\$79</u>

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 \$189 million as of March 31, 2018. The Company also has commitments to finance the construction of auto dealerships. The remaining unfunded balance for these construction loans was \$33 million as of March 31, 2018.

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.

(10) Securitizations and Variable Interest Entities

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 fiscal years ended March 31, 2018 and 2017, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling \$5.2 billion and \$5.7 billion, respectively. The notes were secured by receivables with an initial principal balance of \$5.8 billion and \$6.3 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.

	March 31,	
	2018	2017
	(U.S. dollars in millions)	
Assets:		
Finance receivables	\$ 9,112	\$ 8,649
Unamortized costs and subsidy income, net	(203)	(125)
Allowance for credit losses	(14)	(12)
Finance receivables, net	8,895	8,512
Vehicles held for disposition	4	3
Restricted cash ⁽¹⁾	443	358
Accrued interest receivable ⁽¹⁾	9	9
Total assets	<u>\$ 9,351</u>	<u>\$ 8,882</u>
Liabilities:		
Secured debt	\$ 8,745	\$ 8,435
Unamortized discounts and fees	(12)	(13)
Secured debt, net	8,733	8,422
Accrued interest expense	6	4
Total liabilities	<u>\$ 8,739</u>	<u>\$ 8,426</u>

(1) Included with other assets in the Company's consolidated balance sheets (Note 11).

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 March 31, 2018 and 2017, AHFC and HCFI had combined cash collections of \$466 million and \$462 million, respectively, which were required to be remitted to the trusts.

(11) Other Assets

Other assets consisted of the following:

	March 31,	
	2018	2017
	(U.S. dollars in millions)	
Interest receivable and other assets	\$ 84	\$ 76
Other receivables	144	148
Deferred expense	122	171
Software, net of accumulated amortization of \$146 and \$138 as of March 31, 2018 and 2017, respectively	33	33
Property and equipment, net of accumulated depreciation of \$20 and \$17 as of March 31, 2018 and 2017, respectively	6	8
Restricted cash	443	382
Other miscellaneous assets	102	74
Total	<u>\$ 934</u>	<u>\$ 892</u>

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to five years. General and administrative expenses include depreciation and amortization expense of \$10 million, \$7 million and \$5 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

(12) Other Liabilities

Other liabilities consisted of the following:

	March 31,	
	2018	2017
	(U.S. dollars in millions)	
Dealer payables	\$ 174	\$ 148
Accounts payable and accrued expenses	363	313
Lease security deposits	78	66
VSC unearned administrative fees (Note 6)	396	394
Unearned income, operating lease	347	330
Uncertain tax positions	10	14
Other liabilities	14	124
Total	<u>\$ 1,382</u>	<u>\$ 1,389</u>

(13) Other Income, net

Other income consisted of the following:

	Years ended March 31,		
	2018	2017	2016
	(U.S. dollars in millions)		
VSC administration (Note 6)	\$107	\$103	\$98
Other, net	(51)	2	(1)
Total	<u>\$ 56</u>	<u>\$105</u>	<u>\$97</u>

(14) Fair Value Measurements

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

Recurring Fair Value Measurements

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

	March 31, 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	<u>\$ —</u>	<u>\$ 414</u>	<u>\$ —</u>	<u>\$414</u>
	March 31, 2017			
	Level 1	Level 2	Level 3	Total

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

The valuation techniques of assets and liabilities measured at fair value on a recurring basis are described below:

Derivative Instruments

The Company's derivatives are transacted in over-the-counter markets and quoted market prices are not readily available. The Company uses third-party developed valuation models to value derivative instruments. These models estimate fair values using discounted cash flow modeling techniques, which utilize the contractual terms of the derivative instruments and market-based inputs, including interest rates and foreign exchange rates. Discount rates incorporate counterparty and HMC specific credit default spreads to reflect nonperformance risk.

The Company's derivative instruments are classified as Level 2 since all significant inputs are observable and do not require management judgment. There were no transfers between fair value hierarchy levels during the fiscal years ended March 31, 2018 and 2017. Refer to notes 1(n) and 5 for additional information on derivative instruments.

Nonrecurring Fair Value Measurements

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Lower-of-cost or fair value adjustment</u>
	(U.S. dollars in millions)				
<u>March 31, 2018</u>					
Vehicles held for disposition	\$ —	\$ —	\$ 170	\$170	\$ 31
<u>March 31, 2017</u>					
Vehicles held for disposition	\$ —	\$ —	\$ 166	\$166	\$ 29

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

Vehicles Held for Disposition

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

Fair Value of Financial Instruments

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

	March 31, 2018				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
(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

	March 31, 2017				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
(U.S. dollars in millions)					
Assets:					
Cash and cash equivalents	\$ 760	\$ 760	\$ —	\$ —	\$ 760
Dealer loans, net	5,006	—	—	4,837	4,837
Retail loans, net	30,523	—	—	30,724	30,724
Restricted cash	382	382	—	—	382

Liabilities:					
Commercial paper	\$ 4,462	\$ —	\$ 4,462	\$ —	\$ 4,462
Related party debt	1,201	—	1,202	—	1,202
Bank loans	5,883	—	5,939	—	5,939
Medium term note programs	23,523	—	23,723	—	23,723
Other debt	2,736	—	2,761	—	2,761
Secured debt	8,422	—	8,411	—	8,411

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

Cash, Cash Equivalents and Restricted Cash

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

Finance Receivables

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

Debt

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

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

Fair value information presented in the tables above is based on information available at March 31, 2018 and 2017. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been updated since those dates, and therefore, the current estimates of fair value at dates subsequent to those dates may differ significantly from the amounts presented herein.

(15) Segment Information

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

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

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

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

	<u>United States</u>	<u>Canada</u>	<u>Valuation adjustments and reclassifications</u>	<u>Consolidated Total</u>
	(U.S. dollars in millions)			
<u>Year ended March 31, 2018</u>				
Revenues:				
Direct financing leases	\$ —	\$ 13	\$ —	\$ 13
Retail	1,181	188	—	1,369
Dealer	158	17	—	175
Operating leases	<u>5,815</u>	<u>1,075</u>	<u>—</u>	<u>6,890</u>
Total revenues	7,154	1,293	—	8,447
Depreciation on operating leases	4,598	883	—	5,481
Interest expense	770	127	—	897
Realized (gains)/losses on derivatives and foreign currency denominated debt	(13)	(1)	14	—
Net revenues	1,799	284	(14)	2,069
Gain/(Loss) on disposition of lease vehicles	66	27	—	93
Other income	<u>50</u>	<u>6</u>	<u>—</u>	<u>56</u>
Total net revenues	1,915	317	(14)	2,218
Expenses:				
General and administrative expenses	384	55	—	439
Provision for credit losses	239	5	—	244
Early termination loss on operating leases	105	3	—	108
Loss on lease residual values	—	3	—	3
(Gain)/Loss on derivative instruments	—	—	(550)	(550)
(Gain)/Loss on foreign currency revaluation of debt	—	—	494	494
Income before income taxes	<u>\$ 1,187</u>	<u>\$ 251</u>	<u>\$ 42</u>	<u>\$ 1,480</u>
<u>March 31, 2018</u>				
Finance receivables, net	\$33,311	\$ 4,645	\$ —	\$ 37,956
Investment in operating leases, net	27,040	4,777	—	31,817
Total assets	62,976	9,650	—	72,626

	<u>United States</u>	<u>Canada</u>	<u>Valuation adjustments and reclassifications</u>	<u>Consolidated Total</u>
	(U.S. dollars in millions)			
<u>Year ended March 31, 2017</u>				
Revenues:				
Direct financing leases	\$ —	\$ 34	\$ —	\$ 34
Retail	1,030	158	—	1,188
Dealer	133	14	—	147
Operating leases	5,547	786	—	6,333
Total revenues	6,710	992	—	7,702
Depreciation on operating leases	4,403	653	—	5,056
Interest expense	638	90	—	728
Realized (gains)/losses on derivatives and foreign currency denominated debt	(35)	17	18	—
Net revenues	1,704	232	(18)	1,918
Gain/(Loss) on disposition of lease vehicles	24	19	—	43
Other income	100	5	—	105
Total net revenues	1,828	256	(18)	2,066
Expenses:				
General and administrative expenses	383	51	—	434
Provision for credit losses	199	11	—	210
Early termination loss on operating leases	67	6	—	73
Loss on lease residual values	—	15	—	15
(Gain)/Loss on derivative instruments	—	—	315	315
(Gain)/Loss on foreign currency revaluation of debt	—	—	(171)	(171)
Income before income taxes	<u>\$ 1,179</u>	<u>\$ 173</u>	<u>\$ (162)</u>	<u>\$ 1,190</u>
<u>March 31, 2017</u>				
Finance receivables, net	\$31,447	\$4,457	\$ —	\$ 35,904
Investment in operating leases, net	27,380	3,930	—	31,310
Total assets	61,328	8,526	—	69,854

	<u>United States</u>	<u>Canada</u>	<u>Valuation adjustments and reclassifications</u>	<u>Consolidated Total</u>
			(U.S. dollars in millions)	
Year ended March 31, 2016				
Revenues:				
Direct financing leases	\$ —	\$ 72	\$ —	\$ 72
Retail	1,041	144	—	1,185
Dealer	109	13	—	122
Operating leases	5,023	500	—	5,523
Total revenues	6,173	729	—	6,902
Depreciation on operating leases	4,012	409	—	4,421
Interest expense	518	74	—	592
Realized (gains)/losses on derivatives and foreign currency denominated debt	4	27	(31)	—
Net revenues	1,639	219	31	1,889
Gain/(Loss) on disposition of lease vehicles	46	5	—	51
Other income	94	3	—	97
Total net revenues	1,779	227	31	2,037
Expenses:				
General and administrative expenses	356	47	—	403
Provision for credit losses	134	16	—	150
Early termination loss on operating leases	41	5	—	46
Impairment loss on operating leases	6	2	—	8
Loss on lease residual values	—	13	—	13
(Gain)/Loss on derivative instruments	—	—	(101)	(101)
(Gain)/Loss on foreign currency revaluation of debt	—	—	60	60
Income before income taxes	<u>\$ 1,242</u>	<u>\$ 144</u>	<u>\$ 72</u>	<u>\$ 1,458</u>
March 31, 2016				
Finance receivables, net	\$31,080	\$4,713	\$ —	\$ 35,793
Investment in operating leases, net	25,245	3,002	—	28,247
Total assets	58,813	7,840	—	66,653

(16) Selected Quarterly Financial Data (Unaudited)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Full Year</u>
Year ended March 31, 2018					
Total revenues	\$2,041	\$2,111	\$2,140	\$2,155	\$8,447
Depreciation on operating leases	1,346	1,363	1,378	1,394	5,481
Interest expense	204	218	229	246	897
Other income	14	13	14	15	56
Total net revenues	534	577	555	552	2,218
Provision for credit losses	39	83	65	57	244
Early termination loss on operating leases	17	42	22	27	108
Net income	248	222	3,370	269	4,109
Net income attributable to American Honda Finance Corporation	221	192	3,349	247	4,009
Year ended March 31, 2017					
Total revenues	\$1,846	\$1,911	\$1,953	\$1,992	\$7,702
Depreciation on operating leases	1,182	1,250	1,306	1,318	5,056
Interest expense	169	178	186	195	728
Other income	22	22	23	38	105
Total net revenues	536	504	484	542	2,066
Provision for credit losses	31	72	54	53	210
Early termination loss on operating leases	15	16	19	23	73
Net income	237	196	119	201	753
Net income attributable to American Honda Finance Corporation	223	178	98	184	683

FIFTH AMENDMENT dated as of March 13, 2018 between HONDA CANADA FINANCE INC., a Canada corporation (the “**Borrower**”) and CANADIAN IMPERIAL BANK OF COMMERCE, as administrative agent, for and on behalf of the Banks party to the Credit Agreement (as defined below) (the “**Administrative Agent**”).

WHEREAS, the Borrower, the Banks, the Administrative Agent, and the other Agents party thereto are party to a second amended and restated credit agreement dated as of March 24, 2014 (as amended pursuant to an amendment dated as of June 30, 2014, a second amendment dated as of March 13, 2015, a third amendment dated as of March 23, 2016 and a fourth amendment dated as of March 23, 2017, collectively, the “**Credit Agreement**”);

WHEREAS, pursuant to Section 2.11 of the Credit Agreement, the Borrower may request that the Commitment Termination Date of a Class be extended by one year; and

WHEREAS the Borrower has requested that (i) each of the Class A Commitment Termination Date and the Class B Commitment Termination Date be extended by one year and (ii) the Credit Agreement be amended to delete the Utilization Fee, and the Lenders have agreed to each such extension and amendment.

NOW THEREFORE IT IS AGREED:

Section 1 Defined Terms.

Capitalized terms used in this Amendment and not otherwise defined have the meanings specified in the Credit Agreement.

Section 2 Amendments.

- (1) Section 1.1 of the Credit Agreement is hereby amended as follows:
 - (a) The definition of “Tranche A Commitment Termination Date” is amended by deleting “March 24, 2018” and replacing it with “March 24, 2019”; and
 - (b) The definition of “Tranche B Commitment Termination Date” is hereby amended by deleting “March 24, 2022” and replacing it with “March 24, 2023”.
 - (c) The defined term “Utilization Fee” and its related definition is hereby deleted and replaced with “[Reserved]”.
- (2) Section 2.8 of the Credit Agreement is hereby amended by deleting the heading “Utilization Fee” together with the entirety of the two paragraphs immediately underneath such heading, and replacing them with “[Reserved]”.
- (3) Section 5.2 of the Credit Agreement is hereby amended by deleting the clause beginning with “each payment of Utilization Fees” and ending with “pro rata share of Accommodations Outstanding” where it appears after “(b)” and before “, and (c)” and replacing it with “[Reserved]”.
- (4) Section 5.3 of the Credit Agreement is hereby amended by deleting “and Utilization Fees”.

- (5) Section 5.8 of the Credit Agreement is hereby amended by deleting each reference to “Utilization Fees” and “unpaid Utilization Fees” in the first sentence of such Section 5.8.
- (6) Section 6.4 of the Credit Agreement is hereby amended by deleting the reference to “Utilization Fees” in the third sentence of such Section 6.4.
- (7) Section 8.4 of the Credit Agreement is hereby amended as follows:
 - (a) Each reference to “March 31, 2016” is deleted and replaced with “March 31, 2017”.

Section 3 Representations and Warranties.

To induce the Administrative Agent to enter into this Amendment, the Borrower represents and warrants to the Administrative Agent and the Banks as follows, which representations and warranties shall survive the execution and delivery hereof:

- (a) The Borrower is duly organized and validly existing as a corporation under the laws of Canada;
- (b) The execution, delivery and performance of this Amendment has been duly authorized by the Borrower by all necessary corporation action. This Amendment has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, except as enforceability may be subject to or limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors’ rights in general and by general principles of equity, regardless of whether such enforceability shall be considered in a proceeding in equity or at law;
- (c) The execution, delivery and performance of this Amendment by the Borrower and the fulfillment of the terms hereof do not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, any indenture, agreement or other instrument to which the Borrower is a party or by which it is bound; nor result in or require the creation or imposition of any Lien upon any of its properties pursuant to the terms of any such indenture, agreement or other instrument; nor violate any law or, to the best of its knowledge, any order, rule or regulation applicable to the Borrower of any Governmental Authority having jurisdiction over the Borrower or its properties; which breach, default, conflict, Lien or violation would have a Material Adverse Effect; and
- (d) The Credit Agreement, as amended pursuant hereto, remains in full force and effect, unamended, and is enforceable against the Borrower in accordance with its terms, except as enforceability may be subject to or limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors’ rights in general and by general principles of equity, regardless of whether such enforceability shall be considered in a proceeding in equity or at law.

Section 4 Reference to and Effect on the Credit Agreement.

Upon this Amendment becoming effective, each reference in the Credit Agreement to “this Agreement” and each reference to the Credit Agreement in the other Credit Documents and any and all other agreements, documents and instruments delivered by any of the Banks, the Administrative Agent, the Credit Parties or any other Person shall mean and be a reference to the Credit Agreement as amended

by this Amendment. Except as specifically amended by this Amendment, the Credit Agreement shall remain in full force and effect.

Section 5 Costs and Expenses.

The Borrower agrees to reimburse the Administrative Agent and the Banks for all reasonable fees, costs and expenses, including the reasonable fees, costs and expenses of counsel to the Administrative Agent, in connection with this Amendment and the other documents executed in connection herewith.

Section 6 Effectiveness.

This Amendment shall become effective upon the following conditions precedent being satisfied:

- (a) duly executed signature pages for this Amendment signed by the Borrower and the Administrative Agent shall have been delivered to the Administrative Agent;
- (b) the Administrative Agent shall have received an Officer's Certificate in form and substance satisfactory to the Agent to the effect that since the date of the most recent audited financial statements furnished to the Banks pursuant to Section 9.1 of the Credit Agreement, there has occurred no material adverse change in the business, operations, business prospects or financial condition of the Borrower and its Subsidiaries, taken as a whole; as of the date of said certificate, no Default has occurred or is continuing or will result from extending each of the Commitment Termination Dates; and, as of the date of said certificate, the representations and warranties made by the Borrower in Section 8 of the Credit Agreement (excluding Section 8.4(b)) are true and correct with the same force and effect as if made on and as of such date (unless stated to relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all respects as of such earlier date);
- (c) the Administrative Agent shall have received, for the benefit of the Lenders, a commitment fee equal to 0.03% of the Tranche A Commitments and 0.04% of the Tranche B Commitments.

Section 7 Governing Law.

This Amendment shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 8 Counterparts.

This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Amendment by signing any such counterpart. Delivery of an executed counterpart of a signature page to this Amendment by telecopier or electronic transmission shall be effective as delivery of a manually executed counterpart of this Amendment.

Section 9 Severability; Headings Descriptive.

In case any provision in or obligation under this Amendment shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction shall not in any way be

affected or impaired thereby. The headings of the several Sections and subsections of this Amendment are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Amendment.

[Signatures appear on the following page]

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed as of the day and year first above written.

HONDA CANADA FINANCE INC., as Borrower

By: /s/Dave Jamieson

Name: Dave Jamieson

Title: Vice President – Secretary &
Risk Management Officer

By: /s/Harald Ladewig

Name: Harald Ladewig

Title: Vice President – Treasurer &
Compliance Officer

Honda Fifth Amending Agreement – Signature Page

**CANADIAN IMPERIAL BANK OF COMMERCE, as
Administrative Agent**

By: /s/ Matthew Reis
Name: Matthew Reis
Title: Director

By: /s/ Sheryl Holmes
Name: Sheryl Holmes
Title: Managing Director

Honda Fifth Amending Agreement – Signature Page

**CANADIAN IMPERIAL BANK OF COMMERCE, as a
Bank**

By: /s/ Matthew Reis
Name: Matthew Reis
Title: Director

By: /s/ Sheryl Holmes
Name: Sheryl Holmes
Title: Managing Director

Honda Fifth Amending Agreement – Signature Page

BANK OF MONTREAL, as a Bank

By: /s/ Sean P. Gallaway

Name: Sean P. Gallaway

Title: Director

Honda Fifth Amending Agreement – Signature Page

ROYAL BANK OF CANADA, as a Bank

By: /s/ Chris Cowan

Name: Chris Cowan

Title: Authorized Signatory

Honda Fifth Amending Agreement – Signature Page

THE TORONTO-DOMINION BANK, as a Bank

By: /s/Annie Dorval

Name: Annie Dorval

Title: Authorized Signatory

Honda Fifth Amending Agreement – Signature Page

**THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
CANADA BRANCH, as a Bank**

By: /s/ Hiroyuki Sawano

Name: Hiroyuki Sawano

Title: Vice President

Honda Fifth Amending Agreement – Signature Page

MIZUHO BANK LTD., CANADA BRANCH, as a Bank

By: /s/ Hisato Tanabe

Name: Hisato Tanabe

Title: Managing Director

Honda Fifth Amending Agreement – Signature Page

FIRST AMENDMENT TO 364 DAY CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT, dated as of January 26, 2018 (this "Amendment"), is among AMERICAN HONDA FINANCE CORPORATION, (the "Borrower") the banks party hereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and the other agents party hereto. Terms are defined in the Credit Agreement unless otherwise defined herein.

WHEREAS, the Borrower, the Banks and the Administrative Agent are parties to that certain \$3,500,000,000 364 Day Credit Agreement dated as of March 3, 2017 (the "Credit Agreement"); and

WHEREAS, the Borrower has requested that the Commitment Termination Date be extended by 364 days and that Section 2.8 of the Credit Agreement be amended, as set forth herein.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO CREDIT AGREEMENT. Effective as of the Amendment Effective Date (as hereinafter defined), the Credit Agreement is hereby amended as follows:

1.1 Amendment to Section 1. The definition of "Commitment Termination Date" is amended by deleting "March 2, 2018" and inserting "March 1, 2019" in lieu thereof.

1.2 Amendment to Section 2. Section 2.8 is hereby amended by deleting Section 2.8(b) in its entirety and replacing it with the following in lieu thereof:

"(b) Bank Elections to Extend. Within 20 days of receipt of such notice from the Administrative Agent (or such later date as the Administrative Agent and the Borrower agree to in their sole discretion), each Bank shall notify the Administrative Agent whether or not it consents to such extension (which consent may be given or withheld in such Bank's sole and absolute discretion). Any Bank not responding within the foregoing period shall be deemed not to have consented to such extension (any such Bank and any Bank not consenting to such extension, a "Non-Extending Bank"). The election of any Bank to agree to such extension shall not obligate any other Bank to so agree.

1.3 Amendment to Section 2. Section 2.8 is hereby amended by deleting Section 2.8(c) in its entirety and replacing it with the following in lieu thereof:

“(c) Notification by the Administrative Agent. The Administrative Agent shall notify the Borrower of each Bank’s determination under this Section not later than the date 30 days prior to the Commitment Termination Date (or such later date as the Administrative Agent and the Borrower agree to in their sole discretion) or, if such date is not a Business Day, on the next preceding Business Day.”

1.4 Amendment to Schedule I. Schedule I is hereby amended by deleting Schedule I in its entirety and replacing it with the schedule set forth in Annex I attached hereto.

SECTION 2. CONDITIONS PRECEDENT. This Amendment shall become effective as of March 2, 2018 (the “Amendment Effective Date”) when each of the following conditions precedent have been satisfied in form and substance satisfactory to the Administrative Agent:

(a) the Administrative Agent shall have received counterparts of this Amendment, duly executed by each of the Borrower, the Banks and the Administrative Agent;

(b) the Administrative Agent shall have received an Authorized Officer’s Certificate of the Borrower (i) certifying and attaching the resolutions adopted by the Borrower’s Board of Directors or Funding Committee, as the case may be, approving or consenting to this Amendment and such extension and (ii) certifying that, before and after giving effect to this Amendment and such extension, (A) the representations and warranties of the Borrower contained in Section 8 of the Credit Agreement are true and correct in all material respects (except, if a qualifier relating to materiality, Material Adverse Effect or similar concept applies to any representation or warranty, such representation or warranty shall be true and correct in all respects) on and as of the Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2, the representations and warranties contained in Section 8.4(b) of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Section 9.1 of the Credit Agreement, and (B) no Default or Event of Default exists;

(c) the Administrative Agent shall have received reimbursement from the Borrower for costs incurred in connection with this Agreement and all reasonable fees and expenses of counsel to the Administrative Agent shall have been paid; and

(d) the Administrative Agent shall have received an executed counterpart of the Master Transfer Supplement, dated on or about the date hereof, with respect to the Credit Agreement.

SECTION 3. REPRESENTATIONS AND WARRANTIES. To induce the Banks to enter into this Amendment, the Borrower hereby represents and warrants to the Banks and the Administrative Agent as follows:

3.1 Due Authorization, Non-Contravention, etc. The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of the Borrower’s organization documents; (b) conflict with or result in any breach or contravention

of, or the creation of any Lien under, or require any payment to be made under any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any law.

3.2 No Consents. No consent, approval, authorization, order or decree of, or notice to or filing with, any Governmental Authority is required for the consummation of the transactions contemplated by this Amendment, except for such informational filings as may be required under applicable securities laws.

3.3 Validity, etc. This Amendment has been duly executed and delivered by the Borrower. This Amendment constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

3.4 No Default. No Default has occurred and is continuing or will result from the execution and delivery or effectiveness of this Amendment.

3.5 Representations and Warranties. The representations and warranties of the Borrower contained in Section 8 of the Credit Agreement (as amended hereby) and in the other Credit Documents are true and correct in all material respects (except, if a qualifier relating to materiality, Material Adverse Effect or a similar concept applies to any such representation or warranty, such representation or warranty is true and correct in all respects) on and as of the Amendment Effective Date and after giving effect thereto, as though made on and as of the Amendment Effective Date, with the same effect as though made on such date (unless stated to relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all respects as of such earlier date).

SECTION 4. MISCELLANEOUS.

4.1 Continuing Effectiveness, etc. This Amendment shall be deemed to be an amendment to the Credit Agreement, and the Credit Agreement, as amended hereby, and all other Credit Documents shall remain in full force and effect and each is hereby ratified, approved and confirmed in each and every respect. After the effectiveness of this Amendment in accordance with its terms, all references to the Credit Agreement in the Credit Documents or in any other document, instrument, agreement or writing shall be deemed to refer to the Credit Agreement as amended hereby.

4.2 Payment of Costs and Expenses. The Borrower agrees to pay on demand all out-of-pocket costs and expenses of the Administrative Agent (including the reasonable fees and disbursements of counsel to the Administrative Agent) in connection with the negotiation, preparation, execution and delivery of this Amendment.

4.3 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

4.4 Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provisions hereof.

4.5 Execution in Counterparts. This Amendment may be executed by the parties hereto in several counterparts (and by different parties hereto in different counterparts), each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed signature page of this Amendment by facsimile transmission or electronic “.pdf” file shall be effective as delivery of a manually executed counterpart hereof.

4.6 Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

4.7 Successors and Assigns. Subject to any restrictions on assignment contained in the Credit Agreement, the Credit Agreement and this Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

[Signatures follow]

IN WITNESS WHEREOF, the undersigned have duly executed this First Amendment to Credit Agreement as of the date first set forth above.

AMERICAN HONDA FINANCE CORPORATION

By: /s/ Paul C. Honda
Name: Paul C. Honda
Title: Vice President and Assistant Secretary

[Signature Page to First Amendment to 364 Day Credit Agreement]

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as Administrative Agent and as Auction Agent

By: /s/ Lawrence Blat

Name: Lawrence Blat

Title: Authorized Signatory

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as a Bank

By: /s/ Ryoichi Morita

Name: Ryoichi Morita

Title: Managing Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

JPMORGAN CHASE BANK, N.A.,
as a Bank

By: /s/ Evelyn Crisci _____

Name: Evelyn Crisci

Title: Executive Director
J.P. Morgan

[Signature Page to First Amendment to 364 Day Credit Agreement]

BANK OF AMERICA, N.A.,
as a Bank

By: /s/ Zachary Griffith

Name: Zachary Griffith

Title: Associate

[Signature Page to First Amendment to 364 Day Credit Agreement]

BARCLAYS BANK PLC,
as a Bank

By: /s/ Craig Malloy _____

Name: Craig Malloy

Title: Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

BNP PARIBAS,
as a Bank

By: /s/ Nader Tannous

Name: Nader Tannous

Title: Managing Director

By: /s/ Todd Grossnickle

Name: Todd Grossnickle

Title: Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

CITIBANK, N.A.,
as a Bank

By: /s/ Susan Olsen

Name: Susan Olsen

Title: Vice President

[Signature Page to First Amendment to 364 Day Credit Agreement]

MIZUHO BANK, LTD., LOS ANGELES BRANCH,
as a Bank

By: /s/ Mitsuhiro Sakamoto

Name: Mitsuhiro Sakamoto

Title: Managing Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

DEUTSCHE BANK AG NEW YORK BRANCH,
as a Bank

By: /s/ Ming K. Chu

Name: Ming K. Chu

Title: Director

By: /s/ Sanjeev Punjabi

Name: Sanjeev Punjabi

Title: Managing Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

SOCIÉTÉ GÉNÉRALE,
as a Bank

By: /s/ John Hogan

Name: John Hogan

Title: Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

SUMITOMO MITSUI BANKING CORPORATION,
as a Bank
By: /s/ Hiroyuki Suzuki
Name: Hiroyuki Suzuki
Title: Executive Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as a Bank

By: /s/ Matt J. Perrizo

Name: Matt J. Perrizo

Title: Vice President

[Signature Page to First Amendment to 364 Day Credit Agreement]

LLOYDS BANK PLC,
as a Bank

By: /s/ Cheryl Wilson
Name: Cheryl Wilson
Title: Head of Operations, North America
Category A
W007

By: /s/ Jennifer Larrow
Name: Jennifer Larrow
Title: Assistant Manager
Transaction Execution
Category A
L003

[Signature Page to First Amendment to 364 Day Credit Agreement]

THE ROYAL BANK OF CANADA,
as a Bank

By: /s/ Edward D. Herko

Name: Edward D. Herko

Title: Authorized Signatory

[Signature Page to First Amendment to 364 Day Credit Agreement]

**THE TORONTO-DOMINION BANK, NEW YORK
BRANCH, as a Bank**

By: /s/ Annie Dorval

Name: Annie Dorval

Title: Authorized Signatory

[Signature Page to First Amendment to 364 Day Credit Agreement]

U.S. BANK NATIONAL ASSOCIATION,
as a Bank

By: /s/Jeff Benedix

Name: Jeff Benedix

Title: Vice President

[Signature Page to First Amendment to 364 Day Credit Agreement]

THE NORINCHUKIN BANK, NEW YORK BRANCH,
as a Bank

By: /s/ Toru Wada

Name: TORU WADA

Title: General Manager

[Signature Page to First Amendment to 364 Day Credit Agreement]

THE BANK OF NEW YORK MELLON,
as a Bank

By: /s/ John T. Smathers

Name: John T. Smathers

Title: Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

**AUSTRALIA AND NEW ZEALAND BANKING
GROUP LIMITED**, as a Bank

By: /s/ Robert Grillo

Name: Robert Grillo

Title: Director

[Signature Page to First Amendment to 364 Day Credit Agreement]

SCHEDULE I

Commitments

<u>Bank</u>	<u>Commitment</u>
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$ 337,500,000.00
JPMorgan Chase Bank, N.A.	\$ 337,500,000.00
Bank of America, N.A.	\$ 325,000,000.00
Barclays Bank PLC	\$ 325,000,000.00
BNP Paribas	\$ 325,000,000.00
Citibank, N.A.	\$ 325,000,000.00
Mizuho Bank, Ltd., Los Angeles Branch	\$ 215,000,000.00
Deutsche Bank AG New York Branch	\$ 210,000,000.00
Société Générale	\$ 210,000,000.00
Sumitomo Mitsui Banking Corporation	\$ 210,000,000.00
Wells Fargo Bank, National Association	\$ 150,000,000.00
Lloyds Bank plc	\$ 95,000,000.00
Royal Bank of Canada	\$ 95,000,000.00
The Toronto Dominion Bank, New York Branch	\$ 95,000,000.00
U.S. Bank National Association	\$ 95,000,000.00
The Norinchukin Bank, New York Branch	\$ 50,000,000.00
The Bank of New York Mellon	\$ 50,000,000.00
The Australia and New Zealand Banking Group Limited	\$ 50,000,000.00
Total:	<u>\$3,500,000,000.00</u>

FIRST AMENDMENT TO THREE YEAR CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT, dated as of January 26, 2018 (this "Amendment"), is among AMERICAN HONDA FINANCE CORPORATION, (the "Borrower") the banks party hereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and the other agents party hereto. Terms are defined in the Credit Agreement unless otherwise defined herein.

WHEREAS, the Borrower, the Banks and the Administrative Agent are parties to that certain \$2,100,000,000 Three Year Credit Agreement dated as of March 3, 2017 (the "Credit Agreement"); and

WHEREAS, the Borrower has requested that the Commitment Termination Date be extended by one (1) year and that Section 2.8 of the Credit Agreement be amended, as set forth herein.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO CREDIT AGREEMENT. Effective as of the Amendment Effective Date (as hereinafter defined), the Credit Agreement is hereby amended as follows:

1.1 Amendment to Section 1. The definition of "Commitment Termination Date" is amended by deleting "March 3, 2020" and inserting "March 3, 2021" in lieu thereof.

1.2 Amendment to Section 2. Section 2.8 is hereby amended by deleting Section 2.8(b) in its entirety and replacing it with the following in lieu thereof:

"(b) Bank Elections to Extend. Within 20 days of receipt of such notice from the Administrative Agent (or such later date as the Administrative Agent and the Borrower agree to in their sole discretion), each Bank shall notify the Administrative Agent whether or not it consents to such extension (which consent may be given or withheld in such Bank's sole and absolute discretion). Any Bank not responding within the foregoing period shall be deemed not to have consented to such extension (any such Bank and any Bank not consenting to such extension, a "Non-Extending Bank"). The election of any Bank to agree to such extension shall not obligate any other Bank to so agree.

1.3 Amendment to Section 2. Section 2.8 is hereby amended by deleting Section 2.8(c) in its entirety and replacing it with the following in lieu thereof:

“(c) Notification by the Administrative Agent. The Administrative Agent shall notify the Borrower of each Bank’s determination under this Section not later than the date 30 days prior to the applicable Loan Anniversary (or such later date as the Administrative Agent and the Borrower agree to in their sole discretion) or, if such date is not a Business Day, on the next preceding Business Day.”

1.4 Amendment to Schedule I. Schedule I is hereby amended by deleting Schedule I in its entirety and replacing it with the schedule set forth in Annex I attached hereto.

SECTION 2. CONDITIONS PRECEDENT. This Amendment shall become effective as of March 2, 2018 (the “Amendment Effective Date”) when each of the following conditions precedent have been satisfied in form and substance satisfactory to the Administrative Agent:

(a) the Administrative Agent shall have received counterparts of this Amendment, duly executed by each of the Borrower, the Banks and the Administrative Agent;

(b) the Administrative Agent shall have received an Authorized Officer’s Certificate of the Borrower (i) certifying and attaching the resolutions adopted by the Borrower’s Board of Directors or Funding Committee, as the case may be, approving or consenting to this Amendment and such extension and (ii) certifying that, before and after giving effect to this Amendment and such extension, (A) the representations and warranties of the Borrower contained in Section 8 of the Credit Agreement are true and correct in all material respects (except, if a qualifier relating to materiality, Material Adverse Effect or similar concept applies to any representation or warranty, such representation or warranty shall be true and correct in all respects) on and as of the Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2, the representations and warranties contained in Section 8.4(b) of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Section 9.1 of the Credit Agreement, and (B) no Default or Event of Default exists;

(c) the Administrative Agent shall have received reimbursement from the Borrower for costs incurred in connection with this Agreement and all reasonable fees and expenses of counsel to the Administrative Agent shall have been paid; and

(d) the Administrative Agent shall have received an executed counterpart of the Master Transfer Supplement, dated on or about the date hereof, with respect to the Credit Agreement.

SECTION 3. REPRESENTATIONS AND WARRANTIES. To induce the Banks to enter into this Amendment, the Borrower hereby represents and warrants to the Banks and the Administrative Agent as follows:

3.1 Due Authorization, Non-Contravention, etc. The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of the Borrower's organization documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any law.

3.2 No Consents. No consent, approval, authorization, order or decree of, or notice to or filing with, any Governmental Authority is required for the consummation of the transactions contemplated by this Amendment, except for such informational filings as may be required under applicable securities laws.

3.3 Validity, etc. This Amendment has been duly executed and delivered by the Borrower. This Amendment constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

3.4 No Default. No Default has occurred and is continuing or will result from the execution and delivery or effectiveness of this Amendment.

3.5 Representations and Warranties. The representations and warranties of the Borrower contained in Section 8 of the Credit Agreement (as amended hereby) and in the other Credit Documents are true and correct in all material respects (except, if a qualifier relating to materiality, Material Adverse Effect or a similar concept applies to any such representation or warranty, such representation or warranty is true and correct in all respects) on and as of the Amendment Effective Date and after giving effect thereto, as though made on and as of the Amendment Effective Date, with the same effect as though made on such date (unless stated to relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all respects as of such earlier date).

SECTION 4. MISCELLANEOUS.

4.1 Continuing Effectiveness, etc. This Amendment shall be deemed to be an amendment to the Credit Agreement, and the Credit Agreement, as amended hereby, and all other Credit Documents shall remain in full force and effect and each is hereby ratified, approved and confirmed in each and every respect. After the effectiveness of this Amendment in accordance with its terms, all references to the Credit Agreement in the Credit Documents or in any other document, instrument, agreement or writing shall be deemed to refer to the Credit Agreement as amended hereby.

4.2 Payment of Costs and Expenses. The Borrower agrees to pay on demand all out-of-pocket costs and expenses of the Administrative Agent (including the reasonable fees and disbursements of counsel to the Administrative Agent) in connection with the negotiation, preparation, execution and delivery of this Amendment.

4.3 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions

of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

4.4 Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provisions hereof.

4.5 Execution in Counterparts. This Amendment may be executed by the parties hereto in several counterparts (and by different parties hereto in different counterparts), each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed signature page of this Amendment by facsimile transmission or electronic “.pdf” file shall be effective as delivery of a manually executed counterpart hereof.

4.6 Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

4.7 Successors and Assigns. Subject to any restrictions on assignment contained in the Credit Agreement, the Credit Agreement and this Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

[Signatures follow]

IN WITNESS WHEREOF, the undersigned have duly executed this First Amendment to Credit Agreement as of the date first set forth above.

AMERICAN HONDA FINANCE CORPORATION

By: /s/ Paul C. Honda

Name: Paul C. Honda

Title: Vice President and Assistant Secretary

[Signature Page to First Amendment to Three Year Credit Agreement]

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as Administrative Agent and as Auction Agent

By: /s/ Lawrence Blat

Name: Lawrence Blat

Title: Authorized Signatory

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as a Bank

By: /s/ Ryoichi Morita

Name: Ryoichi Morita

Title: Managing Director

[Signature Page to First Amendment to Three Year Credit Agreement]

JPMORGAN CHASE BANK, N.A., as a Bank

By: /s/ Evelyn Crisci _____

Name: Evelyn Crisci

Title: Executive Director

[Signature Page to First Amendment to Three Year Credit Agreement]

BANK OF AMERICA, N.A., as a Bank

By: /s/ Zachary Griffith

Name: Zachary Griffith

Title: Associate

[Signature Page to First Amendment to Three Year Credit Agreement]

BARCLAYS BANK PLC,
as a Bank

By: /s/ Craig Malloy
Name: Craig Malloy
Title: Director

[Signature Page to First Amendment to Three Year Credit Agreement]

BNP PARIBAS,
as a Bank

By: /s/ Nader Tannous

Name: Nader Tannous

Title: Managing Director

By: /s/ Todd Grossnickle

Name: Todd Grossnickle

Title: Director

[Signature Page to First Amendment to Three Year Credit Agreement]

CITIBANK, N.A.,
as a Bank

By: /s/ Susan Olsen _____

Name: Susan Olsen

Title: Vice President

[Signature Page to First Amendment to Three Year Credit Agreement]

MIZUHO BANK, LTD., LOS ANGELES BRANCH,
as a Bank

By: /s/ Mitsuhiro Sakamoto

Name: Mitsuhiro Sakamoto

Title: Managing Director

[Signature Page to First Amendment to Three Year Credit Agreement]

DEUTSCHE BANK AG NEW YORK BRANCH, as a
Bank

By: /s/ Ming K. Chu

Name: Ming K. Chu

Title: Director

By: /s/ Sanjeev Punjabi

Name: Sanjeev Punjabi

Title: Managing Director

[Signature Page to First Amendment to Three Year Credit Agreement]

SOCIÉTÉ GÉNÉRALE,
as a Bank

By: /s/ John Hogan

Name: John Hogan

Title: Director

[Signature Page to First Amendment to Three Year Credit Agreement]

SUMITOMO MITSUI BANKING CORPORATION,
as a Bank

By: /s/ Hiroyuki Suzuki

Name: Hiroyuki Suzuki

Title: Executive Director

[Signature Page to First Amendment to Three Year Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as a Bank

By: /s/ Matt J. Perrizo

Name: Matt J. Perrizo

Title: Vice President

[Signature Page to First Amendment to Three Year Credit Agreement]

LLOYDS BANK PLC,
as a Bank

By: /s/ Cheryl Wilson
Name: Cheryl Wilson
Title: Head of Operations, North America

By: /s/ Jennifer Larrow
Name: Jennifer Larrow
Title: Assistant Manager Transaction Execution

[Signature Page to First Amendment to Three Year Credit Agreement]

THE ROYAL BANK OF CANADA,
as a Bank

By: /s/ Edward D. Herko

Name: Edward D. Herko

Title: Authorized Signatory

[Signature Page to First Amendment to Three Year Credit Agreement]

**THE TORONTO-DOMINION BANK, NEW YORK
BRANCH, as a Bank**

By: /s/ Annie Dorval

Name: Annie Dorval

Title: Authorized Signatory

[Signature Page to First Amendment to Three Year Credit Agreement]

U.S. BANK NATIONAL ASSOCIATION,
as a Bank

By: /s/ Jeff Benedix

Name: Jeff Benedix

Title: Vice President

[Signature Page to First Amendment to Three Year Credit Agreement]

THE NORINCHUKIN BANK, NEW YORK BRANCH,
as a Bank

By: /s/ Toru Wada

Name: Toru Wada

Title: General Manager

[Signature Page to First Amendment to Three Year Credit Agreement]

THE BANK OF NEW YORK MELLON,
as a Bank

By: /s/ John T. Smathers

Name: John T. Smathers

Title: Director

[Signature Page to First Amendment to Three Year Credit Agreement]

**THE AUSTRALIA AND NEW ZEALAND BANKING
GROUP LIMITED, as a Bank**

By: /s/ Robert Grillo

Name: Robert Grillo

Title: Director

[Signature Page to First Amendment to Three Year Credit Agreement]

SCHEDULE I

Commitments

<u>Bank</u>	<u>Commitment</u>
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$ 202,500,000.00
JPMorgan Chase Bank, N.A.	\$ 202,500,000.00
Bank of America, N.A.	\$ 195,000,000.00
Barclays Bank PLC	\$ 195,000,000.00
BNP Paribas	\$ 195,000,000.00
Citibank, N.A.	\$ 195,000,000.00
Mizuho Bank, Ltd., Los Angeles Branch	\$ 129,000,000.00
Deutsche Bank AG New York Branch	\$ 126,000,000.00
Société Générale	\$ 126,000,000.00
Sumitomo Mitsui Banking Corporation	\$ 126,000,000.00
Wells Fargo Bank, National Association	\$ 90,000,000.00
Lloyds Bank plc	\$ 57,000,000.00
Royal Bank of Canada	\$ 57,000,000.00
The Toronto Dominion Bank, New York Branch	\$ 57,000,000.00
U.S. Bank National Association	\$ 57,000,000.00
The Norinchukin Bank, New York Branch	\$ 30,000,000.00
The Bank of New York Mellon	\$ 30,000,000.00
The Australia and New Zealand Banking Group Limited	\$ 30,000,000.00
Total:	<u>\$2,100,000,000.00</u>

FIRST AMENDMENT TO FIVE YEAR CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT, dated as of January 26, 2018 (this "Amendment"), is among AMERICAN HONDA FINANCE CORPORATION, (the "Borrower") the banks party hereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and the other agents party hereto. Terms are defined in the Credit Agreement unless otherwise defined herein.

WHEREAS, the Borrower, the Banks and the Administrative Agent are parties to that certain \$1,400,000,000 Five Year Credit Agreement dated as of March 3, 2017 (the "Credit Agreement"); and

WHEREAS, the Borrower has requested that the Commitment Termination Date be extended by one (1) year and that Section 2.8 of the Credit Agreement be amended, as set forth herein.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO CREDIT AGREEMENT. Effective as of the Amendment Effective Date (as hereinafter defined), the Credit Agreement is hereby amended as follows:

1.1 Amendment to Section 1. The definition of "Commitment Termination Date" is amended by deleting "March 3, 2022" and inserting "March 3, 2023" in lieu thereof.

1.2 Amendment to Section 2. Section 2.8 is hereby amended by deleting Section 2.8(b) in its entirety and replacing it with the following in lieu thereof:

"(b) Bank Elections to Extend. Within 20 days of receipt of such notice from the Administrative Agent (or such later date as the Administrative Agent and the Borrower agree to in their sole discretion), each Bank shall notify the Administrative Agent whether or not it consents to such extension (which consent may be given or withheld in such Bank's sole and absolute discretion). Any Bank not responding within the foregoing period shall be deemed not to have consented to such extension (any such Bank and any Bank not consenting to such extension, a "Non-Extending Bank"). The election of any Bank to agree to such extension shall not obligate any other Bank to so agree.

1.3 Amendment to Section 2. Section 2.8 is hereby amended by deleting Section 2.8(c) in its entirety and replacing it with the following in lieu thereof:

“(c) Notification by the Administrative Agent. The Administrative Agent shall notify the Borrower of each Bank’s determination under this Section not later than the date 30 days prior to the applicable Loan Anniversary (or such later date as the Administrative Agent and the Borrower agree to in their sole discretion) or, if such date is not a Business Day, on the next preceding Business Day.”

1.4 Amendment to Schedule I. Schedule I is hereby amended by deleting Schedule I in its entirety and replacing it with the schedule set forth in Annex I attached hereto.

SECTION 2. CONDITIONS PRECEDENT. This Amendment shall become effective as of March 2, 2018 (the “Amendment Effective Date”) when each of the following conditions precedent have been satisfied in form and substance satisfactory to the Administrative Agent:

(a) the Administrative Agent shall have received counterparts of this Amendment, duly executed by each of the Borrower, the Banks and the Administrative Agent;

(b) the Administrative Agent shall have received an Authorized Officer’s Certificate of the Borrower (i) certifying and attaching the resolutions adopted by the Borrower’s Board of Directors or Funding Committee, as the case may be, approving or consenting to this Amendment and such extension and (ii) certifying that, before and after giving effect to this Amendment and such extension, (A) the representations and warranties of the Borrower contained in Section 8 of the Credit Agreement are true and correct in all material respects (except, if a qualifier relating to materiality, Material Adverse Effect or similar concept applies to any representation or warranty, such representation or warranty shall be true and correct in all respects) on and as of the Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2, the representations and warranties contained in Section 8.4(b) of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Section 9.1 of the Credit Agreement, and (B) no Default or Event of Default exists;

(c) the Administrative Agent shall have received reimbursement from the Borrower for costs incurred in connection with this Agreement and all reasonable fees and expenses of counsel to the Administrative Agent shall have been paid; and

(d) the Administrative Agent shall have received an executed counterpart of the Master Transfer Supplement, dated on or about the date hereof, with respect to the Credit Agreement.

SECTION 3. REPRESENTATIONS AND WARRANTIES. To induce the Banks to enter into this Amendment, the Borrower hereby represents and warrants to the Banks and the Administrative Agent as follows:

3.1 Due Authorization, Non-Contravention, etc. The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of the Borrower's organization documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any law.

3.2 No Consents. No consent, approval, authorization, order or decree of, or notice to or filing with, any Governmental Authority is required for the consummation of the transactions contemplated by this Amendment, except for such informational filings as may be required under applicable securities laws.

3.3 Validity, etc. This Amendment has been duly executed and delivered by the Borrower. This Amendment constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

3.4 No Default. No Default has occurred and is continuing or will result from the execution and delivery or effectiveness of this Amendment.

3.5 Representations and Warranties. The representations and warranties of the Borrower contained in Section 8 of the Credit Agreement (as amended hereby) and in the other Credit Documents are true and correct in all material respects (except, if a qualifier relating to materiality, Material Adverse Effect or a similar concept applies to any such representation or warranty, such representation or warranty is true and correct in all respects) on and as of the Amendment Effective Date and after giving effect thereto, as though made on and as of the Amendment Effective Date, with the same effect as though made on such date (unless stated to relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all respects as of such earlier date).

SECTION 4. MISCELLANEOUS.

4.1 Continuing Effectiveness, etc. This Amendment shall be deemed to be an amendment to the Credit Agreement, and the Credit Agreement, as amended hereby, and all other Credit Documents shall remain in full force and effect and each is hereby ratified, approved and confirmed in each and every respect. After the effectiveness of this Amendment in accordance with its terms, all references to the Credit Agreement in the Credit Documents or in any other document, instrument, agreement or writing shall be deemed to refer to the Credit Agreement as amended hereby.

4.2 Payment of Costs and Expenses. The Borrower agrees to pay on demand all out-of-pocket costs and expenses of the Administrative Agent (including the reasonable fees and disbursements of counsel to the Administrative Agent) in connection with the negotiation, preparation, execution and delivery of this Amendment.

4.3 Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions

of this Amendment or affecting the validity or enforceability of such provision in any other jurisdiction.

4.4 Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provisions hereof.

4.5 Execution in Counterparts. This Amendment may be executed by the parties hereto in several counterparts (and by different parties hereto in different counterparts), each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed signature page of this Amendment by facsimile transmission or electronic “.pdf” file shall be effective as delivery of a manually executed counterpart hereof.

4.6 Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

4.7 Successors and Assigns. Subject to any restrictions on assignment contained in the Credit Agreement, the Credit Agreement and this Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

[Signatures follow]

IN WITNESS WHEREOF, the undersigned have duly executed this First Amendment to Credit Agreement as of the date first set forth above.

AMERICAN HONDA FINANCE CORPORATION

By: /s/ Paul C. Honda

Name: Paul C. Honda

Title: Vice President and Assistant Secretary

[Signature Page to First Amendment to Five Year Credit Agreement]

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as Administrative Agent and as Auction Agent

By: /s/ Lawrence Blat

Name: Lawrence Blat

Title: Authorized Signatory

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as a Bank

By: /s/ Ryoichi Morita

Name: Ryoichi Morita

Title: Managing Director

[Signature Page to First Amendment to Five Year Credit Agreement]

JPMORGAN CHASE BANK, N.A.,
as a Bank

By: /s/ Evelyn Crisci

Name: Evelyn Crisci

Title: Executive Director

[Signature Page to First Amendment to Five Year Credit Agreement]

BARCLAYS BANK PLC,
as a Bank

By: /s/ Craig Malloy

Name: Craig Malloy

Title: Director

[Signature Page to First Amendment to Five Year Credit Agreement]

BANK OF AMERICA, N.A.,
as a Bank

By: /s/ Zachary Griffith

Name: Zachary Griffith

Title: Associate

[Signature Page to First Amendment to Five Year Credit Agreement]

BNP PARIBAS,
as a Bank

By: /s/ Nader Tannous

Name: Nader Tannous

Title: Managing Director

By: /s/ Todd Grossnickle

Name: Todd Grossnickle

Title: Director

[Signature Page to First Amendment to Five Year Credit Agreement]

CITIBANK, N.A.,
as a Bank

By: /s/ Susan Olsen
Name: Susan Olsen
Title: Vice President

[Signature Page to First Amendment to Five Year Credit Agreement]

MIZUHO BANK, LTD., LOS ANGELES BRANCH,
as a Bank

By: /s/ Mitsuhiro Sakamoto

Name: Mitsuhiro Sakamoto

Title: Managing Director

[Signature Page to First Amendment to Five Year Credit Agreement]

DEUTSCHE BANK AG NEW YORK BRANCH,
as a Bank

By: /s/ Ming K. Chu

Name: Ming K. Chu

Title: Director

By: /s/ Sanjeev Punjabi

Name: Sanjeev Punjabi

Title: Managing Director

[Signature Page to First Amendment to Five Year Credit Agreement]

SOCIÉTÉ GÉNÉRALE,
as a Bank

By: /s/ John Hogan

Name: John Hogan

Title: Director

[Signature Page to First Amendment to Five Year Credit Agreement]

SUMITOMO MITSUI BANKING CORPORATION,
as a Bank

By: /s/ Hiroyuki Suzuki

Name: Hiroyuki Suzuki

Title: Executive Director

[Signature Page to First Amendment to Five Year Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as a Bank

By: /s/ Matt J. Perrizo

Name: Matt J. Perrizo

Title: Vice President

[Signature Page to First Amendment to Five Year Credit Agreement]

LLOYDS BANK PLC,
as a Bank

By: /s/ Cheryl Wilson

Name: Cheryl Wilson

Title: Head of Operations, North America

By: /s/ Jennifer Larrow

Name: Jennifer Larrow

Title: Assistant Manager Transaction Execution

[Signature Page to First Amendment to Five Year Credit Agreement]

THE ROYAL BANK OF CANADA,
as a Bank

By: /s/ Edward D. Herko _____
Name: Edward D. Herko
Title: Authorized Signatory

[Signature Page to First Amendment to Five Year Credit Agreement]

**THE TORONTO-DOMINION BANK, NEW YORK
BRANCH, as a Bank**

By: /s/ Annie Dorval

Name: Annie Dorval

Title: Authorized Signatory

[Signature Page to First Amendment to Five Year Credit Agreement]

U.S. BANK NATIONAL ASSOCIATION,
as a Bank

By: /s/ Jeff Benedix
Name: Jeff Benedix
Title: Vice President

[Signature Page to First Amendment to Five Year Credit Agreement]

THE NORINCHUKIN BANK, NEW YORK BRANCH,
as a Bank

By: /s/ Toru Wada

Name: Toru Wada

Title: General Manager

[Signature Page to First Amendment to Five Year Credit Agreement]

THE BANK OF NEW YORK MELLON,
as a Bank

By: /s/ John T. Smathers

Name: John T. Smathers

Title: Director

[Signature Page to First Amendment to Five Year Credit Agreement]

**THE AUSTRALIA AND NEW ZEALAND BANKING
GROUP LIMITED, as a Bank**

By: /s/ Robert Grillo

Name: Robert Grillo

Title: Director

[Signature Page to First Amendment to Five Year Credit Agreement]

SCHEDULE I

Commitments

<u>Bank</u>	<u>Commitment</u>
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	\$ 135,000,000.00
JPMorgan Chase Bank, N.A.	\$ 135,000,000.00
Bank of America, N.A.	\$ 130,000,000.00
Barclays Bank PLC	\$ 130,000,000.00
BNP Paribas	\$ 130,000,000.00
Citibank, N.A.	\$ 130,000,000.00
Mizuho Bank, Ltd., Los Angeles Branch	\$ 86,000,000.00
Deutsche Bank AG New York Branch	\$ 84,000,000.00
Société Générale	\$ 84,000,000.00
Sumitomo Mitsui Banking Corporation	\$ 84,000,000.00
Wells Fargo Bank, National Association	\$ 60,000,000.00
Lloyds Bank plc	\$ 38,000,000.00
Royal Bank of Canada	\$ 38,000,000.00
The Toronto Dominion Bank, New York Branch	\$ 38,000,000.00
U.S. Bank National Association	\$ 38,000,000.00
The Norinchukin Bank, New York Branch	\$ 20,000,000.00
The Bank of New York Mellon	\$ 20,000,000.00
The Australia and New Zealand Banking Group Limited	\$ 20,000,000.00
Total:	<u>\$1,400,000,000.00</u>

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

	Years ended March 31,		
	2018	2017	2016
Earnings			
Consolidated income before provision for income taxes	\$1,480	\$1,190	\$1,458
Fixed Charges	900	731	595
Earnings	<u>\$2,380</u>	<u>\$1,921</u>	<u>\$2,053</u>
Fixed Charges			
Interest expense	\$ 897	\$ 728	\$ 592
Interest portion of rental expense ⁽¹⁾	3	3	3
Total fixed charges	<u>\$ 900</u>	<u>\$ 731</u>	<u>\$ 595</u>
Ratio of earnings to fixed charges	2.64x	2.63x	3.45x

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

Consent of Independent Registered Public Accounting Firm

To the Board of Directors
American Honda Finance Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-213047) on Form S-3 of American Honda Finance Corporation (the Company) of our report dated June 21, 2018, with respect to the consolidated balance sheets of the Company as of March 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes (collectively, the “consolidated financial statements”), which report appears in the March 31, 2018 annual report on Form 10-K of the Company.

/s/ KPMG LLP

Los Angeles, CA
April 16, 2019

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

I, Hideo Moroe, certify that:

1. I have reviewed this Amendment No. 1 to Annual Report on Form 10-K/A for the year ended March 31, 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: April 16, 2019

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 Amendment No. 1 to Annual Report on Form 10-K/A for the year ended March 31, 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: April 16, 2019

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 Amendment No. 1 to the Annual Report of American Honda Finance Corporation (the "Company") on Form 10-K/A for the year ended March 31, 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: April 16, 2019

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 Amendment No. 1 to the Annual Report of American Honda Finance Corporation (the “Company”) on Form 10-K/A for the year ended March 31, 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: April 16, 2019

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.