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

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**FORM 10-K**

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(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, 2019**

OR

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

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

Commission File Number **001-36111**

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**AMERICAN HONDA FINANCE CORPORATION**

(Exact name of registrant as specified in its charter)

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**California**

(State or other jurisdiction of incorporation or organization)

**20800 Madrona Avenue, Torrance, California**

(Address of principal executive offices)

**95-3472715**

(IRS Employer Identification No.)

**90503**

(Zip Code)

**(310) 972-2555**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>1.300% Medium-Term Notes, Series A Due March 21, 2022</b>	<b>N/A</b>	<b>New York Stock Exchange</b>
<b>2.625% Medium-Term Notes, Series A Due October 14, 2022</b>	<b>N/A</b>	<b>New York Stock Exchange</b>
<b>1.375% Medium-Term Notes, Series A Due November 10, 2022</b>	<b>N/A</b>	<b>New York Stock Exchange</b>
<b>0.550% Medium-Term Notes, Series A Due March 17, 2023</b>	<b>N/A</b>	<b>New York Stock Exchange</b>
<b>0.750% Medium-Term Notes, Series A Due January 17, 2024</b>	<b>N/A</b>	<b>New York Stock Exchange</b>
<b>0.350% Medium-Term Notes, Series A Due August 26, 2022</b>	<b>N/A</b>	<b>New York Stock Exchange</b>

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

Emerging growth company ☐

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

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

As of May 31, 2019, 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

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#### REDUCED DISCLOSURE FORMAT

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

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**AMERICAN HONDA FINANCE CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
For the fiscal year ended March 31, 2019

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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, both domestically and internationally, including changes in international trade policy;
- fluctuations in interest rates and currency exchange rates;
- the failure of our customers, dealers, or counterparties to meet the terms of any contracts with us, or otherwise fail to perform as agreed;
- our inability to recover the estimated residual value of leased vehicles at the end of their lease terms;
- changes or disruption in our funding sources or access to the capital markets;
- changes in our, or Honda Motor Co., Ltd.’s, credit ratings;
- increases in competition from other financial institutions seeking to increase their share of financing of Honda and Acura products;
- changes in laws and regulations, including the result of financial services legislation, and related costs;
- changes in accounting standards;
- a failure or interruption in our operations; and
- a security breach or cyber attack.

Additional information regarding these and other risks and uncertainties to which our business is subject is contained in “*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 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. 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 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](http://www.sec.gov). The SEC website contains reports, registration statements, and other information regarding issuers that file with the SEC, including us. A direct link to the SEC website and certain of our filings are contained on our website located at [www.hondafinancialservices.com](http://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 or provincial laws and recording, filing, and notice requirements, we are generally permitted by applicable state or provincial laws 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 or province where the automobile or motorcycle is located.

#### *Incentive Financing Programs for Retail Loans and Leases*

A substantial portion of our consumer financing business is acquired through incentive financing programs sponsored by AHM and HCI 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. 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. 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***

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 (AHS CC), 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, AHS CC 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.

### ***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, 2019, we had 1,497 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 consumer trends and preferences within the automotive industry
- changes in the United States and Canadian regulatory environment;
- a decline or slowdown 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. For example, in July 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. At this time, it is unclear if LIBOR will continue to exist, if new methods of calculating LIBOR will be established or if a new alternative reference rate will replace LIBOR. The potential impact of changes to LIBOR or a possible new alternative reference rate is unknown and could adversely affect the market valuation of LIBOR-linked securities, loans and other financial obligations, the interest rates on our current or future cost of funds and/or access to capital markets. 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, government regulations and industry standards. 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. See “—*Fluctuations in interest rates could have an adverse impact on our results of operations, cash flows, and financial condition*” above.

***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. For example, S&P Global Ratings downgraded the credit rating of Honda Motor Co., Ltd. and its subsidiaries, including us, on February 6, 2019. 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, cash flows 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, cash flows and financial condition. 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 institution and other counterparty 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 and changes in consumer preferences in how they seek financing 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 rate of prepayment of our financing and leasing contracts.***

Our financing and leasing 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 and new leases or loans and leases 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 or provinces 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 or provinces where we have concentration risk, such as California and New York, 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 internal and third party 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 to its parent, AHM, of \$235 million and \$271 million during the fiscal year ended March 31, 2019 and \$141 million and \$206 million during the fiscal year ended March 31, 2018.

### 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, 2019 and 2018 and the consolidated statements of income data for the fiscal years ended March 31, 2019, 2018 and 2017 from our audited consolidated financial statements included elsewhere in this annual report. We derived the consolidated balance sheet data as of March 31, 2017 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,		
	2019	2018	2017
	(U.S. dollars in millions)		
<b>Consolidated Statement of Income Data</b>			
Revenues:			
Retail loans and direct financing leases	\$ 1,614	\$ 1,382	\$ 1,222
Dealer loans	232	175	147
Operating leases	7,253	6,890	6,333
Total revenues	9,099	8,447	7,702
Depreciation on operating leases	5,520	5,481	5,056
Interest expense	1,190	897	728
Net revenues	2,389	2,069	1,918
Gain on disposition of lease vehicles	131	93	43
Other income	71	56	105
Total net revenues	2,591	2,218	2,066
Expenses:			
General and administrative expenses	456	439	434
Provision for credit losses	249	244	210
Impairment loss on operating leases	14	—	—
Early termination loss on operating leases	101	108	73
Loss on lease residual values	—	3	15
(Gain)/Loss on derivative instruments	509	(550)	315
(Gain)/Loss on foreign currency revaluation of debt	(407)	494	(171)
Total expenses	922	738	876
Income before income taxes	1,669	1,480	1,190
Income tax expense/(benefit)	428	(2,629)	437
Net income	1,241	4,109	753
Less: Net income attributable to noncontrolling interest	96	100	70
Net income attributable to American Honda Finance Corporation	\$ 1,145	\$ 4,009	\$ 683

March 31,		
2019	2018	2017
(U.S. dollars in millions)		

### Consolidated Balance Sheet Data

Finance receivables, net <sup>(1)</sup> :			
Retail loans and direct financing leases	\$ 34,792	\$ 32,649	\$ 31,047
Dealer loans	5,835	5,495	5,006
Allowance for credit losses	(201)	(179)	(133)
Write-down of lease residual values	(2)	(9)	(16)
Total finance receivables, net	\$ 40,424	\$ 37,956	\$ 35,904
Investment in operating leases, net	\$ 32,606	\$ 31,817	\$ 31,310
Total assets	\$ 75,964	\$ 72,626	\$ 69,854
Debt:			
Commercial paper	\$ 5,755	\$ 5,167	\$ 4,462
Related party debt	749	1,085	1,201
Bank loans	4,962	5,419	5,883
Medium term note programs	25,984	24,207	23,523
Other debt	3,514	3,250	2,736
Secured debt	8,790	8,733	8,422
Total debt	\$ 49,754	\$ 47,861	\$ 46,227
Total shareholder's equity <sup>(2)</sup>	\$ 16,336	\$ 15,730	\$ 12,043

### As of or for the years ended March 31,

	2019	2018	2017
<b>Other Key Consolidated Financial Data</b>			
Ratio of debt to shareholder's equity	3.05x	3.04x	3.84x

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

(2) Excludes noncontrolling interest in subsidiary.



## 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 2019” and “fiscal year 2018” refer to our fiscal year ended March 31, 2019 and our fiscal year ended March 31, 2018, respectively.

## Results of Operations

The following table presents our income before income taxes:

	Years ended March 31,		
	2019	2018	2017
(U.S. dollars in millions)			
Income before income taxes:			
United States segment	\$ 1,396	\$ 1,194	\$ 991
Canada segment	273	286	199
Total income before income taxes	<u>\$ 1,669</u>	<u>\$ 1,480</u>	<u>\$ 1,190</u>

### Comparison of Fiscal Years Ended March 31, 2019 and 2018

Our consolidated income before income taxes was \$1,669 million in fiscal year 2019 compared to \$1,480 million in fiscal year 2018. This increase of \$189 million, or 13%, was due to the following:

	Years ended March 31,			
	2019	2018	Difference	% Change
(U.S. dollars in millions)				
Net revenues:				
Direct financing leases	\$ 4	\$ 13	\$ (9)	(69%)
Retail	1,610	1,369	241	18 %
Dealer	232	175	57	33 %
Operating leases, net of depreciation	1,733	1,409	324	23 %
Interest expense	(1,190)	(897)	(293)	33 %
Gain on disposition of lease vehicles	131	93	38	41 %
Other income	71	56	15	27%
Total net revenues	<u>2,591</u>	<u>2,218</u>	<u>373</u>	<u>17 %</u>
Expenses:				
General and administrative expenses	456	439	17	4 %
Provision for credit losses	249	244	5	2 %
Impairment loss on operating leases	14	—	14	n/m
Early termination loss on operating leases	101	108	(7)	(6)%
(Gain)/Loss on derivative instruments	509	(550)	1,059	(193%)
(Gain)/Loss on foreign currency revaluation of debt	(407)	494	(901)	(182%)
Other	—	3	(3)	(100%)
Total expenses	<u>922</u>	<u>738</u>	<u>184</u>	<u>25%</u>
Total income before income taxes	<u>\$ 1,669</u>	<u>\$ 1,480</u>	<u>\$ 189</u>	<u>13 %</u>

n/m= not meaningful

### Segment Results—Comparison of Fiscal Years Ended March 31, 2019 and 2018

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,		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
(U.S. dollars in millions)									
<b>Revenues:</b>									
Direct financing leases	\$ —	\$ —	\$ —	\$ 4	\$ 13	\$ 34	\$ 4	\$ 13	\$ 34
Retail	1,406	1,181	1,030	204	188	158	1,610	1,369	1,188
Dealer	211	158	133	21	17	14	232	175	147
Operating leases	6,001	5,815	5,547	1,252	1,075	786	7,253	6,890	6,333
Total revenues	7,618	7,154	6,710	1,481	1,293	992	9,099	8,447	7,702
Depreciation on operating leases	4,520	4,598	4,403	1,000	883	653	5,520	5,481	5,056
Interest expense	1,015	770	638	175	127	90	1,190	897	728
Net revenues	2,083	1,786	1,669	306	283	249	2,389	2,069	1,918
Gain on disposition of lease vehicles	100	66	24	31	27	19	131	93	43
Other income	63	50	100	8	6	5	71	56	105
Total net revenues	2,246	1,902	1,793	345	316	273	2,591	2,218	2,066
<b>Expenses:</b>									
General and administrative expenses	403	384	383	53	55	51	456	439	434
Provision for credit losses	242	239	199	7	5	11	249	244	210
Impairment loss on operating leases	14	—	—	—	—	—	14	—	—
Early termination loss on operating leases	98	105	67	3	3	6	101	108	73
Loss on lease residual values	—	—	—	—	3	15	—	3	15
(Gain)/Loss on derivative instruments	500	(514)	324	9	(36)	(9)	509	(550)	315
(Gain)/Loss on foreign currency revaluation of debt	(407)	494	(171)	—	—	—	(407)	494	(171)
Income before income taxes	\$ 1,396	\$ 1,194	\$ 991	\$ 273	\$ 286	\$ 199	\$ 1,669	\$ 1,480	\$ 1,190

### Revenues

Revenue from retail loans in the United States segment increased by \$225 million, or 19%, during fiscal year 2019 compared to fiscal year 2018. The increase in revenue was attributable to higher yields due to the rising interest rate environment and higher average outstanding balances. Revenue from retail loans in the Canada segment increased by \$16 million, or 9%, during fiscal year 2019 compared to fiscal year 2018. The increase in revenue was attributable to higher yields due to the rising interest rate environment.

Operating lease revenue in the United States segment increased by \$186 million, or 3%, during fiscal year 2019 compared to fiscal year 2018. The increase was primarily due to higher net revenue on more recently acquired operating lease assets due to the rising interest rate environment. Operating lease revenue in the Canada segment increased by \$177 million, or 16%, during fiscal year 2019 compared to fiscal year 2018. The increase was attributable to higher net revenue on more recently acquired operating lease assets due to the rising interest rate environment and higher average outstanding operating lease assets.

Direct financing lease revenue, which is generated only in Canada, declined by \$9 million, or 69%, during fiscal year 2019 compared to fiscal year 2018 due to the run-off of direct financing lease assets.

Revenue from dealer loans in the United States segment increased by \$53 million, or 34%, during fiscal year 2019 compared to fiscal year 2018. The increase was attributable to higher yields due to the rising interest rate environment and higher average outstanding balances. Revenue from dealer loans in the Canada segment increased by \$4 million, or 24%, primarily due to higher yields due to the rising interest rate environment.

Consolidated subsidy income from AHM and HCI sponsored incentive programs increased by \$192 million, or 13%, to \$1,633 million during fiscal year 2019 compared to \$1,441 million during fiscal year 2018. The increase was attributable to higher average subsidy payments received. As a result of the rising interest rate environment, the average amount of subsidy payments necessary for us to realize market yields on incentive programs has also been rising.

#### *Depreciation on operating leases*

Depreciation on operating leases in the United States segment decreased by \$78 million, or 2%, during fiscal year 2019 compared to fiscal year 2018. The decrease in depreciation was primarily due to improvements in expected used vehicle values during fiscal year 2019 compared to fiscal year 2018. Depreciation on operating lease assets in the Canada segment increased by \$117 million, or 13%, due to higher average outstanding operating lease assets.

Operating lease revenue, net of depreciation in the United States segment increased by \$264 million, or 22%, during fiscal year 2019 compared to fiscal year 2018. The increase in operating lease revenue, net of depreciation was attributable to higher net revenue on more recently acquired operating lease assets due to the rising interest rate environment and decrease in depreciation due to improvements in expected used vehicle values. Operating lease revenue, net of depreciation in the Canada segment increased by \$60 million, or 31%, during fiscal year 2019 compared to fiscal year 2018. The increase in operating lease revenue, net of depreciation, was attributable to higher net revenue on more recently acquired operating lease assets due to the rising interest rate environment and higher average outstanding operating lease assets.

#### *Interest expense*

Interest expense in the United States segment increased by \$245 million, or 32%, during fiscal year 2019 compared to fiscal year 2018. The increase was attributable to higher average interest rates and an increase in average outstanding debt. Interest expense in the Canada segment increased by \$48 million, or 38%, primarily due to higher average interest rates. 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 \$34 million, or 52%, during fiscal year 2019 compared to fiscal year 2018. The gain on disposition of lease vehicles in the Canada segment increased by \$4 million, or 15%. The increases in gains in both segments were primarily the result of higher volume of units with more favorable disposition proceeds than the assumptions that were reflected in their estimated residual values. See “—*Financial Condition—Lease Residual Value Risk*” below for more information.

#### *Provision for credit losses*

The provision for credit losses in the United States segment increased by \$3 million, or 1%, during fiscal year 2019 compared to fiscal year 2018. The increase in the provision was primarily due to the rise in the provision for past due operating lease rental payments and an increase in the provision for impaired dealer loans. The provision for credit losses in the Canada segment increased by \$2 million, or 40%, during fiscal year 2019 compared to fiscal year 2018. During fiscal year 2018, the reduction in the allowance for credit losses in the Canada segment in order to reflect improving credit performance resulted in a lower provision for credit losses. During fiscal year 2019, there was a slight increase in the allowance for credit losses. See “—*Financial Condition—Credit Risk*” below for more information.

#### *Impairment loss on operating leases*

Impairment loss on operating leases of \$14 million was recognized in the United States segment during fiscal year 2019 due to lower estimated residual value of certain models of leased vehicles. No impairment losses due to declines in estimated residual values were recognized during the fiscal year 2018. See “—*Financial Condition—Lease Residual Value Risk*” below for more information.

#### *Early termination loss on operating leases*

Early termination losses on operating leases in the United States segment decreased by \$7 million, or 7%, during fiscal year 2019 compared to fiscal year 2018 due to a smaller increase in estimated early termination losses. Early termination losses on operating leases in the Canada segment were flat during fiscal year 2019 compared to fiscal year 2018. 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 \$3 million, or 100%, during fiscal year 2019 compared to fiscal year 2018, 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 loss on derivative instruments of \$500 million during fiscal year 2019 compared to a gain of \$514 million during fiscal year 2018. The loss in fiscal year 2019 was attributable to a loss on cross currency swaps of \$486 million and pay fixed interest rate swaps of \$161 million, partially offset by gains on pay float interest rate swaps of \$147 million. The loss on cross currency swaps during fiscal year 2019 was primarily attributable to the U.S. dollar strengthening against the Euro and Sterling during the period. The losses on pay fixed interest rate swaps and gains on pay float interest rate swaps during fiscal year 2019 were primarily due to declines in applicable swap rates during the period. In the Canada segment, we recognized a loss on derivative instruments of \$9 million during fiscal year 2019 compared to a gain of \$36 million during fiscal year 2018. The losses during fiscal year 2019 were due to declines in applicable swap rates during the period. See “—*Derivatives*” below for more information.

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

In the United States segment, we recognized a gain on the revaluation of foreign currency denominated debt of \$407 million during fiscal year 2019 compared to a loss of \$494 million during fiscal year 2018. The gain during fiscal year 2019 was primarily due to the U.S. dollar strengthening against the Euro and Sterling during the period.

#### *Income tax expense*

Our consolidated effective tax rate was 25.6% for fiscal year 2019 and (177.6)% for fiscal year 2018. The increase in the effective tax rate for fiscal year 2019 was primarily due to the impact of the new U.S. federal income tax rate and the Transition Tax under the Tax Cuts and Jobs Act (Tax Act). For additional information regarding income taxes, see Note 7—Income Taxes of *Notes to Consolidated Financial Statements*.

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.

## 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,					
	2019		2018		2017	
	Acquired	Sponsored <sup>(2)</sup>	Acquired	Sponsored <sup>(2)</sup>	Acquired	Sponsored <sup>(2)</sup>
(Units <sup>(1)</sup> in thousands)						
<b>United States Segment</b>						
Retail loans:						
New auto	486	332	477	307	464	325
Used auto	123	26	104	26	88	9
Motorcycle	68	4	72	11	74	11
Other	1	—	1	—	1	—
Total retail loans	678	362	654	344	627	345
Leases	495	438	452	361	514	470
<b>Canada Segment</b>						
Retail loans:						
New auto	63	61	70	68	67	63
Used auto	5	1	9	6	10	6
Motorcycle	7	6	8	7	6	4
Other	1	—	—	—	1	—
Total retail loans	76	68	87	81	84	73
Leases	92	91	85	84	81	80
<b>Consolidated</b>						
Retail loans:						
New auto	549	393	547	375	531	388
Used auto	128	27	113	32	98	15
Motorcycle	75	10	80	18	80	15
Other	2	—	1	—	2	—
Total retail loans	754	430	741	425	711	418
Leases	587	529	537	445	595	550

- (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,		
	2019	2018	2017
<b>United States Segment</b>			
New auto	61%	57%	59%
Motorcycle	36%	38%	39%
<b>Canada Segment</b>			
New auto	79%	78%	77%
Motorcycle	29%	32%	24%
<b>Consolidated</b>			
New auto	63%	59%	61%
Motorcycle	35%	37%	37%

### Consumer Financing Asset Balances

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

	March 31,			March 31,		
	2019	2018	2017	2019	2018	2017
	(U.S. dollars in millions)			(Units <sup>(1)</sup> in thousands)		
<b>United States Segment</b>						
Retail loans:						
New auto	\$ 25,201	\$ 23,700	\$ 22,837	1,569	1,590	1,610
Used auto	4,522	3,685	3,154	318	268	234
Motorcycle	1,055	1,028	993	190	193	191
Other	49	46	51	3	4	4
Total retail loans	<u>\$ 30,827</u>	<u>\$ 28,459</u>	<u>\$ 27,035</u>	<u>2,080</u>	<u>2,055</u>	<u>2,039</u>
Securitized retail loans <sup>(2)</sup>	\$ 7,896	\$ 7,633	\$ 7,748	765	691	690
Investment in operating leases	\$ 27,493	\$ 27,040	\$ 27,380	1,300	1,301	1,294
<b>Canada Segment</b>						
Retail loans:						
New auto	\$ 3,430	\$ 3,463	\$ 3,067	259	245	219
Used auto	226	309	345	29	36	44
Motorcycle	83	86	73	20	19	16
Other	3	3	3	1	2	2
Total retail loans	<u>\$ 3,742</u>	<u>\$ 3,861</u>	<u>\$ 3,488</u>	<u>309</u>	<u>302</u>	<u>281</u>
Securitized retail loans <sup>(2)</sup>	\$ 1,177	\$ 1,262	\$ 764	93	89	59
Direct financing leases	\$ 28	\$ 141	\$ 375	4	15	34
Investment in operating leases	\$ 5,113	\$ 4,777	\$ 3,930	289	259	212
<b>Consolidated</b>						
Retail loans:						
New auto	\$ 28,631	\$ 27,163	\$ 25,904	1,828	1,835	1,829
Used auto	4,748	3,994	3,499	347	304	278
Motorcycle	1,138	1,114	1,066	210	212	207
Other	52	49	54	4	6	6
Total retail loans	<u>\$ 34,569</u>	<u>\$ 32,320</u>	<u>\$ 30,523</u>	<u>2,389</u>	<u>2,357</u>	<u>2,320</u>
Securitized retail loans <sup>(2)</sup>	\$ 9,073	\$ 8,895	\$ 8,512	858	780	749
Direct financing leases	\$ 28	\$ 141	\$ 375	4	15	34
Investment in operating leases	\$ 32,606	\$ 31,817	\$ 31,310	1,589	1,560	1,506

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

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

In the United States segment, retail loan acquisition volumes increased by 4% during fiscal year 2019 compared to fiscal year 2018 primarily due to the increase in non-sponsored used and sponsored new auto loan acquisition volumes. Lease acquisition volumes increased by 10% during fiscal year 2019 compared to fiscal year 2018 primarily due to the increase in incentive program volumes.

In the Canada segment, retail loan acquisition volumes decreased by 13% during fiscal year 2019 compared to fiscal year 2018 primarily due to the decline in retail loan incentive volumes. Lease acquisition volumes increased by 8% during fiscal year 2019 compared to fiscal year 2018 due to the increase in incentive program volumes. Outstanding direct financing lease assets continued to decline and operating lease assets continued to increase during fiscal year 2019 as the result of our remaining direct financing leases maturing and all newly acquired leases being classified as operating leases.

### ***Dealer Financing***

#### ***Wholesale Flooring Financing Penetration Rates***

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

	March 31,		
	2019	2018	2017
<b><u>United States Segment</u></b>			
Automobile	30%	28%	28%
Motorcycle	97%	98%	97%
Other	20%	21%	21%
<b><u>Canada Segment</u></b>			
Automobile	35%	36%	35%
Motorcycle	95%	95%	95%
Other	95%	95%	95%
<b><u>Consolidated</u></b>			
Automobile	31%	30%	29%
Motorcycle	97%	97%	97%
Other	22%	23%	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,		
	2019	2018	2017
<b><u>United States Segment</u></b>			
Automobile	27%	28%	27%
Motorcycle	97%	98%	97%
Other	7%	8%	7%
<b><u>Canada Segment</u></b>			
Automobile	32%	31%	31%
Motorcycle	92%	94%	96%
Other	96%	95%	98%
<b><u>Consolidated</u></b>			
Automobile	27%	28%	27%
Motorcycle	96%	97%	97%
Other	9%	10%	10%



## Dealer Financing Asset Balances

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

	March 31,			March 31,		
	2019	2018	2017	2019	2018	2017
	(U.S. dollars in millions)			(Units <sup>(1)</sup> in thousands)		
<b>United States Segment</b>						
Wholesale flooring loans:						
Automobile	3,308	3,075	2,823	121	113	111
Motorcycle	750	738	684	101	100	93
Other	59	60	64	63	67	73
Total wholesale flooring loans	4,117	3,873	3,571	285	280	277
Commercial loans	1,084	978	841			
<b>Canada Segment</b>						
Wholesale flooring loans:						
Automobile	441	452	414	17	18	18
Motorcycle	95	98	86	13	13	13
Other	25	29	29	28	31	32
Total wholesale flooring loans	561	579	529	58	62	63
Commercial loans	65	65	65			
<b>Consolidated</b>						
Wholesale flooring loans:						
Automobile	3,749	3,527	3,237	138	131	129
Motorcycle	845	836	770	114	113	106
Other	84	89	93	91	98	105
Total wholesale flooring loans	4,678	4,452	4,100	343	342	340
Commercial loans	1,149	1,043	906			

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

## Credit Risk

Credit losses are an expected cost of extending credit. The majority of our credit risk is in consumer financing and to a lesser extent in dealer financing. Credit risk of our portfolio of consumer finance receivables can be affected by general economic conditions. Adverse changes such as a rise in unemployment 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, focusing collection efforts to minimize losses, and ongoing reviews of the financial condition of dealers.

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,		
2019	2018	2017
(U.S. dollars in millions)		

### **United States Segment**

Finance receivables:			
Allowance for credit losses at beginning of period	\$ 173	\$ 124	\$ 83
Provision for credit losses	203	209	177
Charge-offs, net of recoveries	(182)	(160)	(136)
Allowance for credit losses at end of period	<u>\$ 194</u>	<u>\$ 173</u>	<u>\$ 124</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup>	0.53%	0.51%	0.39%
Charge-offs as a percentage of average receivable balance <sup>(1)</sup>	0.51%	0.49%	0.43%
Delinquencies (60 or more days past due):			
Delinquent amount <sup>(2)</sup>	\$ 104	\$ 56	\$ 42
As a percentage of ending receivable balance <sup>(1), (2)</sup>	0.28%	0.17%	0.13%
Operating leases:			
Early termination loss on operating leases	\$ 98	\$ 105	\$ 67
Provision for past due operating lease rental payments <sup>(3)</sup>	39	30	22

### **Canada Segment**

Finance receivables:			
Allowance for credit losses at beginning of period	\$ 6	\$ 9	\$ 10
Provision for credit losses	6	4	10
Charge-offs, net of recoveries	(5)	(7)	(11)
Effect of translation adjustment	—	—	—
Allowance for credit losses at end of period	<u>\$ 7</u>	<u>\$ 6</u>	<u>\$ 9</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup>	0.14%	0.13%	0.20%
Charge-offs as a percentage of average receivable balance <sup>(1)</sup>	0.12%	0.16%	0.24%
Delinquencies (60 or more days past due):			
Delinquent amount <sup>(2)</sup>	\$ 4	\$ 8	\$ 7
As a percentage of ending receivable balance <sup>(1), (2)</sup>	0.09%	0.16%	0.15%
Operating leases:			
Early termination loss on operating leases	\$ 3	\$ 3	\$ 6
Provision for past due operating lease rental payments <sup>(3)</sup>	1	1	1

### **Consolidated**

Finance receivables:			
Allowance for credit losses at beginning of period	\$ 179	\$ 133	\$ 93
Provision for credit losses	209	213	187
Charge-offs, net of recoveries	(187)	(167)	(147)
Effect of translation adjustment	—	—	—
Allowance for credit losses at end of period	<u>\$ 201</u>	<u>\$ 179</u>	<u>\$ 133</u>
Allowance as a percentage of ending receivable balance <sup>(1)</sup>	0.49%	0.46%	0.36%
Charge-offs as a percentage of average receivable balance <sup>(1)</sup>	0.47%	0.44%	0.41%
Delinquencies (60 or more days past due):			
Delinquent amount <sup>(2)</sup>	\$ 108	\$ 64	\$ 49
As a percentage of ending receivable balance <sup>(1), (2)</sup>	0.26%	0.17%	0.13%
Operating leases:			
Early termination loss on operating leases	\$ 101	\$ 108	\$ 73
Provision for past due operating lease rental payments <sup>(3)</sup>	40	31	23

- (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 \$203 million during fiscal year 2019 compared to \$209 million during fiscal year 2018. The decline in the provision was due to a smaller increase in the allowance for credit losses for retail loans during fiscal year 2019 compared to fiscal year 2018. Although net charge-offs of retail loans during fiscal year 2019 were higher compared to fiscal year 2018, which continues the trend of increasing charge-offs that we have been experiencing since fiscal year 2016, the rate of increase was lower compared to prior years. The increasing trend in charge-offs was 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 increasing trend in charge-offs was also the result of higher charge-off frequencies due to the increase in the volume of retail loans in our lowest credit grade tier and used auto loans. The decline in the provision for retail loans was partially offset by an increase in the provision for impaired dealer loans of \$8 million. We recognized early termination losses on operating lease assets of \$98 million during fiscal year 2019 compared to \$105 million during fiscal year 2018. Although the actual net losses we realized during fiscal year 2019 continued to increase compared to prior years, the rate of increase has slowed. As a result, the increase to the estimated early termination losses we recognized during fiscal year 2019 was lower compared to fiscal year 2018. During fiscal year 2019, there was an increase in the frequency of lessee defaults which was partially offset by lower loss severities on early terminations. The increase in the frequency of lessee defaults contributed to the increase in provision for credit losses on past due rental payments.

In the Canada segment, the provision for credit losses on our finance receivables was \$6 million during fiscal year 2019 compared to \$4 million during fiscal year 2018. During fiscal year 2018, the reduction in the allowance for credit losses in the Canada segment in order to reflect improving credit performance resulted in a lower provision for credit losses. During fiscal year 2019, there was a slight increase in the allowance for credit losses. Early termination losses on operating lease assets was \$3 million during fiscal year 2019, which was flat compared to fiscal year 2018.

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

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

We assess our estimates for end of lease term market values of leased vehicles, at minimum, on a quarterly basis. The primary factors affecting the estimates are the percentage of leased vehicles that we expect to be returned by the lessee at the end of lease term and expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends, and market information on new and used vehicles. Our leasing volumes and those 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.

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

	Years ended March 31,		
	2019	2018	2017
	(Units <sup>(1)</sup> in thousands)		
<b><u>United States Segment</u></b>			
Termination units:			
Sales at outstanding contractual balances <sup>(2)</sup>	319	264	267
Sales through auctions and dealer direct programs <sup>(3)</sup>	155	167	132
Total termination units	474	431	399
<b><u>Canada Segment</u></b>			
Termination units:			
Sales at outstanding contractual balances <sup>(2)</sup>	65	49	45
Sales through auctions and dealer direct programs <sup>(3)</sup>	6	7	8
Total termination units	71	56	53
<b><u>Consolidated</u></b>			
Termination units:			
Sales at outstanding contractual balances <sup>(2)</sup>	384	313	312
Sales through auctions and dealer direct programs <sup>(3)</sup>	161	174	140
Total termination units	545	487	452

- (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, 2019, 2018 and 2017 includes foreign currency denominated debt which was translated into U.S. dollars using the relevant exchange rates as of March 31, 2019, 2018 and 2017, 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, 2019 of 1.3349, 1.1216 and 1.3006, 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		
	March 31,			March 31,		
	2019	2018	2017	2019	2018	2017
(U.S. dollars in millions)						
<b>United States Segment</b>						
Unsecured debt:						
Commercial paper	\$ 5,029	\$ 4,437	\$ 3,609	2.67%	1.91%	1.02%
Bank loans	3,896	4,393	4,890	3.30%	2.52%	1.68%
Private MTN program	999	1,698	2,946	3.84%	5.40%	3.77%
Public MTN program	24,117	21,398	19,491	2.35%	1.92%	1.63%
Euro MTN programme	868	1,111	1,086	1.89%	1.95%	1.83%
Total unsecured debt	34,909	33,037	32,022			
Secured debt	7,671	7,521	7,680	2.41%	1.68%	1.24%
Total debt	<u>\$ 42,580</u>	<u>\$ 40,558</u>	<u>\$ 39,702</u>			
<b>Canada Segment</b>						
Unsecured debt:						
Commercial paper	\$ 726	\$ 730	\$ 853	2.06%	1.55%	0.87%
Related party debt	749	1,085	1,201	2.18%	1.64%	0.95%
Bank loans	1,066	1,026	993	2.62%	2.27%	1.50%
Other debt	3,514	3,250	2,736	2.50%	2.20%	1.90%
Total unsecured debt	6,055	6,091	5,783			
Secured debt	1,119	1,212	742	2.49%	2.09%	1.24%
Total debt	<u>\$ 7,174</u>	<u>\$ 7,303</u>	<u>\$ 6,525</u>			
<b>Consolidated</b>						
Unsecured debt:						
Commercial paper	\$ 5,755	\$ 5,167	\$ 4,462	2.60%	1.86%	0.99%
Related party debt	749	1,085	1,201	2.18%	1.64%	0.95%
Bank loans	4,962	5,419	5,883	3.16%	2.48%	1.65%
Private MTN program	999	1,698	2,946	3.84%	5.40%	3.77%
Public MTN program	24,117	21,398	19,491	2.35%	1.92%	1.63%
Euro MTN programme	868	1,111	1,086	1.89%	1.95%	1.83%
Other debt	3,514	3,250	2,736	2.50%	2.20%	1.90%
Total unsecured debt	40,964	39,128	37,805			
Secured debt	8,790	8,733	8,422	2.42%	1.74%	1.24%
Total debt	<u>\$ 49,754</u>	<u>\$ 47,861</u>	<u>\$ 46,227</u>			

### Commercial Paper

As of March 31, 2019, we had commercial paper programs in the United States of \$7.0 billion and in Canada of C\$2.0 billion (\$1.5 billion). Interest rates on the commercial paper are fixed at the time of issuance. During fiscal year 2019, consolidated commercial paper month-end outstanding principal balances ranged from \$4.9 billion to \$6.2 billion.

### Related Party Debt

HCFI issues fixed rate notes to HCI to help fund HCFI's general corporate operations. Interest rates are based on prevailing rates of debt with comparable terms. Generally, the term of these notes is less than 120 days.

### *Bank Loans*

During fiscal year 2019, AHFC did not enter into any term loan agreements and HCFI entered into one floating rate term loan agreement for an aggregate of C\$350 million (\$262 million). As of March 31, 2019, we had bank loans denominated in U.S. dollars and Canadian dollars with floating interest rates, in principal amounts ranging from \$37 million to \$600 million. As of March 31, 2019, the remaining maturities of all bank loans outstanding ranged from 235 days to approximately 5.5 years. The weighted average remaining maturity on all bank loans was 1.9 years as of March 31, 2019.

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, 2019, 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, 2019, the remaining maturities of Private MTNs outstanding did not exceed 2.5 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, 2019, 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 MTN, which includes the issuance of foreign currency denominated notes into international markets. 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 2019, AHFC issued \$3.6 billion aggregate principal amount of U.S. dollar denominated fixed rate MTNs, with an original maturity ranging from 23 months to 5.0 years, \$4.3 billion aggregate principal amount of U.S. dollar denominated floating rate MTNs, with an original maturity ranging from 10 months to 3.0 years and €1.1 billion (\$1.2 billion) of EUR denominated fixed rate MTNs, with an original maturity of 3.5 years. The weighted average remaining maturities of all Public MTNs was 2.4 years as of March 31, 2019.

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, 2019, 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, 2019, the remaining maturities of Euro MTNs outstanding under this program did not exceed 3.9 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, 2019, 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,		
	2019	2018	2017
	(U.S. dollars in millions)		
U.S. dollar	\$ 21,210	\$ 19,717	\$ 20,141
Euro	3,969	3,623	2,607
Sterling	778	839	748
Japanese yen	27	28	27
Total	<u>\$ 25,984</u>	<u>\$ 24,207</u>	<u>\$ 23,523</u>

#### *Other Debt*

HCFI issues privately placed Canadian dollar denominated notes, with either fixed or floating interest rates. During fiscal year 2019, HCFI entered into three private placement trades for an aggregate of C\$1.4 billion (\$1.0 billion). As of March 31, 2019, the remaining maturities of all of HCFI's Canadian notes outstanding ranged from 68 days to approximately 6.2 years. The weighted average remaining maturities of these notes was 2.9 years as of March 31, 2019.

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, 2019, 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 2019, we issued notes through asset-backed securitizations totaling \$4.8 billion, which were secured by consumer finance receivables with an initial principal balance of \$5.7 billion.

### ***Credit Agreements***

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

AHFC maintains a \$3.5 billion 364-day credit agreement, which expires on February 28, 2020, a \$2.1 billion credit agreement, which expires on March 3, 2021, and a \$1.4 billion credit agreement, which expires on March 3, 2023. As of March 31, 2019, 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 (\$599 million) on a one-year revolving basis and up to C\$800 million (\$599 million) on a five-year revolving basis. The one-year tranche of the credit agreement expires on March 25, 2020 and the five-year tranche of the credit agreement expires on March 25, 2024. As of March 31, 2019, 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 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, 2019, 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, 2019, no amounts were drawn upon under these agreements. These agreements expire in September 2019. 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 \$23 million, \$22 million and \$20 million during fiscal years 2019, 2018 and 2017, respectively, pursuant to these Support Compensation Agreements.

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

As of March 31, 2019, AHFC and its consolidated subsidiaries had \$58.7 billion of outstanding indebtedness and other liabilities, including current liabilities, of which \$16.2 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, 2019:

	Payments due by period						
	Total	2020	2021	2022	2023	2024	Thereafter
(U.S. dollars in millions)							
Unsecured debt obligations <sup>(1)</sup>	\$ 41,050	\$ 15,675	\$ 9,099	\$ 6,129	\$ 5,324	\$ 3,373	\$ 1,450
Secured debt obligations <sup>(1)</sup>	8,803	4,678	2,573	1,222	288	42	—
Interest payments on debt <sup>(2)</sup>	2,484	986	652	380	219	128	119
Operating lease obligations	70	10	10	9	9	8	24
Total	\$ 52,407	\$ 21,349	\$ 12,334	\$ 7,740	\$ 5,840	\$ 3,551	\$ 1,593

(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, 2019.

(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, 2019.

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, 2019, our provision for credit losses would have increased by approximately \$39 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, 2019, we would have recognized an additional \$20 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, 2019 were to decrease by \$100 per unit from our current estimates, the total impact would be an increase of approximately \$71 million in depreciation expense, which would be recognized over the remaining lease terms. If future return rates for all operating leases were to increase by one percentage point from our current estimates, the total impact would be an increase of approximately \$12 million in depreciation expense, which would be recognized over the remaining lease terms. This sensitivity analysis may be asymmetric and is specific to the conditions in effect as of March 31, 2019. 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, 2020 and 2019 below. Our estimates were based upon our existing receivables, debt, and derivatives as of March 31, 2019 and 2018. 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,	
	2020	2019
100 basis point increase	\$21 million increase	\$17 million increase
100 basis point decrease	\$21 million decrease	\$17 million decrease

The net impact on pre-tax cash flows of a hypothetical increase or decrease in interest rates was higher for the period ending March 31, 2020 compared to the period ending March 31, 2019 due to the increase in the mix of receive float relative to pay float instruments.

## 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, 2019, 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, 2019.

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, 2019, 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,	
	2019	2018
	(U.S. dollars in thousands)	
Audit fees	\$ 6,874	\$ 6,800
Audit-related fees	428	433
Tax fees	—	—
All other fees	—	—
Total	<u>\$ 7,302</u>	<u>\$ 7,233</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, among other things, list particular audit services and non-audit services that may be provided without specific pre-approval. 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

Exhibit Number	Description
3.1 <sup>(1)</sup>	Articles of Incorporation of American Honda Finance Corporation, dated February 6, 1980, and Certificates of Amendment to the Articles of Incorporation, dated March 29, 1984, November 13, 1988, December 4, 1989, July 2, 1991, April 3, 1997, November 30, 1999, and December 17, 2003.
3.2 <sup>(1)</sup>	Amended and Restated Bylaws of American Honda Finance Corporation, dated April 27, 2010.
4.1 <sup>(1)</sup>	Form of Specimen Common Stock of American Honda Finance Corporation.
4.2	American Honda Finance Corporation agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of American Honda Finance Corporation and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of the American Honda Finance Corporation and its subsidiaries.
4.3 <sup>(2)</sup>	Amended and Restated Issuing and Paying Agency Agreement between American Honda Finance Corporation and The Bank of New York Mellon, dated as of August 27, 2012.
4.4	Trust Indenture between Honda Canada Finance Inc., as issuer, and BNY Trust Company of Canada (as successor to CIBC Mellon Trust Company), as trustee, dated as of September 26, 2005 <sup>(3)</sup> , as supplemented by supplemental indentures from time to time, and the Form of Debenture <sup>(4)</sup> .
4.5 <sup>(5)</sup>	Indenture, dated September 5, 2013, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.6 <sup>(18)</sup>	First Supplemental Indenture, dated February 8, 2018, between American Honda Finance Corporation and Deutsche Bank Trust Company Americas, as trustee.
4.7	Form of Fixed Rate Medium-Term Note, Series A <sup>(6)</sup> and Form of Floating Rate Medium-Term Note, Series A <sup>(7)</sup> .
4.8 <sup>(23)</sup>	Description of 1.300% Medium-Term Notes, Series A, due March 21, 2022
4.9 <sup>(23)</sup>	Description of 2.625% Medium-Term Notes, Series A, due October 14, 2022
4.10 <sup>(23)</sup>	Description of 1.375% Medium-Term Notes, Series A, due November 10, 2022
4.11 <sup>(23)</sup>	Description of 0.550% Medium-Term Notes, Series A, due March 17, 2023
4.12 <sup>(23)</sup>	Description of 0.750% Medium-Term Notes, Series A, due January 17, 2024
4.13 <sup>(23)</sup>	Description of 0.350% Medium-Term Notes, Series A, due August 26, 2022
10.1 <sup>(8)</sup>	\$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.



Exhibit Number	Description
10.2 <sup>(9)</sup>	Amendment, dated as of June 30, 2014, between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and behalf of the banks party to the Credit Agreement.
10.3 <sup>(10)</sup>	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 <sup>(11)</sup>	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 <sup>(12)</sup>	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 <sup>(19)</sup>	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 <sup>(23)</sup>	Sixth Amendment, dated as of March 12, 2019 between HCFI and Canadian Imperial Bank of Commerce, as administrative agent, for and on behalf of the banks party to the Credit Agreement.
10.8 <sup>(13)</sup>	\$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.
10.9 <sup>(20)</sup>	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.
10.10 <sup>(14)</sup>	\$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.
10.11 <sup>(21)</sup>	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.
10.12 <sup>(15)</sup>	\$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.
10.13 <sup>(22)</sup>	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.
10.14 <sup>(16)</sup>	Keep Well Agreement between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated September 9, 2005.
10.15 <sup>(23)</sup>	Support Compensation Agreement, between Honda Motor Co., Ltd. and American Honda Finance Corporation, dated as of April 1, 2019.
10.16 <sup>(17)</sup>	Keep Well Agreement between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated September 26, 2005.
10.17 <sup>(23)</sup>	Support Compensation Agreement, between Honda Motor Co., Ltd. and Honda Canada Finance Inc., dated as of April 1, 2019.
23.1 <sup>(23)</sup>	Consent of KPMG LLP
31.1 <sup>(23)</sup>	Certification of Principal Executive Officer
31.2 <sup>(23)</sup>	Certification of Principal Financial Officer

<b>Exhibit Number</b>	<b>Description</b>
32.1 <sup>(24)</sup>	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2 <sup>(24)</sup>	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS <sup>(23)</sup>	XBRL Instance Document
101.SCH <sup>(23)</sup>	XBRL Taxonomy Extension Schema Document
101.CAL <sup>(23)</sup>	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB <sup>(23)</sup>	XBRL Taxonomy Extension Label Linkbase Document
101.PRE <sup>(23)</sup>	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF <sup>(23)</sup>	XBRL Taxonomy Extension Definition Linkbase Document

- (1) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, dated June 28, 2013.
- (2) Incorporated herein by reference to the same numbered Exhibit filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
- (3) Incorporated herein by reference to Exhibit number 4.5 filed with our registration statement on Form 10, amendment No. 1, dated August 7, 2013.
- (4) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 12, 2015.
- (5) Incorporated herein by reference to Exhibit number 4.1 filed with our registration statement on Form S-3, dated September 5, 2013.
- (6) Incorporated herein by reference to Exhibit number 4.1 filed with our current report on Form 8-K, dated February 12, 2014.
- (7) Incorporated herein by reference to Exhibit number 4.2 filed with our current report on Form 8-K, dated August 10, 2016.
- (8) 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 10.3 filed with our registration statement on Form 10, dated June 28, 2013.
- (18) Incorporated herein by reference to the same numbered Exhibit filed with our quarterly report on Form 10-Q, dated February 8, 2018.
- (19) Incorporated herein by reference to the same numbered Exhibit filed with our annual report on Form 10-K, dated June 21, 2018.
- (20) Incorporated herein by reference to Exhibit number 10.8 filed with our annual report on Form 10-K, dated June 21, 2018.
- (21) Incorporated herein by reference to Exhibit number 10.10 filed with our annual report on Form 10-K, dated June 21, 2018.
- (22) Incorporated herein by reference to Exhibit number 10.12 filed with our annual report on Form 10-K, dated June 21, 2018.
- (23) Filed herewith.
- (24) 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: June 21, 2019

### AMERICAN HONDA FINANCE CORPORATION

By: /s/ Paul C. Honda

Paul C. Honda  
Vice President and Assistant Secretary  
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Hideo Moroe</u> Hideo Moroe	President and Director (Principal Executive Officer)	June 21, 2019
<u>/s/ Masahiro Nakamura</u> Masahiro Nakamura	Vice President, Treasurer and Director (Principal Financial Officer)	June 21, 2019
<u>/s/ Paul C. Honda</u> Paul C. Honda	Vice President and Assistant Secretary (Principal Accounting Officer)	June 21, 2019
<u>/s/ Ferrell Kemp</u> Ferrell Kemp	Vice President and Director	June 21, 2019
<u>Shinji Aoyama</u>	Director	
<u>Jiro Morisawa</u>	Director	

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

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For the fiscal year ended March 31, 2019

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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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2019, 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, 2019

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

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

	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 795	\$ 783
Finance receivables, net	40,424	37,956
Investment in operating leases, net	32,606	31,817
Due from Parent and affiliated companies	162	139
Income taxes receivable	228	16
Vehicles held for disposition	252	231
Other assets	1,117	934
Derivative instruments	380	750
Total assets	<u>\$ 75,964</u>	<u>\$ 72,626</u>
<b>Liabilities and Equity</b>		
Debt	\$ 49,754	\$ 47,861
Due to Parent and affiliated companies	106	87
Accrued interest expense	150	146
Income taxes payable	152	105
Deferred income taxes	6,399	6,035
Other liabilities	1,567	1,382
Derivative instruments	568	414
Total liabilities	<u>58,696</u>	<u>56,030</u>
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, 2019 and 2018	1,366	1,366
Retained earnings	15,088	14,449
Accumulated other comprehensive loss	(118)	(85)
Total shareholder's equity	<u>16,336</u>	<u>15,730</u>
Noncontrolling interest in subsidiary	932	866
Total equity	<u>17,268</u>	<u>16,596</u>
Total liabilities and equity	<u>\$ 75,964</u>	<u>\$ 72,626</u>

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

	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
Finance receivables, net	\$ 9,073	\$ 8,895
Vehicles held for disposition	3	4
Other assets	597	452
Total assets	<u>\$ 9,673</u>	<u>\$ 9,351</u>
Secured debt	\$ 8,790	\$ 8,733
Accrued interest expense	8	6
Total liabilities	<u>\$ 8,798</u>	<u>\$ 8,739</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,		
	2019	2018	2017
Revenues:			
Direct financing leases	\$ 4	\$ 13	\$ 34
Retail	1,610	1,369	1,188
Dealer	232	175	147
Operating leases	7,253	6,890	6,333
Total revenues	9,099	8,447	7,702
Depreciation on operating leases	5,520	5,481	5,056
Interest expense	1,190	897	728
Net revenues	2,389	2,069	1,918
Gain on disposition of lease vehicles	131	93	43
Other income	71	56	105
Total net revenues	2,591	2,218	2,066
Expenses:			
General and administrative expenses	456	439	434
Provision for credit losses	249	244	210
Impairment loss on operating leases	14	—	—
Early termination loss on operating leases	101	108	73
Loss on lease residual values	—	3	15
(Gain)/Loss on derivative instruments	509	(550)	315
(Gain)/Loss on foreign currency revaluation of debt	(407)	494	(171)
Total expenses	922	738	876
Income before income taxes	1,669	1,480	1,190
Income tax expense/(benefit)	428	(2,629)	437
Net income	1,241	4,109	753
Less: Net income attributable to noncontrolling interest	96	100	70
Net income attributable to American Honda Finance Corporation	\$ 1,145	\$ 4,009	\$ 683

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

	Years ended March 31,		
	2019	2018	2017
Net income	\$ 1,241	\$ 4,109	\$ 753
Other comprehensive income/(loss):			
Foreign currency translation adjustment	(63)	48	(35)
Comprehensive income	1,178	4,157	718
Less: Comprehensive income attributable to noncontrolling interest	66	123	53
Comprehensive income attributable to American Honda Finance Corporation	\$ 1,112	\$ 4,034	\$ 665

See accompanying notes to consolidated financial statements.

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

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

	Total	Retained earnings	Accumulated other comprehensive income/(loss)	Common stock	Noncontrolling interest
<b>Balance at March 31, 2016</b>	\$ 12,068	\$ 10,104	\$ (92)	\$ 1,366	\$ 690
Net income	753	683	—	—	70
Other comprehensive loss	(35)	—	(18)	—	(17)
<b>Balance at March 31, 2017</b>	\$ 12,786	\$ 10,787	\$ (110)	\$ 1,366	\$ 743
Net income	4,109	4,009	—	—	100
Other comprehensive loss	48	—	25	—	23
Dividends paid	\$ (347)	\$ (347)	\$ —	\$ —	\$ —
<b>Balance at March 31, 2018</b>	\$ 16,596	\$ 14,449	\$ (85)	\$ 1,366	\$ 866
Net income	1,241	1,145	—	—	96
Other comprehensive income	(63)	—	(33)	—	(30)
Dividends paid	(506)	(506)	—	—	—
<b>Balance at March 31, 2019</b>	<u>\$ 17,268</u>	<u>\$ 15,088</u>	<u>\$ (118)</u>	<u>\$ 1,366</u>	<u>\$ 932</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,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 1,241	\$ 4,109	\$ 753
Adjustments to reconcile net income to net cash provided by operating activities:			
Debt and derivative instrument valuation adjustments	104	(42)	161
Loss on lease residual values and provision for credit losses	249	247	225
Early termination loss on operating leases and impairment on operating leases	115	108	73
Depreciation and amortization	5,531	5,491	5,063
Accretion of unearned subsidy income	(1,642)	(1,451)	(1,243)
Amortization of deferred dealer participation and other deferred costs	339	318	315
Gain on disposition of lease vehicles and fixed assets	(131)	(93)	(43)
Deferred income taxes	374	(2,768)	688
Changes in operating assets and liabilities:			
Income taxes receivable/payable	(166)	349	257
Other assets	(62)	(66)	(72)
Accrued interest/discounts on debt	64	69	54
Other liabilities	218	96	124
Due to/from Parent and affiliated companies	(4)	88	(85)
Net cash provided by operating activities	6,230	6,455	6,270
Cash flows from investing activities:			
Finance receivables acquired	(19,058)	(17,971)	(16,761)
Principal collected on finance receivables	16,140	15,732	16,140
Net change in wholesale loans	(252)	(337)	(197)
Purchase of operating lease vehicles	(16,389)	(14,268)	(15,949)
Disposal of operating lease vehicles	9,534	8,304	7,364
Cash received for unearned subsidy income	1,966	1,676	1,593
Other investing activities, net	(7)	(46)	(11)
Net cash used in investing activities	(8,066)	(6,910)	(7,821)
Cash flows from financing activities:			
Proceeds from issuance of commercial paper	33,697	36,190	41,162
Paydown of commercial paper	(33,083)	(35,520)	(41,303)
Proceeds from issuance of short-term debt	1,099	381	—
Paydown of short-term debt	(300)	(325)	—
Proceeds from issuance of related party debt	3,812	4,135	12,514
Paydown of related party debt	(4,121)	(4,294)	(13,567)
Proceeds from issuance of medium term notes and other debt	9,278	7,238	10,488
Paydown of medium term notes and other debt	(7,949)	(7,174)	(8,411)
Proceeds from issuance of secured debt	4,764	5,149	5,708
Paydown of secured debt	(4,689)	(4,901)	(4,868)
Dividends paid	(506)	(347)	—
Net cash provided by financing activities	2,002	532	1,723
Effect of exchange rate changes on cash and cash equivalents	(9)	7	(2)
Net increase in cash and cash equivalents	157	84	170
Cash and cash equivalents at beginning of year	1,226	1,142	972
Cash and cash equivalents at end of year	\$ 1,383	\$ 1,226	\$ 1,142
Supplemental disclosures of cash flow information:			
Interest paid	\$ 985	\$ 826	\$ 674
Income taxes paid/(received)	141	(206)	(508)

**AMERICAN HONDA FINANCE CORPORATION  
AND SUBSIDIARIES**

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

	<b>March 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	795	\$ 783	\$ 760
Restricted cash included in other assets <sup>(1)</sup>	588	443	382
	<u>\$ 1,383</u>	<u>\$ 1,226</u>	<u>1,142</u>

(1) Restricted cash balances relate primarily to securitization arrangements (Note 10).

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” , “we”, “us”, and “our” in this report 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, 2019 and 2018).

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, 2019 and 2018, 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 Adopted Accounting Standards**

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

Effective April 1, 2018, the Company adopted ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The adoption of this standard did not have a material impact on the consolidated financial statements.

Effective April 1, 2018, the Company adopted ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this standard did not have a material impact on the consolidated statements of cash flows.

Effective April 1, 2018, the Company adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash and require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents, and that an entity disclose information about the nature of such restricted amounts. The Company's restricted cash consists primarily of reserve funds and yield supplement accounts held in securitization trusts. Net changes in these restricted cash balances are currently reported within investing activities in the Company's consolidated statements of cash flows. Under the amended guidance, transfers between restricted and unrestricted cash accounts are not reported as cash flows. The amendments in this update require that amounts classified as restricted cash and restricted cash equivalents be included within the beginning-of-period and end-of-period amounts along with cash and cash equivalents on the statement of cash flows. The amendments were applied retrospectively to all periods presented within the consolidated statements of cash flows.

**(p) Recently Issued Accounting Standards**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the guidance in ASC 840, *Leases*. The FASB also issued several updates to ASU 2016-02 with targeted improvements and clarifications. The new standard will require the Company to record right-of-use assets and lease liabilities for the current operating leases as a lessee. Upon adoption of this standard, the Company expects to recognize right-of-use assets of approximately \$56 million, lease liabilities of approximately \$62 million, and a reduction in other liabilities of approximately \$6 million for accrued rent and unamortized tenant improvement allowances. Lessor accounting remains largely unchanged except for the following limited amendments. Changes in the assessment of collectibility on operating lease receivables are required to be recognized as adjustments to lease revenue rather than through the provision for credit losses. Certain lessor costs such as property taxes paid directly to third parties and reimbursed by lessees are required to be recognized gross as an expense and lease revenue. Initial direct costs which were previously recognized as a reduction of lease revenue will be presented as an expense. These changes in lessor accounting will not have an impact on net income. The new standard is effective for the Company beginning April 1, 2019 and will be adopted using the modified retrospective method. The adoption of the new standard will not have a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The FASB also issued several updates to ASU 2016-13 with targeted improvements and clarifications. 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.

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. The adoption of this standard will not impact the Company's consolidated financial statements since there were no designated hedge accounting relationships.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments modify the disclosure requirements on fair value measurements in Topic 820, based on FASB Concepts Statement, *Conceptual Framework for Financial Reporting-Chapter 8: Notes to Financial Statements*. Certain disclosure requirements were removed, modified and added in Topic 820. The amendments are effective for the Company beginning April 1, 2020. Early adoption is permitted. The Company is currently assessing the impact of this standard on the consolidated financial statements. The Company plans to adopt the new guidance effective April 1, 2020.

(2) **Finance Receivables**

Finance receivables consisted of the following:

March 31, 2019				
	Lease	Retail	Dealer	Total
(U.S. dollars in millions)				
Finance receivables	\$ 30	\$ 35,429	\$ 5,835	\$ 41,294
Allowance for credit losses	—	(193)	(8)	(201)
Write-down of lease residual values	(2)	—	—	(2)
Deferred dealer participation and other deferred costs	—	431	—	431
Unearned subsidy income	—	(1,098)	—	(1,098)
Finance receivables, net	<u>\$ 28</u>	<u>\$ 34,569</u>	<u>\$ 5,827</u>	<u>\$ 40,424</u>

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

Finance receivables include retail loans with a principal balance of \$9.4 billion and \$9.1 billion as of March 31, 2019 and 2018, 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, 2019 were as follows:

<u>Year ending March 31,</u>	Lease	Retail
	(U.S. dollars in millions)	
2020	\$ 30	\$ 9,980
2021	—	8,912
2022	—	7,413
2023	—	5,402
2024	—	2,934
Thereafter	—	788
Total	<u>\$ 30</u>	<u>\$ 35,429</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 \$8 million and \$35 million at March 31, 2019 and 2018, respectively. Included in the gain or loss on disposition of lease vehicles are end of term charges on both direct financing and operating leases of \$70 million, \$63 million and \$42 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively.

### ***Credit Quality of Financing Receivables***

Credit losses are an expected cost of extending credit. The majority of the credit risk is with consumer financing and to a lesser extent with dealer financing. Credit risk on 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. 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. Exposure to credit risk is managed through regular monitoring and adjusting of underwriting 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 the 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, ability to perform under the terms of the loan agreements, and collateral values as applicable. 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, 2019, 2018 and 2017.

The Company generally does not grant concessions on consumer finance receivables that are considered troubled debt restructurings other than modifications of retail loans in reorganization proceedings pursuant to the U.S. Bankruptcy Code. Retail loans modified under bankruptcy protection were not material to the Company's consolidated financial statements during the fiscal years ended March 31, 2019, 2018 and 2017. The Company does allow payment deferrals on consumer finance receivables. However, these payment deferrals are not considered troubled debt restructurings since the deferrals are deemed insignificant and interest continues to accrue during the deferral period.

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, 2019			
	Lease	Retail	Dealer	Total
	(U.S. dollars in millions)			
Beginning balance	\$ —	\$ 179	\$ —	\$ 179
Provision	—	202	7	209
Charge-offs	—	(279)	(1)	(280)
Recoveries	—	91	2	93
Effect of translation adjustment	—	—	—	—
Ending balance	<u>\$ —</u>	<u>\$ 193</u>	<u>\$ 8</u>	<u>\$ 201</u>
Allowance for credit losses – ending balance:				
Individually evaluated for impairment	\$ —	\$ —	\$ 8	\$ 8
Collectively evaluated for impairment	—	193	—	193
Finance receivables – ending balance:				
Individually evaluated for impairment	\$ —	\$ —	\$ 150	\$ 150
Collectively evaluated for impairment	30	34,762	5,685	40,477

Year ended March 31, 2018				
	Lease	Retail	Dealer	Total
(U.S. dollars in millions)				
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	Dealer	Total
(U.S. dollars in millions)				
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

## Delinquencies

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

	30 – 59 days past due	60 – 89 days past due	90 days or greater past due	Total past due	Current or less than 30 days past due	Total finance receivables
(U.S. dollars in millions)						
<b>March 31, 2019</b>						
Retail loans:						
New auto	\$ 213	\$ 41	\$ 10	\$ 264	\$ 28,494	\$ 28,758
Used and certified auto	70	14	4	88	4,712	4,800
Motorcycle and other	12	3	2	17	1,187	1,204
Total retail	295	58	16	369	34,393	34,762
Direct financing leases	1	—	—	1	29	30
Dealer loans:						
Wholesale flooring	1	—	17	18	4,668	4,686
Commercial loans	51	—	17	68	1,081	1,149
Total dealer loans	52	—	34	86	5,749	5,835
Total finance receivables	\$ 348	\$ 58	\$ 50	\$ 456	\$ 40,171	\$ 40,627
<b>March 31, 2018</b>						
Retail loans:						
New auto	\$ 188	\$ 35	\$ 10	\$ 233	\$ 27,034	\$ 27,267
Used and certified auto	59	11	2	72	3,967	4,039
Motorcycle and other	10	3	2	15	1,178	1,193
Total retail	257	49	14	320	32,179	32,499
Direct financing leases	2	—	—	2	148	150
Dealer loans:						
Wholesale flooring	2	1	2	5	4,447	4,452
Commercial loans	—	—	—	—	1,043	1,043
Total dealer loans	2	1	2	5	5,490	5,495
Total finance receivables	\$ 261	\$ 50	\$ 16	\$ 327	\$ 37,817	\$ 38,144

## 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. These 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 an 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 loans	Retail used and certified auto loans	Retail motorcycle and other loans	Direct financing lease	Total consumer finance receivables
(U.S. dollars in millions)					
<b>March 31, 2019</b>					
Performing	\$ 28,707	\$ 4,782	\$ 1,199	\$ 30	\$ 34,718
Nonperforming	51	18	5	—	74
Total	<u>\$ 28,758</u>	<u>\$ 4,800</u>	<u>\$ 1,204</u>	<u>\$ 30</u>	<u>\$ 34,792</u>
<b>March 31, 2018</b>					
Performing	\$ 27,222	\$ 4,026	\$ 1,188	\$ 150	\$ 32,586
Nonperforming	45	13	5	—	63
Total	<u>\$ 27,267</u>	<u>\$ 4,039</u>	<u>\$ 1,193</u>	<u>\$ 150</u>	<u>\$ 32,649</u>

*Dealer Loan Portfolio Segment*

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

The Company's outstanding portfolio of dealer loans has been divided into two groups in the tables below. Group A includes the loans of dealerships with the strongest internal risk rating. Group B includes the loans of all remaining dealers.

March 31,						
	2019			2018		
	Wholesale flooring	Commercial loans	Total	Wholesale flooring	Commercial loans	Total
(U.S. dollars in millions)						
Group A	\$ 3,121	\$ 823	\$ 3,944	\$ 2,791	\$ 684	\$ 3,475
Group B	1,565	326	1,891	1,661	359	2,020
Total	<u>\$ 4,686</u>	<u>\$ 1,149</u>	<u>\$ 5,835</u>	<u>\$ 4,452</u>	<u>\$ 1,043</u>	<u>\$ 5,495</u>

(3) **Investment in Operating Leases**

Investment in operating leases consisted of the following:

	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(U.S. dollars in millions)</b>	
Operating lease vehicles	\$ 42,427	\$ 41,285
Accumulated depreciation	(8,262)	(8,169)
Deferred dealer participation and other deferred costs	119	117
Unearned subsidy income	(1,563)	(1,317)
Estimated early termination losses	(115)	(99)
Investment in operating leases, net	<u>\$ 32,606</u>	<u>\$ 31,817</u>

The Company recognized \$101 million, \$108 million and \$73 million of estimated early termination losses due to lessee defaults for the fiscal years ended March 31, 2019, 2018 and 2017, respectively. Actual net losses realized for the fiscal years ended March 31, 2019, 2018 and 2017 totaled \$85 million, \$80 million and \$62 million, respectively.

Included in the provision for credit losses for the fiscal years ended March 31, 2019, 2018 and 2017 are provisions related to past due receivables on operating leases in the amounts of \$40 million, \$31 million and \$23 million, respectively.

The Company recognized \$14 million of impairment losses on operating leases due to lower estimated residual values of certain models of leased vehicles for the fiscal year ended March 31, 2019. No impairment losses were recognized during the fiscal years ended March 31, 2018, and 2017.

Future minimum rental payments for operating leases at March 31, 2019 were as follows (U.S. dollars in millions):

<b><u>Year ending March 31,</u></b>	
2020	\$ 5,476
2021	3,665
2022	1,514
2023	246
2024	50
Total	<u>\$ 10,951</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:

			Weighted average contractual interest rate		Contractual interest rate ranges	
	March 31,		March 31,		March 31,	
	2019	2018	2019	2018	2019	2018
(U.S. dollars in millions)						
Unsecured debt:						
Commercial paper	\$ 5,755	\$ 5,167	2.60%	1.86%	1.79 - 2.71%	1.07 - 2.21%
Related party debt	749	1,085	2.18%	1.64%	2.02 - 2.31%	1.43 - 1.72%
Bank loans	4,962	5,419	3.16%	2.48%	2.35 - 3.50%	2.02 - 3.15%
Private MTN program	999	1,698	3.84%	5.40%	3.80 - 3.88%	3.80 - 7.63%
Public MTN program	24,117	21,398	2.35%	1.92%	0.35 - 3.63%	0.07 - 3.50%
Euro MTN programme	868	1,111	1.89%	1.95%	1.88 - 2.23%	1.88 - 2.33%
Other debt	3,514	3,250	2.50%	2.20%	1.63 - 3.44%	1.63 - 2.76%
Total unsecured debt	40,964	39,128				
Secured debt	8,790	8,733	2.42%	1.74%	1.16 - 3.30%	1.04 - 2.83%
Total debt	\$ 49,754	\$ 47,861				

As of March 31, 2019, the outstanding principal balance of long-term debt with floating interest rates totaled \$12.5 billion, long-term debt with fixed interest rates totaled \$29.2 billion, and short-term debt totaled \$8.1 billion. As of March 31, 2018, the outstanding principal balance of long-term debt with floating interest rates totaled \$13.2 billion, long-term debt with fixed interest rates totaled \$27.8 billion, and short-term debt totaled \$7.0 billion.

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, 2019 are summarized below:

	2020	2021	2022	2023	2024	Thereafter	Total
(U.S. dollars in millions)							
Unsecured debt:							
Commercial paper	\$ 5,773	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,773
Related party debt	749	—	—	—	—	—	749
Bank loans	1,562	1,337	1,300	693	—	75	4,967
Private MTN program	—	500	500	—	—	—	1,000
Public MTN program	6,300	6,400	3,805	3,705	2,961	1,000	24,171
Euro MTN programme	841	—	—	27	—	—	868
Other debt	450	862	524	899	412	375	3,522
Total unsecured debt	15,675	9,099	6,129	5,324	3,373	1,450	41,050
Secured debt <sup>(1)</sup>	4,678	2,573	1,222	288	42	—	8,803
Total debt <sup>(2)</sup>	\$ 20,353	\$ 11,672	\$ 7,351	\$ 5,612	\$ 3,415	\$ 1,450	\$ 49,853
Unamortized discounts/fees							(99)
Total debt, net							\$ 49,754

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

(2) Principal amounts.

### ***Commercial Paper***

As of March 31, 2019 and 2018, the Company had commercial paper programs that provide the Company with available funds of up to \$8.5 billion and \$8.6 billion, respectively, at prevailing market interest rates for terms up to one year. The commercial paper programs are supported by the Keep Well Agreements with HMC described in Note 6.

Outstanding commercial paper averaged \$5.6 billion during both fiscal years 2019 and 2018. The maximum balance outstanding at any month-end during both fiscal years 2019 and 2018 was \$6.2 billion.

### ***Related Party Debt***

HCFI issues fixed rate short-term notes to HCI to help fund HCFI's general corporate operations. HCFI incurred interest expense on these notes totaling \$16 million, \$14 million and \$12 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively.

### ***Bank Loans***

Outstanding bank loans at March 31, 2019 and 2018 were either short-term or long-term, with floating interest rates, and denominated in U.S. dollars or Canadian dollars. Outstanding bank loans have prepayment options. No outstanding bank loans as of March 31, 2019 and 2018 were supported by the Keep Well Agreements with HMC described in Note 6. Outstanding bank loans contain certain covenants, including limitations on liens, mergers, consolidations and asset sales.

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

#### ***Private MTN Program***

AHFC no longer issues MTNs under its Rule 144A Private MTN Program. Notes outstanding under the Private MTN Program as of March 31, 2019 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, 2019 were either long-term or short-term, with either fixed or floating interest rates, and denominated in U.S. dollars, Euro or Sterling. Notes under this program are issued pursuant to an indenture which contains certain covenants, including negative pledge provisions and limitations on mergers, consolidations and asset sales.

#### ***Euro MTN Programme***

The Euro MTN Programme was retired in August 2014. Notes under this program that are currently listed on the Luxembourg Stock Exchange will remain listed through their maturities. Notes outstanding under this program as of March 31, 2019 were long-term with fixed interest rates. Notes under this program were issued pursuant to the terms of an agency agreement which contains certain covenants, including negative pledge provisions.

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

### ***Other Debt***

The outstanding balances as of March 31, 2019 and 2018 consisted of private placement debt issued by HCFI which are long-term, with either fixed or floating interest rates, and denominated in Canadian dollars. Private placement debt is supported by the Keep Well Agreement with HMC described in Note 6. The notes are issued pursuant to the terms of an indenture which contains certain covenants, including negative pledge provisions.

## Secured Debt

The Company issues notes through financing transactions that are secured by assets held by issuing securitization trusts. Notes outstanding as of March 31, 2019 and 2018 were long-term and short-term, with either fixed or floating interest rates, and denominated in U.S. dollars or Canadian dollars. Repayment of 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 \$7.0 billion syndicated bank credit facility that includes a \$3.5 billion 364-day credit agreement, which expires on February 28, 2020, a \$2.1 billion credit agreement, which expires on March 3, 2021, and a \$1.4 billion credit agreement, which expires on March 3, 2023. As of March 31, 2019, 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 syndicated bank credit facility which provides that HCFI may borrow up to \$599 million on a one-year and up to \$599 million on a five-year revolving basis. The one-year tranche of the credit agreement expires on March 25, 2020 and the five-year tranche of the credit agreement expires on March 25, 2024. As of March 31, 2019, 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, 2019, no amounts were drawn upon under these agreements. These agreements expire in September 2019.

## (5) Derivative Instruments

The notional balances and fair values of the Company's derivatives are presented below. The derivative instruments are presented on a gross basis in the Company's consolidated balance sheets. Refer to Note 14 regarding the valuation of derivative instruments.

	March 31,					
	2019			2018		
	Notional balances	Assets	Liabilities	Notional balances	Assets	Liabilities
	(U.S. dollars in millions)					
Interest rate swaps	\$ 58,132	\$ 308	\$ 307	\$ 56,043	\$ 465	\$ 342
Cross currency swaps	5,002	72	261	4,310	285	72
Gross derivative assets/liabilities		380	568		750	414
Counterparty netting adjustment		(313)	(318)		(372)	(371)
Net derivative assets/liabilities		<u>\$ 67</u>	<u>\$ 250</u>		<u>\$ 378</u>	<u>\$ 43</u>

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

	Year ended March 31,		
	2019	2018	2017
	(U.S. dollars in millions)		
Interest rate swaps	\$ (23)	\$ 126	\$ (87)
Cross currency swaps	(486)	424	(228)
Total gain/(loss) on derivative instruments	<u>\$ (509)</u>	<u>\$ 550</u>	<u>\$ (315)</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 presented 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 counterparty 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,		
	2019	2018	2017
	(U.S. dollars in millions)		
Revenue:			
Subsidy income	\$ 1,633	\$ 1,441	\$ 1,232
Interest expense:			
Related party debt	16	14	15
Other income, net:			
VSC administration fees	109	107	103
Support Service Fee	(34)	(28)	—
General and administrative expenses:			
Support Compensation Agreement fees	23	22	20
Benefit plan expenses	11	11	11
Shared services	67	62	60

**Balance Sheet**

	March 31,	
	2019	2018
(U.S. dollars in millions)		
<b>Assets:</b>		
Finance receivables, net:		
Unearned subsidy income	\$ (1,091)	\$ (1,030)
Investment in operating leases, net:		
Unearned subsidy income	(1,559)	(1,313)
Due from Parent and affiliated companies	162	139
<b>Liabilities:</b>		
Debt:		
Related party debt	\$ 749	\$ 1,085
Due to Parent and affiliated companies	106	87
Accrued interest expense:		
Related party debt	3	3
Other liabilities:		
VSC unearned administrative fees	387	396
Accrued benefit expenses	65	71

**Support Agreements**

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

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

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

### ***Incentive Financing Programs***

The Company receives subsidy payments from AHM and HCI, which supplement the revenues on financing products offered under incentive programs. Subsidy payments received on retail loans and leases are deferred and recognized as revenue over the term of the related contracts. The unearned balance is recognized as reductions to the carrying value of finance receivables and investment in operating leases. Subsidy payments on dealer loans are received as earned. Refer to Notes 1(e) and 1(f) for additional information.

### ***Related Party Debt***

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

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

AHFC performs administrative services for VSCs issued by certain subsidiaries of AHM. AHFC's performance obligations for the services are satisfied over the term of the underlying contracts and revenue is recognized proportionate to the anticipated amount of services to be performed. Contract terms range between two to eight years with the majority of contracts having original terms between six and eight years. The majority of the administrative service revenue is recognized during the latter years of the underlying contracts as this is the period in which the majority of VSC claims are processed. AHFC receives fees for performing the administrative services when the contracts are acquired.

Unearned VSC administration fees represent AHFC's contract liabilities and are included in other liabilities (Note 12). VSC administration income is recognized in other income (Note 13). HCFI receives fees for marketing VSCs issued by HCI. These fees are 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 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 sponsored 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, 2019 and 2018, the Company recognized \$17 million and \$19 million, respectively, under these programs which were reflected as proceeds on the disposition of the returned lease vehicles.

The majority of the amounts due from the Parent and affiliated companies at March 31, 2019 and 2018 related to incentive financing program subsidies. The majority of the amounts due to the Parent and affiliated companies at March 31, 2019 and 2018 related to wholesale flooring 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 to its parent, AHM, \$235 million and \$271 million during the fiscal year ended March 31, 2019 and \$141 million and \$206 million 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.

The Company adopted Staff Accounting Bulletin No. 118 (SAB 118) which provided guidance on accounting for the tax effects of the Tax Act in the Company's interim quarter ended December 31, 2017 to record re-measurement of deferred taxes and a one-time deemed repatriation transition tax (Transition Tax). As of March 31, 2018 the Company completed the accounting for the effect of re-measurement of deferred taxes at the new 21% tax rate. At March 31, 2018, the Company provisionally accrued a total of \$52 million for the Transition Tax. Upon further analysis, the Company completed its accounting for the Transition Tax, and reduced the provisional estimate by \$19 million in the quarter ended December 31, 2018, for a final amount of \$33 million, inclusive of associated unrecognized tax benefits. The adjustment was attributed primarily to the availability of new information, which led to further analysis on key inputs to the Transition Tax calculation. The measurement period adjustment in the current fiscal year decreased the Company's effective tax rate by approximately 1.2% for the fiscal year ended March 31, 2019. The Company has elected not to record deferred taxes for a Global Intangible Low-Taxed Income (GILTI) related book-tax differences, and will treat taxes due on further U.S. inclusions in taxable income related to GILTI as a current period expense when incurred. Other domestic and international effects of the Tax Act to the total tax expense are immaterial as of March 31, 2019.

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:

	Current	Deferred	Total
	(U.S. dollars in millions)		
<b><u>Year ended March 31, 2019</u></b>			
Federal	\$ (216)	\$ 432	\$ 216
State and local	246	(107)	139
Foreign	24	49	73
Total	<u>\$ 54</u>	<u>\$ 374</u>	<u>\$ 428</u>
<b><u>Year ended March 31, 2018</u></b>			
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>
<b><u>Year ended March 31, 2017</u></b>			
Federal	\$ (265)	\$ 596	\$ 331
State and local	(18)	72	54
Foreign	32	20	52
Total	<u>\$ (251)</u>	<u>\$ 688</u>	<u>\$ 437</u>

The allocation of federal tax expense between current and deferred tax expense reflects primarily the impact of 100% federal bonus depreciation offset by the elimination of personal property for like-kind exchange purposes due to the Tax Cuts and Jobs Act (Tax Act) for the fiscal years ended March 31, 2019 and 2018, and 50% federal bonus depreciation due to the Protecting Americans from Tax Hikes Act of 2015 for the fiscal year ended March 31, 2017. In addition, the re-measurement of deferred taxes due to the federal income tax rate reduction was reflected in the deferred tax expense in the fiscal year ended March 31, 2018.

Income tax expense differs from the expected income taxes by applying the statutory federal corporate rates of 21.00%, 31.55% and 35.00% for fiscal years ended March 31, 2019, 2018 and 2017, respectively, to income before income taxes as follows:

	Years ended March 31,		
	2019	2018	2017
	(U.S. dollars in millions)		
Computed “expected” income taxes	\$ 351	\$ 467	\$ 416
Foreign tax rate differential	15	(14)	(17)
Effect of foreign dividends and foreign tax credit	3	(10)	4
State and local income taxes, net of federal income tax benefit	68	49	40
Change in valuation allowance	2	—	(5)
Change in estimated state tax rate, net of federal income tax benefit	39	8	2
Change in unrecognized tax benefit	48	(1)	—
Income tax credits	(52)	(3)	—
Effect of Tax Act	(49)	(3,127)	—
Other	3	2	(3)
Income tax expense/(benefit)	<u>\$ 428</u>	<u>\$ (2,629)</u>	<u>\$ 437</u>

The effect of the Tax Act includes benefits of \$11 million and \$3,179 million related to re-measurement of deferred tax assets and liabilities for the fiscal year ended March 31, 2019 and 2018, respectively, and a benefit of \$38 million and an expense of \$52 million related to the Transition Tax for fiscal year ended March 31, 2019 and 2018, respectively. The income tax credits of \$52 million is primarily from the Qualified Plug-in Electric Drive Motor Vehicle Credit on the Company's lease vehicles. The Company recognizes the benefit of these credits in the period the credits arise. Any unused credits arising in the current year that are available to offset taxable income in future years are recognized in the deferred tax assets.



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

	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(U.S. dollars in millions)</b>	
Deferred tax assets:		
State income tax	\$ 197	\$ 192
Receivable valuation	104	97
Accrued postretirement	16	14
State loss carryforwards	47	47
Income tax credits	64	—
Derivatives	3	—
Other assets	43	38
Total gross deferred tax assets	474	388
Less valuation allowance	(2)	—
Net deferred tax assets	472	388
Deferred tax liabilities:		
HCFI leases	349	319
AHFC leases	6,456	6,035
Derivatives	—	17
Securitizations	18	10
Other	48	42
Total gross deferred tax liabilities	6,871	6,423
Net deferred tax liabilities	\$ 6,399	\$ 6,035

The increase in the net deferred tax liability is primarily attributable to accelerated depreciation benefits derived from the Tax Act.

The effect of translating HCFI's net deferred tax liabilities to U.S. dollars upon consolidation resulted in a decrease of \$10 million, an increase of \$8 million, and a decrease of \$5 million during the fiscal years ended March 31, 2019, 2018, and 2017, respectively. The translation adjustments have been recognized as a component of other comprehensive income.

#### ***Exception to Recognition of Deferred Tax Liabilities***

The Company does not provide for income taxes on its share of the undistributed earnings of HCFI, which are intended to be indefinitely reinvested outside the United States. At March 31, 2019, \$935 million of accumulated undistributed earnings of HCFI were intended to be so reinvested. If the undistributed earnings as of March 31, 2019 were to be distributed, the tax liability associated with these indefinitely reinvested earnings would be \$58 million.

#### ***Tax Attributes***

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, \$47 million and \$60 million at March 31, 2019, 2018 and 2017, respectively. The expiration, if applicable, of these NOL carryforwards varies based on the statutes of each of the applicable states through March 31, 2039. The deferred tax asset related to a federal income tax credit in the amount of \$64 million at March 31, 2019 will expire in the fiscal year ended March 31, 2039.

### ***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, 2019, the Company established a valuation allowance of \$2 million for certain state NOL carryforwards. The Company believes that it is more likely than not that the remaining deferred tax assets of \$472 million recognized as of March 31, 2019 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,		
	2019	2018	2017
	(U.S. dollars in millions)		
Balance, beginning of year	\$ 22	\$ 21	\$ 16
Additions for current year tax positions	—	—	—
Additions for prior year tax positions	64	1	5
Reductions for prior year tax positions	—	—	—
Settlements	—	—	—
Reductions related to a lapse in the statute of limitations	—	—	—
Foreign currency translation	—	—	—
Balance, end of year	<u>\$ 86</u>	<u>\$ 22</u>	<u>\$ 21</u>

Included in the balance of unrecognized tax benefits at March 31, 2019, 2018 and 2017 are \$84 million, \$21 million and \$21 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, inclusive of interest and penalties of \$89 million and \$10 million as of March 31, 2019 and 2018, 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, 2019 and 2018, the Company recognized interest expense of \$9 million, and interest income in an amount less than \$1 million, respectively, as a component of income tax expense. There were no settlements during the fiscal year ended March 31, 2019 and 2018. As of March 31, 2019, 2018 and 2017, the Company's consolidated balance sheets reflect accrued interest payable of \$11 million, \$2 million and \$3 million, respectively.

As of March 31, 2019, 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 2018, with the exception of one state which is subject to departmental review for returns filed for the taxable years ended March 31, 2001 through 2007. The Company's Canadian subsidiary, HCFI, is subject to examination for returns filed for the taxable years ended March 31, 2012 through 2018 federally, and returns filed for the taxable years ended March 31, 2009 through 2018 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 sponsored 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 \$7 million for the fiscal year ended March 31, 2019, and \$6 million for both the fiscal years ended March 31, 2018 and 2017.

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 the Company's contributions to the Savings Plans of \$8 million for both the fiscal years ended March 31, 2019 and 2018, and \$7 million for fiscal year ended March 31, 2017.

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 \$4 million for the fiscal year ended March 31, 2019, and \$5 million for both the fiscal years ended March 31, 2018 and 2017.

## (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 \$10 million, \$9 million and \$10 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively. Annual minimum lease commitments attributable to long-term noncancelable operating leases at March 31, 2019 were as follows (U.S. dollars in millions):

### **Year ending March 31:**

2020	\$	10
2021		10
2022		9
2023		9
2024		8
Thereafter		24
Total	\$	<u>70</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 \$232 million as of March 31, 2019. The Company also has commitments to finance the construction of auto dealership facilities. The remaining unfunded balance for these construction loans was \$22 million as of March 31, 2019.

### ***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 (VIE)

The trusts utilized for on-balance sheet securitizations are VIEs, which are required to be consolidated by their primary beneficiary. The Company is considered to be the primary beneficiary of these trusts due to (i) the power to direct the activities of the trusts that most significantly impact the trusts' economic performance through its role as servicer, and (ii) the obligation to absorb losses or the right to receive residual returns that could potentially be significant to the trusts through the subordinated certificates and residual interest retained. The debt securities issued by the trusts to third-party investors along with the assets of the trusts are included in the Company's consolidated financial statements.

During the fiscal years ended March 31, 2019 and 2018, the Company issued notes through asset-backed securitizations, which were accounted for as secured financing transactions totaling \$4.8 billion and \$5.2 billion, respectively. The notes were secured by receivables with an initial principal balance of \$5.7 billion and \$5.8 billion, for the fiscal years ended March 31, 2019 and 2018, 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 and investors in the notes issued by a trust only have recourse to the assets of such trust and do not have recourse to the assets of AHFC, HCFI, or our other subsidiaries or to other trusts.

	March 31,	
	2019	2018
	(U.S. dollars in millions)	
<b>Assets:</b>		
Finance receivables	\$ 9,352	\$ 9,112
Unamortized costs and subsidy income, net	(265)	(203)
Allowance for credit losses	(14)	(14)
Finance receivables, net	9,073	8,895
Vehicles held for disposition	3	4
Restricted cash <sup>(1)</sup>	588	443
Accrued interest receivable <sup>(1)</sup>	9	9
Total assets	<u>\$ 9,673</u>	<u>\$ 9,351</u>
<b>Liabilities:</b>		
Secured debt	\$ 8,803	\$ 8,745
Unamortized discounts and fees	(13)	(12)
Secured debt, net	8,790	8,733
Accrued interest expense	8	6
Total liabilities	<u>\$ 8,798</u>	<u>\$ 8,739</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, 2019 and 2018, AHFC and HCFI had combined cash collections of \$496 million and \$466 million, respectively, which were required to be remitted to the trusts.

**(11) Other Assets**

Other assets consisted of the following:

	March 31,	
	2019	2018
	(U.S. dollars in millions)	
Interest receivable and other assets	\$ 106	\$ 84
Other receivables	175	144
Deferred expense	115	122
Software, net of accumulated amortization of \$154 and \$146 as of March 31, 2019 and 2018, respectively	29	33
Property and equipment, net of accumulated depreciation of \$ 21 and \$20 as of March 31, 2019 and 2018, respectively	6	6
Restricted cash	588	443
Like-kind exchange assets	73	75
Other miscellaneous assets	25	27
Total	<u>\$ 1,117</u>	<u>\$ 934</u>

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to five years. General and administrative expenses include depreciation and amortization expense of \$11 million, \$10 million and \$7 million for the fiscal years ended March 31, 2019, 2018 and 2017, respectively.

**(12) Other Liabilities**

Other liabilities consisted of the following:

	March 31,	
	2019	2018
	(U.S. dollars in millions)	
Dealer payables	\$ 241	\$ 174
Accounts payable and accrued expenses	399	363
Lease security deposits	85	78
VSC unearned administrative fees (Note 6)	387	396
Unearned income, operating leases	352	347
Uncertain tax positions	89	10
Other liabilities	14	14
Total	<u>\$ 1,567</u>	<u>\$ 1,382</u>

(13) **Other Income, net**

Other income consisted of the following:

	Years ended March 31,		
	2019	2018	2017
(U.S. dollars in millions)			
VSC administration (Note 6)	\$ 109	\$ 107	\$ 103
Other, net	(38)	(51)	2
Total	<u>\$ 71</u>	<u>\$ 56</u>	<u>\$ 105</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, 2019			
	Level 1	Level 2	Level 3	Total
(U.S. dollars in millions)				
<b>Assets:</b>				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 308	\$ —	\$ 308
Cross currency swaps	—	72	—	72
Total assets	<u>\$ —</u>	<u>\$ 380</u>	<u>\$ —</u>	<u>\$ 380</u>
<b>Liabilities:</b>				
Derivative instruments:				
Interest rate swaps	\$ —	\$ 307	\$ —	\$ 307
Cross currency swaps	—	261	—	261
Total liabilities	<u>\$ —</u>	<u>\$ 568</u>	<u>\$ —</u>	<u>\$ 568</u>

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

The valuation techniques used in measuring assets and liabilities 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, 2019 and 2018. 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:

	Level 1	Level 2	Level 3	Total	Lower-of-cost or fair value adjustment
(U.S. dollars in millions)					
<b><u>March 31, 2019</u></b>					
Vehicles held for disposition	\$ —	\$ —	\$ 171	\$ 171	\$ 33
<b><u>March 31, 2018</u></b>					
Vehicles held for disposition	\$ —	\$ —	\$ 170	\$ 170	\$ 31

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, 2019						
	Carrying value	Fair value				
		Level 1	Level 2	Level 3	Total	
(U.S. dollars in millions)						
Assets:						
Cash and cash equivalents	\$ 795	\$ 795	\$ —	\$ —	\$ 795	
Dealer loans, net	5,827	—	—	5,611	5,611	
Retail loans, net	34,569	—	—	34,857	34,857	
Restricted cash	588	588	—	—	588	
Liabilities:						
Commercial paper	\$ 5,755	\$ —	\$ 5,755	\$ —	\$ 5,755	
Related party debt	749	—	749	—	749	
Bank loans	4,962	—	5,000	—	5,000	
Medium term note programs	25,984	—	26,130	—	26,130	
Other debt	3,514	—	3,535	—	3,535	
Secured debt	8,790	—	8,799	—	8,799	
March 31, 2018						
	Carrying value	Fair value				
		Level 1	Level 2	Level 3	Total	
(U.S. dollars in millions)						
Assets:						
Cash and cash equivalents	\$ 783	\$ 783	\$ —	\$ —	\$ 783	
Dealer loans, net	5,495	—	—	5,299	5,299	
Retail loans, net	32,320	—	—	32,295	32,295	
Restricted cash	443	443	—	—	443	
Liabilities:						
Commercial paper	\$ 5,167	\$ —	\$ 5,167	\$ —	\$ 5,167	
Related party debt	1,085	—	1,085	—	1,085	
Bank loans	5,419	—	5,480	—	5,480	
Medium term note programs	24,207	—	24,176	—	24,176	
Other debt	3,250	—	3,229	—	3,229	
Secured debt	8,733	—	8,683	—	8,683	

Fair value information presented in the tables above is based on information available at March 31, 2019 and 2018. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been updated since those dates, and therefore, the current estimates of fair value at dates subsequent to those dates may differ significantly from the amounts presented herein.



**(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:

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
(U.S. dollars in millions)				
<b><u>Year ended March 31, 2019</u></b>				
Revenues:				
Direct financing leases	\$ —	\$ 4	\$ —	\$ 4
Retail	1,406	204	—	1,610
Dealer	211	21	—	232
Operating leases	6,001	1,252	—	7,253
Total revenues	7,618	1,481	—	9,099
Depreciation on operating leases	4,520	1,000	—	5,520
Interest expense	1,015	175	—	1,190
Realized (gains)/losses on derivatives and foreign currency denominated debt	15	(17)	2	—
Net revenues	2,068	323	(2)	2,389
Gain/(Loss) on disposition of lease vehicles	100	31	—	131
Other income	63	8	—	71
Total net revenues	2,231	362	(2)	2,591
Expenses:				
General and administrative expenses	403	53	—	456
Provision for credit losses	242	7	—	249
Impairment loss on operating lease	14	—	—	14
Early termination loss on operating leases	98	3	—	101
Loss on lease residual values	—	—	—	—
(Gain)/Loss on derivative instruments	—	—	509	509
(Gain)/Loss on foreign currency revaluation of debt	—	—	(407)	(407)
Income before income taxes	\$ 1,474	\$ 299	\$ (104)	\$ 1,669
<b><u>March 31, 2019</u></b>				
Finance receivables, net	\$ 36,028	\$ 4,396	\$ —	\$ 40,424
Investment in operating leases, net	27,493	5,113	—	32,606
Total assets	66,264	9,700	—	75,964

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
(U.S. dollars in millions)				
<b><u>Year ended March 31, 2018</u></b>				
Revenues:				
Direct financing leases	\$ —	\$ 13	\$ —	\$ 13
Retail	1,181	188	—	1,369
Dealer	158	17	—	175
Operating leases	5,815	1,075	—	6,890
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	50	6	—	56
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	\$ 1,187	\$ 251	\$ 42	\$ 1,480
<b><u>March 31, 2018</u></b>				
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

	United States	Canada	Valuation adjustments and reclassifications	Consolidated Total
	(U.S. dollars in millions)			
<b><u>Year ended March 31, 2017</u></b>				
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	\$ 1,179	\$ 173	\$ (162)	\$ 1,190
<b><u>March 31, 2017</u></b>				
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

**(16) Selected Quarterly Financial Data (Unaudited)**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
<b>(U.S. dollars in millions)</b>					
<b><u>Year ended March 31, 2019</u></b>					
Total revenues	\$ 2,200	\$ 2,252	\$ 2,300	\$ 2,347	\$ 9,099
Depreciation on operating leases	1,375	1,361	1,376	1,408	5,520
Interest expense	274	293	303	320	1,190
Gain on disposition of lease vehicles	47	47	24	13	131
Other income	15	17	19	20	71
Total net revenues	613	662	664	652	2,591
Provision for credit losses	44	62	75	68	249
Early termination loss on operating leases	17	39	22	23	101
Net income	310	285	348	298	1,241
Net income attributable to American Honda Finance Corporation	284	259	326	276	1,145
<b><u>Year ended March 31, 2018</u></b>					
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
Gain on disposition of lease vehicles	29	34	8	22	93
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

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

I, Hideo Moroe, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended March 31, 2019 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: June 21, 2019

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

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

In connection with the Annual Report of American Honda Finance Corporation (the “Company”) on Form 10-K for the year ended March 31, 2019 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: June 21, 2019

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

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

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

In connection with the Annual Report of American Honda Finance Corporation (the “Company”) on Form 10-K for the year ended March 31, 2019 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: June 21, 2019

By: /s/ Masahiro Nakamura  
Masahiro Nakamura  
Vice President and Treasurer  
(Principal Financial Officer)

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\*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  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Masahiro Nakamura, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended March 31, 2019 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: June 21, 2019

By: /s/ Masahiro Nakamura  
Masahiro Nakamura  
Vice President and Treasurer  
(Principal Financial Officer)



**DESCRIPTION OF AHFC'S  
£350,000,000 1.300% MEDIUM-TERM NOTES, SERIES A, DUE MARCH 21, 2022**

The following is a description of American Honda Finance Corporation's £350,000,000 1.300% Medium-Term Notes, Series A, due March 21, 2022 (the "Notes") as provided in our pricing supplement, dated March 13, 2017, and filed with the Securities and Exchange Commission (the "SEC") on March 14, 2017. This description is subject to, and qualified in its entirety by reference to, the description of the general terms and provisions of the debt securities found in our prospectus, dated August 10, 2016 and filed with the SEC on August 10, 2016, and our Medium-Term Notes, Series A, described in the prospectus supplement, dated August 10, 2016 and filed with the SEC on August 10, 2016. The following summary of specified provisions of the Indenture (defined below) and the Notes is subject to, and qualified in its entirety by reference to, the actual provisions of the Indenture, including the definitions contained in the Indenture of some of the terms used below, and the Notes. A copy of the Indenture has been filed as an exhibit to our Registration Statement on Form S-3 filed with the SEC on August 10, 2016 and of which the pricing supplement, prospectus supplement and prospectus are a part.

Unless otherwise indicated by the context, as used herein, "AHFC," "we," "us" and "our" refer solely to American Honda Finance Corporation (excluding its subsidiaries).

**General**

The Notes are a tranche of our Medium-Term Notes, Series A. The Notes were issued under the Indenture dated as of September 5, 2013, between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of February 8, 2018, between AHFC and the Trustee (as so supplemented, the "Indenture"). The terms of the Notes include those provisions contained in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The Notes were initially limited to an aggregate principal amount of £350,000,000. See "— Further Issuances" below. The Notes were issued in minimum denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The Notes are our general unsecured and unsubordinated obligations, rank equally with all of our existing and future unsecured and unsubordinated indebtedness from time to time outstanding and are considered part of the same series of notes as any of our other Medium-Term Notes, Series A, previously issued or issued in the future. The Indenture does not limit the amount of Notes, debentures or other evidence of indebtedness that we may issue under the Indenture or otherwise and provides that debt securities under the Indenture may be issued from time to time in one or more series.

We have initially designated Deutsche Bank Trust Company Americas as our paying agent (the "Paying Agent"), registrar and transfer agent where Notes may be presented for payment.

The entire principal amount of the Notes will mature and become payable, together with unpaid interest, if any, accrued thereon on March 21, 2022 (the "Stated Maturity Date") unless redeemed earlier as described below under "—Optional Redemption" and "— Redemption for Tax Reasons." The Notes are not subject to any sinking fund provisions and are not convertible into or exchangeable for any of our equity interests.

The principal of each Note payable at maturity or earlier redemption will be paid in Sterling against presentation and surrender at the office or agency maintained for such purpose.

Under the Indenture, holders of the Notes will vote with holders of all other tranches of our Medium-Term Notes, Series A, as a single class.

The Indenture contains provisions that require the consent of or action by a specified percentage of the aggregate principal amount of our Medium-Term Notes, Series A, acting as a single class. For example, holders of a majority in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may consent to

certain modifications or amendments to the Indenture and waiver of certain continuing defaults under the Indenture, as described under “Description of Debt Securities— Modification, Waivers and Meetings” in the prospectus, and holders of at least 25% in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may declare the principal amount of our Medium-Term Notes, Series A, to be due and payable immediately upon the occurrence of certain events of default, as described under “Description of Debt Securities—Events of Default” in the prospectus. Therefore, because the Medium-Term Notes, Series A, vote as a single class, a greater percentage of the principal amount of the Notes, may be required to take action under the Indenture and the aggregate principal amount of the Notes may not be sufficient to take action under the Indenture in the future. In addition, under the prospectus supplement, we may issue up to \$30,000,000,000 aggregate principal amount of Medium-Term Notes, Series A, under the Indenture. As of May 31, 2019, we had \$19.95 billion aggregate principal amount, £600.00 million aggregate principal amount, and €2.80 billion aggregate principal amount of Medium-Term Notes, Series A, outstanding under the Indenture.

The Notes bear interest at 1.300% per year, accruing from March 21, 2017 (the “Settlement Date”) or from the immediately preceding interest payment date to which interest has been paid. Interest on the Notes is payable annually in arrears on March 21 (each an “Interest Payment Date”). Interest payable on an Interest Payment Date will be paid to the persons in whose names the Notes are registered at the close of business on the regular record date; provided, however, that interest payable at the Stated Maturity Date or earlier redemption date will be payable to the person to whom principal shall be payable. The regular record date for the Notes will be the fifteenth calendar day, whether or not a Business Day (as defined below), immediately preceding the related Interest Payment Date. Interest payable on an Interest Payment Date will be computed on the basis of an Actual/Actual (ICMA) (as defined in the rulebook of the International Capital Market Association) day count convention.

If any Interest Payment Date, the Stated Maturity Date or earlier redemption date falls on a day that is not a Business Day, the related payment of principal, premium, if any, or interest and additional amounts (“Additional Amounts”), if any, will be made on the next succeeding Business Day as if made on the date the applicable payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, the Stated Maturity Date or such redemption date, as the case may be, to the date of such payment on the next succeeding Business Day. For purposes of the Notes, “Business Day” means any day, other than a Saturday or Sunday, which is not a day on which banking institutions in The City of New York or London are authorized or required by law, regulation or executive order to close.

### **Issuance of the Notes in Sterling**

Initial holders were required to pay for the Notes in Sterling, and principal, premium, if any, and interest payments in respect of the Notes, including any payments made upon any redemption of the Notes, will be payable in Sterling.

If Sterling is not available in our good faith judgment for the payment of principal, premium, if any, or interest with respect to the Notes, including payments of redemption on the Notes, due to the imposition of exchange controls or other circumstances beyond the control of AHFC, or is no longer used by the United Kingdom or for the settlement of transactions by public institutions within the international banking community, AHFC will be entitled to satisfy its obligations to holders of the Notes by making that payment in U.S. dollars on the basis of the Market Exchange Rate (as defined below) as computed by the exchange rate agent on the second Business Day before that payment is due, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date that payment is due or as otherwise determined by AHFC in good faith, if the foregoing is impracticable. Any payment in respect of the Notes so made in U.S. dollars will not constitute a default under the Indenture. Neither the Trustee nor the Paying Agent shall be responsible for obtaining exchange rates, effecting conversions or otherwise handling redenominations.

The “Market Exchange Rate” means the noon buying rate in The City of New York for cable transfers of Sterling as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

In the event that Sterling is no longer used by the United Kingdom as its currency or an official redenomination of Sterling, AHFC's obligations with respect to payments on the Notes shall, in each case, be regarded immediately following such redenomination as providing for the payment of that amount of Sterling representing the amount of such obligations immediately before such redenomination. The Notes do not provide for any adjustment to any amount payable under the Notes as a result of any change in the value of Sterling relative to any other currency due solely to fluctuations in exchange rates.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and will, in the absence of clear error, be conclusive for all purposes and binding on the holders of the Notes.

### **Further Issuances**

We may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional notes, having the same ranking, interest rate, Stated Maturity Date, redemption provisions and other terms as the Notes, except for (1) the original issue date, (2) the issue price and (3) the first interest payment date. Additional notes will be considered part of the same series of notes as the Notes and any of our other Medium-Term Notes, Series A previously issued or issued in the future. We also may, from time to time, without notice to or the consent of the registered holders of the Notes, create and issue additional debt securities, under the Indenture or otherwise, ranking equally with the Notes and our other Medium-Term Notes, Series A.

### **Optional Redemption**

The Notes will be redeemable before their maturity, in whole or in part, at our option, at any time, at a "make-whole" redemption price in cash equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed (exclusive of interest accrued to but excluding the redemption date) discounted to the redemption date on an annual basis (based on an Actual/Actual (ICMA) (as defined in the rulebook of International Capital Markets Association) day count convention) at the applicable Comparable Government Bond Rate plus 15 basis points, plus, in each of clause (i) and (ii), unpaid interest, if any, thereon accrued to but excluding the redemption date. The following definitions will apply with respect to the foregoing:

"Comparable Government Bond" means, in relation to any Comparable Government Bond Rate calculation, at the discretion of an Independent Investment Banker, a United Kingdom government bond whose maturity is closest to the maturity of the Notes to be redeemed, or if the Independent Investment Banker in its discretion determines that such similar bond is not in issue, such other United Kingdom government bond as such Independent Investment Banker may, with the advice of three brokers of, and/or market makers in, United Kingdom government bonds selected by such Independent Investment Banker, determine to be appropriate for determining the Comparable Government Bond Rate.

"Comparable Government Bond Rate" means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes to be redeemed, if they were to be purchased at such price on the third Business Day prior to the date fixed for redemption, would be equal to the gross redemption yield on such Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such Business Day as determined by an Independent Investment Banker.

"Independent Investment Banker" means each of Deutsche Bank AG, London Branch and MUFG Securities EMEA plc and their respective successors, or, if such firm is unwilling or unable to select the Comparable Government Bond, an independent investment banking institution of international standing appointed by AHFC.

Notice of any redemption will be given in writing not more than 60 nor less than 30 days before the redemption date to each holder of the Notes to be redeemed. Such notice of redemption shall specify the principal amount of Notes to be redeemed, ISIN and Common Code numbers of the Notes to be redeemed, the redemption date, the redemption price, the place or places of payment and that payment will be made upon presentation and

surrender of such Notes. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes to be redeemed, which, in the case of Notes in book-entry form, will be in accordance with the procedures of the applicable depositary. The Trustee may select Notes and portions of Notes in amounts of £100,000 and integral multiples of £1,000 in excess thereof.

### **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay as additional interest such Additional Amounts as are necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable. However, the foregoing obligation to pay Additional Amounts shall not apply:

- (a) to any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:
  - (i) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment therein;
  - (ii) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof; or
  - (iii) being or having been, for United States federal income tax purposes, a “controlled foreign corporation”, a “passive foreign investment company” (including a qualified electing fund), a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization;
- (b) to any tax, assessment or other governmental charge imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of AHFC entitled to vote, (ii) receiving interest described in Section 881(c)(3)(A) of the United States Internal Revenue Code of 1986, as amended (the “Code”) or (iii) being a controlled foreign corporation with respect to the United States that is related to AHFC by actual or constructive stock ownership;
- (c) to any holder who is a fiduciary or partnership or other than the sole beneficial owner of the Note, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Note would not have been entitled to the payment of such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;

- (d) to any tax, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Note, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (e) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of such Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (f) to any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge;
- (g) to any tax, assessment or governmental charge that is payable otherwise than by withholding by AHFC or the Paying Agent from the payment of the principal of or interest on such Note;
- (h) to any tax, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Note, if such payment can be made without such withholding by any other Paying Agent;
- (i) to any withholding or deduction on or in respect of any Note pursuant to sections 1471 through 1474 of the Code, and the regulations, administrative guidance and official interpretations promulgated thereunder ("FATCA"), any agreement between AHFC and the United States or any authority thereof entered into for FATCA purposes or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA; or
- (j) to any tax imposed as a result of any combination of the above.

The term "United States" means the United States of America, the States thereof (including the District of Columbia) and any other political subdivision or taxing authority thereof or therein affecting taxation, and the term "United States Alien" means any corporation, partnership, individual or fiduciary that, as to the United States, is for United States federal income tax purposes (A) a foreign corporation, (B) a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust, (C) a non-resident alien individual, or (D) a non-resident alien fiduciary of a foreign estate or trust.

### **Redemption for Tax Reasons**

If we have or will become obliged to pay Additional Amounts (as described above under the heading "— Payment of Additional Amounts") as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the Settlement Date, and we determine that such obligation cannot be avoided by the use of reasonable measures then available to us, we may, at our option, at any time, having given not less than 30 nor more than 60 days' prior written notice to Holders, redeem, in whole, but not in part, the Notes at a redemption price equal to 100% of their principal amount, together with unpaid interest, if any, on the Notes accrued to but excluding the redemption date, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which we would be obliged to pay such Additional Amounts if a payment in respect to the Notes were due on such date. Prior to the transmission or publication of any notice of redemption pursuant to

this paragraph, we shall deliver to the Trustee a certificate signed by two directors of AHFC stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem the Notes has occurred.

#### **Modification of the Indenture**

See “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus.

#### **Events of Default, Notice and Waiver**

See “Description of Debt Securities—Events of Default” in the prospectus.

#### **Discharge, Defeasance and Covenant Defeasance**

The defeasance provisions described in the prospectus under “Description of Debt Securities—Discharge, Legal Defeasance and Covenant Defeasance” are applicable to the Notes.

#### **Governing Law**

The Indenture and the Notes are governed by, and construed in accordance with, the laws of the State of New York.

#### **Benefit of the HMC-AHFC Keep Well Agreement**

The Notes will have the benefit of the Keep Well Agreement (as defined below) described under “Description of Debt Securities—Keep Well Agreement” in the prospectus.

#### **Certain Covenants**

##### *Merger, Consolidation and Transfer of Assets*

The Indenture provides that AHFC may not, in any transaction or series of related transactions, (i) consolidate or amalgamate with or merge into any other person; or (ii) sell, lease, assign, transfer or otherwise convey all or substantially all of the assets of AHFC and its subsidiaries, taken as a whole, to any other person, in each case, unless:

- in such transaction or transactions, either (1) AHFC shall be the continuing person (in the case of a merger) or (2) the successor person (if other than AHFC) formed by or resulting from the consolidation, amalgamation or merger or to which such assets shall have been sold, leased, assigned, transferred or otherwise conveyed (i) is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof or under the laws of Japan or any member country in the Organization for Economic Co-operation and Development or any political subdivision or governmental authority thereof, and (ii) shall, by a supplemental indenture, (a) if organized and existing other than under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof (A) expressly agree to make all payments in respect of the debt securities outstanding under the Indenture free and clear of, and without withholding or deduction for, or on account of, present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the jurisdiction of organization or residence (for tax purposes) of such successor person or any political subdivision or governmental authority thereof or therein having the power to tax, unless required by law, in which case such successor person shall have expressly agreed to pay such additional amounts as may be necessary in order that the net amount received by each holder of outstanding debt securities after such withholding or deduction is equal to the amount that would have been receivable in respect of each such debt security in the absence of such withholding or deduction, and (B) irrevocably and unconditionally (I) consent and submit to the jurisdiction of any United States federal court or New York state court, in each case located in the Borough of Manhattan, The City of New York, in respect of any action, suit or proceeding against it arising out of, or in connection with, the Indenture or the debt securities outstanding thereunder, (II) waive, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (III) appoint an agent in the Borough of Manhattan, The City of New York for service of process in any such action, suit or proceeding, and (b) expressly assume the due and punctual performance of all of AHFC's payment and other obligations under the Indenture and all of the debt securities outstanding thereunder;
- immediately after giving effect to such transaction or transactions, no Event of Default (as defined in the Indenture) under the Indenture, and no event which, after notice or lapse of time or both would become an Event of Default under the Indenture, shall have occurred and be continuing; and
- the Trustee shall have received an officer's certificate and opinion of counsel from AHFC to the effect that all conditions precedent to such transaction or transactions have been satisfied.

Upon any consolidation or amalgamation by AHFC with, or AHFC's merger into, any other person or any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of AHFC to any person, in each case in accordance with the provisions of the Indenture described above, the successor person formed by the consolidation or amalgamation or into which AHFC is merged or to which such sale, lease, assignment, transfer or other conveyance is made, as applicable, shall succeed to, and be substituted for, AHFC and may exercise every right and power of AHFC under the Indenture with the same effect as if such successor person had been named as AHFC in the Indenture; and thereafter, except in the case of a lease, the predecessor person shall be released from all obligations and covenants under the Indenture and the outstanding debt securities and any coupons appertaining thereto.

#### *Termination, Modification or Amendment of the Keep Well Agreement*

AHFC shall not effect any termination, modification or amendment of the Keep Well Agreement (as defined below) and the Keep Well Agreement may not be otherwise terminated without the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series issued under the Indenture that has the benefit of the Keep Well Agreement and is affected by such termination, modification or amendment (voting as separate classes) unless:

- with respect to any series of outstanding debt securities affected by such termination, modification or amendment that is rated by one or more Rating Agencies (as defined below), each such Rating Agency confirms in writing that the rating assigned to such series of outstanding debt securities will not be withdrawn or reduced by reason of such termination, modification or amendment; or
- the termination, modification or amendment is to: (i) replace, at the discretion of Honda Motor Co., Ltd. (“HMC”), AHFC as a party to the Keep Well Agreement with any successor person that assumes the obligations of AHFC under the Indenture and the outstanding debt securities pursuant to a transaction permitted under “—Merger, Consolidation and Transfer of Assets” discussed above, (ii) terminate, modify or amend the Keep Well Agreement between AHFC and HMC after AHFC has been released of its obligations under the Indenture and the outstanding debt securities in accordance with “—Merger, Consolidation and Transfer of Assets” discussed above, or (iii) terminate, modify or amend the Keep Well Agreement if such termination, modification or amendment affects only debt securities that have not yet been issued under the Indenture.

Any termination, modification or amendment of the Keep Well Agreement that is not in compliance with these provisions shall not be effective with respect to the outstanding debt securities of the applicable series.

#### *Negative Pledge*

AHFC shall not create or permit to be outstanding any Lien (as defined below) upon any of its present or future properties or assets, unless all the debt securities outstanding under the Indenture are secured by such Lien equally and ratably with all the other obligations and indebtedness for money borrowed secured by such Lien for so long as such other obligations and indebtedness for money borrowed are so secured, *provided, however*, that this covenant shall not apply to (1) Liens securing obligations (or securing any refunding or extensions of such obligations not exceeding the principal amount of the obligations so refunded or extended at the time of the refunding or extension thereof and covering only the same property theretofore securing the same) which, after giving effect to the initial incurrence of such obligations, do not in the aggregate exceed 30% of Consolidated Net Tangible Assets (as defined below) or (2) any Permitted Lien (as defined below).

#### *Definitions*

“ABS Obligation” means any security or other obligation that is (i) issued by a trust or entity created for the special purpose of issuing such security or obligation (regardless of whether it may also issue others of the same or another series or class), (ii) secured by specific assets transferred to such trust or entity by AHFC in connection with the issuance of such security or obligation, and (iii) payable by its terms solely from specified assets (including such security) of such trust or entity and, if applicable, specified third party credit support.

“Consolidated Net Tangible Assets” means the aggregate amount of assets (less applicable reserves and other items deductible from the gross book value of specific asset amounts), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles of AHFC and its consolidated subsidiaries calculated as of the date of the most recently prepared quarterly consolidated financial statements of AHFC prepared in accordance with GAAP.

“GAAP” means, unless otherwise specified with respect to any series of debt securities in the applicable prospectus supplement, generally accepted accounting principles in the United States as in effect on the date of any calculation or determination required under the Indenture.

“Group Subsidiary” means an entity the financial statements of which are consolidated with the financial statements of HMC.

“Keep Well Agreement” means either (i) if clause (ii) of this definition does not apply, the Keep Well Agreement, dated as of September 9, 2005, between the Company and HMC, or (ii) if HMC has elected to enter into a keep well agreement (substantially in the form of the keep well agreement described in clause (i) of this definition)



with a successor person as permitted under “—Termination, Modification or Amendment of the Keep Well Agreement” above as a result of a transaction permitted under “—Merger, Consolidation and Transfer of Assets” above, such keep well agreement between HMC and the successor person, in each case as the same may be amended or supplemented from time to time.

“Lien” means, with respect to any asset or property, any mortgage, lien (statutory or otherwise), pledge, hypothecation, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset or property, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof or sale/leaseback, any option or other agreement to sell or give a security interest in, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction, *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Nonrecourse,” with respect to AHFC and any ABS Obligation, means that AHFC has no obligation in respect of any payment due on such ABS Obligation and the holders thereof have so agreed (or are deemed to have so agreed by acquiring such ABS Obligation).

“Permitted Lien” means:

- (a) any deposit of AHFC’s assets with any surety company or clerk of any court, or in escrow as collateral in connection with, or in lieu of, any bond on appeal by AHFC from any judgment or decree against it, or in connection with other proceedings in actions at law or in equity by or against AHFC or to exercise any privilege or license, performance of bids, contracts or leases or to secure other public or statutory obligations of AHFC or other similar deposits or pledges made in the ordinary course of business;
- (b) any Lien on any property, tangible or intangible, real or personal, existing at the time of acquisition thereof (whether through purchase or through merger or consolidation) or given to secure the payment of all or any part of the purchase price thereof or to secure any indebtedness incurred prior to, at the time of, or within one year after, the acquisition thereof for the purpose of financing all or any part of the purchase price thereof;
- (c) mechanic’s, workmen’s, repairmen’s, materialmen’s or carriers’ Liens or other similar Liens arising in the ordinary course of business or deposits or pledges to obtain the release of any such Liens;
- (d) any Lien arising out of a judgment or award against AHFC with respect to which AHFC shall in good faith be prosecuting an appeal or proceedings for review or Liens incurred by AHFC for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which AHFC is a party;
- (e) any Lien for taxes not yet subject to penalties for nonpayment or contest, or minor survey exceptions, or minor encumbrances, assessments or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, assessments, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of AHFC’s business;
- (f) any Lien on any property, tangible or intangible, which may arise as a result of a transaction involving a transfer of assets by AHFC if such transfer of assets is treated as a sale in accordance with GAAP or if such transfer of assets is to an entity that issues ABS Obligations backed by such assets and such ABS Obligations are Nonrecourse to AHFC;

- (g) any pledge of assets to secure any financing by AHFC of the exporting of goods to or between, or the marketing thereof in, countries other than the United States in connection with which AHFC reserves the right, in accordance with customary and established banking practice, to deposit, or otherwise subject to a Lien, cash, securities or receivables for the purpose of securing banking accommodations or as the basis for the issuance of bankers' acceptances or in aid of other similar borrowing arrangements;
- (h) any pledge of receivables payable in currencies other than the United States dollar to secure borrowings in countries other than the United States;
- (i) any Lien in favor of the United States or any state thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- (j) any Lien securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining of advances or credit or the securing of debt, if made and continuing in the ordinary course of business;
- (k) any Lien to secure non-recourse obligations in connection with AHFC engaging in leveraged or single-investor lease transactions;
- (l) any Lien on property acquired or sold by AHFC resulting from the exercise of any rights arising out of defaults on receivables;
- (m) any Lien to secure obligations with respect to any interest rate, foreign currency exchange, swap, collar, cap or similar agreements entered into in the ordinary course of business to hedge or mitigate risks to which AHFC or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;
- (n) bankers' Liens or bankers' rights of offset, in each case arising in the ordinary course of banking business with respect to any bank accounts or bank deposits; and
- (o) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) to (n) inclusive; provided, however, that the amount of any and all obligations and indebtedness secured thereby does not exceed the amount thereof so secured immediately prior to the time of such extension, renewal or replacement and that such extension, renewal or replacement is limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property), and provided further, that AHFC is free to substitute collateral of equal value for the existing collateral in any transaction covered by clauses (a) through (n) above.

"Rating Agency" with respect to any security, means any rating agency that (i) has been requested by HMC or AHFC to issue a rating with respect to such security and (ii) has issued such a rating and such rating remains in effect at the time the termination, modification or amendment of the Keep Well Agreement referred to under "— Termination, Modification or Amendment of the Keep Well Agreement" above is to be effected.

"Subsidiary" means (1) any corporation a majority of the total voting power of whose outstanding Voting Stock is owned or controlled, directly or indirectly, at the date of determination by AHFC, and (2) any other person in which AHFC and/or one or more other Subsidiaries, directly or indirectly, at the date of determination, (x) own a majority of the outstanding equity interests or (y) have the power to elect or direct the election of, or to appoint or approve the appointment of, a majority of the directors, trustees or managing members of, or other persons holding similar positions with, such Person.

“Voting Stock” means, with respect to any person, any class or series of capital stock of, or other equity interests in, such person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of, or to appoint or to approve the appointment of, the directors, trustees or managing members of, or other persons holding similar positions with, such person.

### **Book-Entry Delivery and Settlement**

We have obtained the information in this section concerning Clearstream and Euroclear and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of Clearstream and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

### ***Global Clearance and Settlement***

The Notes were issued in the form of one or more global notes in fully registered form, without coupons, and deposited with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to the common depositary, its successors or their respective nominees.

Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be in denominations of £100,000 and integral multiples of £1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and, except as described herein, will not receive or be entitled to receive physical delivery of Notes in definitive form. So long as the common depositary for Euroclear and Clearstream or such common depositary's nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole holder of the Notes represented by the global notes for all purposes under the Indenture and the global notes. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the Indenture, including for purposes of receiving any reports delivered by us or the Trustee pursuant to the Indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the Indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

### ***Clearstream***

Clearstream has advised that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance

and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator (as defined below) to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream participant, either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

### ***Euroclear***

Euroclear has advised that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV (the “Euroclear Operator”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no records of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

### ***Euroclear and Clearstream Arrangements***

So long as the common depositary for Euroclear or Clearstream or such common depositary’s nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Indenture and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of the global notes will be made to the common depositary or such common depositary’s nominee, as the case may be, as registered holder thereof. None of us, the Trustee, any agent and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act of 1933, as amended) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium, if any, and interest with respect to the global notes, including any payments made upon any redemption of the global notes, will be credited in Sterling to the extent received by Euroclear or Clearstream from the Paying Agent to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

### ***Initial Settlement***

We understand that investors that hold their Notes through Clearstream or Euroclear accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form. Subject to applicable procedures of Clearstream and Euroclear, Notes will be credited to the securities custody accounts of Clearstream and Euroclear participants on the business day following the Settlement Date, for value on the Settlement Date.

### ***Secondary Market Trading***

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand that secondary market trading between Clearstream and/or Euroclear participants will occur in the ordinary way following the applicable rules and operating procedures of Clearstream and Euroclear. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Clearstream and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to make or receive a payment or delivery of the Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

Clearstream or Euroclear will credit payments to the cash accounts of Clearstream customers or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depository. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures.

Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Notes among participants of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

### ***Exchange of Global Notes for Certificated Notes***

Subject to certain conditions, the Notes represented by the global notes are exchangeable for notes in definitive form of like tenor in minimum denominations of £100,000 principal amount and multiples of £1,000 in excess thereof if:

- (1) Clearstream, Euroclear or any successor thereto notifies us that it is unwilling or unable to act as a clearing system for the Notes;
- (2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes; or
- (3) there has occurred and is continuing an Event of Default with respect to the Notes.

In all cases, definitive notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the common depositary (in accordance with its customary procedures).

Payments (including principal, premium, if any, and interest) and transfers with respect to notes in definitive form may be executed at the office or agency maintained for such purpose, at our option, by check mailed to the holders thereof at the respective addresses set forth in the register of holders of the Notes, provided that all payments (including principal, premium, if any, and interest) with respect to notes in definitive form, for which the holders thereof have given wire transfer instructions, will be required to be made by wire transfer of immediately available funds to the accounts specified by the holders thereof. No service charge will be made for any registration of transfer, but payment of a sum sufficient to cover any tax or governmental charge payable in connection with that registration may be required.

**DESCRIPTION OF AHFC'S  
£250,000,000 2.625% MEDIUM-TERM NOTES, SERIES A, DUE OCTOBER 14, 2022**

The following is a description of American Honda Finance Corporation's £250,000,000 2.625% Medium-Term Notes, Series A, due October 14, 2022 (the "Notes") as provided in our pricing supplement, dated December 7, 2015, and filed with the Securities and Exchange Commission (the "SEC") on December 8, 2015. This description is subject to, and qualified in its entirety by reference to, the description of the general terms and provisions of the debt securities found in our prospectus, dated August 10, 2016 and filed with the SEC on August 10, 2016, and our Medium-Term Notes, Series A, described in the prospectus supplement, dated August 10, 2016 and filed with the SEC on August 10, 2016. The following summary of specified provisions of the Indenture (defined below) and the Notes is subject to, and qualified in its entirety by reference to, the actual provisions of the Indenture, including the definitions contained in the Indenture of some of the terms used below, and the Notes. A copy of the Indenture has been filed as an exhibit to our Registration Statement on Form S-3 filed with the SEC on August 10, 2016 and of which the pricing supplement, prospectus supplement and prospectus are a part.

Unless otherwise indicated by the context, as used herein, "AHFC," "we," "us" and "our" refer solely to American Honda Finance Corporation (excluding its subsidiaries).

**General**

The Notes are a tranche of our Medium-Term Notes, Series A. The Notes were issued under the Indenture dated as of September 5, 2013, between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of February 8, 2018, between AHFC and the Trustee (as so supplemented, the "Indenture"). The terms of the Notes include those provisions contained in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The Notes were initially limited to an aggregate principal amount of £250,000,000. See "—Further Issuances" below. The Notes were issued in minimum denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The Notes are our general unsecured and unsubordinated obligations, rank equally with all of our existing and future unsecured and unsubordinated indebtedness from time to time outstanding and are considered part of the same series of notes as any of our other Medium-Term Notes, Series A, previously issued or issued in the future. The Indenture does not limit the amount of Notes, debentures or other evidence of indebtedness that we may issue under the Indenture or otherwise and provides that debt securities under the Indenture may be issued from time to time in one or more series.

We have initially designated Deutsche Bank Trust Company Americas as our paying agent (the "Paying Agent"), registrar and transfer agent where Notes may be presented for payment.

The entire principal amount of the Notes will mature and become payable, together with unpaid interest, if any, accrued thereon, on October 14, 2022 (the "Stated Maturity Date") unless redeemed earlier as described below under "—Optional Redemption" and "—Redemption for Tax Reasons." The Notes are not subject to any sinking fund provisions and are not convertible into or exchangeable for any of our equity interests.

The principal of each Note payable at maturity or earlier redemption will be paid in Sterling or, in the event the Notes are redenominated in euro, euro against presentation and surrender at the office or agency maintained for such purpose.

Under the Indenture, holders of the Notes will vote with holders of all other tranches of our Medium-Term Notes, Series A, as a single class.

The Indenture contains provisions that require the consent of or action by a specified percentage of the aggregate principal amount of our Medium-Term Notes, Series A, acting as a single class. For example, holders of a

majority in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may consent to certain modifications or amendments to the Indenture and waiver of certain continuing defaults under the Indenture, as described under “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus, and holders of at least 25% in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may declare the principal amount of our Medium-Term Notes, Series A, to be due and payable immediately upon the occurrence of certain events of default, as described under “Description of Debt Securities—Events of Default” in the prospectus. Therefore, because the Medium-Term Notes, Series A, vote as a single class, a greater percentage of the principal amount of the Notes may be required to take action under the Indenture and the aggregate principal amount of the Notes, acting alone or jointly, may not be sufficient to take action under the Indenture in the future. In addition, under the prospectus supplement, we may issue up to \$30,000,000,000 aggregate principal amount of Medium-Term Notes, Series A, under the Indenture. As of May 31, 2019, we had \$19.95 billion aggregate principal amount, £600.00 million aggregate principal amount, and €2.80 billion aggregate principal amount of Medium-Term Notes, Series A, outstanding under the Indenture.

The Notes bear interest at 2.625% per annum, accruing from December 14, 2015 (the “Settlement Date”) or from the immediately preceding interest payment date to which interest has been paid. Interest on the Notes is payable annually in arrear on October 14 (each an “Interest Payment Date”). Interest payable on an Interest Payment Date will be paid to the persons in whose names the Notes are registered at the close of business on the regular record date; provided, however, that interest payable at the Stated Maturity Date or earlier redemption date will be payable to the person to whom principal shall be payable. The regular record date for the Notes will be the fifteenth calendar day, whether or not a Business Day (as defined below), immediately preceding the related Interest Payment Date. Interest payable on an Interest Payment Date will be computed on the basis of an ACTUAL/ACTUAL (ICMA) (as defined in the rulebook of the International Capital Market Association) day count convention.

If any Interest Payment Date, the Stated Maturity Date or earlier redemption date falls on a day that is not a Business Day, the related payment will be made on the next succeeding Business Day as if made on the date the applicable payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, the Stated Maturity Date or such redemption date, as the case may be, to the date of such payment on the next succeeding Business Day. For purposes of the Notes, “Business Day” means any day, other than a Saturday or Sunday, (i) which is not a day on which banking institutions in The City of New York or London are authorized or required by law, regulation or executive order to close and (ii) in the event that any payment of principal of, and premium, if any, and interest on, the Notes is to be made in euro, on which the Trans-European Automated Real-Time Gross Settlement Express Transfer system (the TARGET system) or any successor thereto, is open.

### **Issuance of the Notes in Sterling**

Initial holders were required to pay for the Notes in Sterling, and principal, premium, if any, and interest payments in respect of the Notes, including any payments made upon any redemption of the Notes, will be payable in Sterling or if the United Kingdom adopts euro as its lawful currency, in euro.

If on or after the date of this pricing supplement, the United Kingdom adopts euro, in lieu of Sterling, as its lawful currency, the Notes will be redenominated in euro on a date determined by us, with a principal amount for each Note equal to the principal amount of that Note in Sterling, converted into euro at the rate established by the applicable law; provided that, if we determine after consultation with the Paying Agent that the then current market practice in respect of redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions will be deemed to be amended so as to comply with such market practice and we will promptly notify the Trustee and the Paying Agent of such deemed amendment. We will give 30 days’ notice of the redenomination date to the Paying Agent, the Trustee, Euroclear and Clearstream.

If (i) Sterling or, in the event the Notes are redenominated in euro, euro is not available in our good faith judgment for the payment of principal, premium, if any, or interest with respect to the Notes, including any payments made upon any redemption of the Notes, due to the imposition of exchange controls or other circumstances beyond the control of AHFC (other than due to the circumstances described in the preceding



paragraph), (ii) Sterling is no longer used by the United Kingdom or for the settlement of transactions by public institutions within the international banking community or (iii) if the Notes have been redenominated into euro, euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions within the international banking community, AHFC will be entitled to satisfy its obligations to holders of the Notes by making that payment in U.S. dollars on the basis of the Market Exchange Rate (as defined below) as computed by the exchange rate agent on the second Business Day before that payment is due, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date that payment is due or as otherwise determined by AHFC in good faith, if the foregoing is impracticable. Any payment in respect of the Notes so made in U.S. dollars will not constitute a default under the Indenture. Neither the Trustee nor the Paying Agent shall be responsible for obtaining exchange rates, effecting conversions or otherwise handling redenominations.

The “Market Exchange Rate” means the noon buying rate in The City of New York for cable transfers of Sterling or, in the event the Notes are redenominated into euro, euro, as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

In the event that (i) Sterling is no longer used by the United Kingdom as its currency, an official redenomination of Sterling or, in the event the United Kingdom adopts euro, in lieu of Sterling, as its lawful currency and (ii) the euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency, AHFC’s obligations with respect to payments on the Notes shall, in all cases, be regarded immediately following such redenomination as providing for the payment of that amount of Sterling or euros, as applicable, representing the amount of such obligations immediately before such redenomination. The Notes do not provide for any adjustment to any amount payable under the Notes as a result of any change in the value of Sterling or the euro, as applicable, relative to any other currency due solely to fluctuations in exchange rates.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and will, in the absence of clear error, be conclusive for all purposes and binding on the holders of the Notes.

### **Further Issuances**

We may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional notes having the same ranking, interest rate, Stated Maturity Date, redemption provisions and other terms as a particular tranche of Notes, as applicable, except for (1) the original issue date, (2) the issue price and (3) the first interest payment date. Additional notes will be considered part of the same series of notes as the Notes and any of our other Medium-Term Notes, Series A previously issued or issued in the future. We also may, from time to time, without notice to or the consent of the registered holders of the Notes, create and issue additional debt securities, under the Indenture or otherwise, ranking equally with the Notes and our other Medium-Term Notes, Series A.

### **Optional Redemption**

The Notes will be redeemable before their maturity, in whole or in part, at our option, at any time, at a “make-whole” redemption price in cash equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed (exclusive of interest accrued to but excluding the redemption date) discounted to the redemption date on an annual basis (based on an ACTUAL/ACTUAL (ICMA) (as defined in the rulebook of International Capital Markets Association) day count convention) at the applicable Comparable Government Bond Rate plus 20 basis points, plus, in each of clause (i) and (ii), unpaid interest, if any, thereon accrued to but excluding the redemption date.

The following definitions will apply with respect to the foregoing:

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of an Independent Investment Banker, a United Kingdom government bond whose maturity is closest to the maturity of the Notes to be redeemed, or if the Independent Investment Banker in its discretion determines

that such similar bond is not in issue, such other United Kingdom government bond as such Independent Investment Banker may, with the advice of three brokers of, and/or market makers in, United Kingdom government bonds selected by such Independent Investment Banker, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond Rate” means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes to be redeemed, if they were to be purchased at such price on the third Business Day prior to the date fixed for redemption, would be equal to the gross redemption yield on such Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such Business Day as determined by an Independent Investment Banker.

“Independent Investment Banker” means each of Barclays Bank PLC and Deutsche Bank AG, London Branch and their respective successors, or, if such firm is unwilling or unable to select the Comparable Government Bond, an independent investment banking institution of international standing appointed by AHFC.

Notice of any redemption will be given in writing not more than 60 nor less than 30 days before the redemption date to each holder of the Notes to be redeemed. Such notice of redemption shall specify the principal amount of Notes to be redeemed, ISIN and Common Code numbers of the Notes to be redeemed, the redemption date, the redemption price, the place or places of payment and that payment will be made upon presentation and surrender of such Notes. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes to be redeemed, which, in the case of Notes in book-entry form, will be in accordance with the procedures of the applicable depository. The Trustee may select Notes and portions of Notes in amounts of £100,000 and integral multiples of £1,000 in excess thereof.

### **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay as additional interest such additional amounts as are necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable. However, the foregoing obligation to pay additional amounts shall not apply:

- (a) to any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:
  - (i) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment therein;
  - (ii) being a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business;
  - (iii) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof; or

- (iv) being or having been, for United States federal income tax purposes, a “controlled foreign corporation”,  
 ) a “passive foreign investment company” (including a qualified electing fund), a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization;
- (b) to any tax, assessment or other governmental charge imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of AHFC entitled to vote, (ii) receiving interest described in Section 881(c)(3)(A) of the United States Internal Revenue Code of 1986, as amended (the “Code”) or (iii) being a controlled foreign corporation with respect to the United States that is related to AHFC by actual or constructive stock ownership;
- (c) to any holder who is a fiduciary or partnership or other than the sole beneficial owner of the Note, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Note would not have been entitled to the payment of such additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;
- (d) to any tax, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Note, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (e) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of such Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (f) to any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge;
- (g) to any tax, assessment or governmental charge that is payable otherwise than by withholding by AHFC or the Paying Agent from the payment of the principal of or interest on such Note;
- (h) to any tax, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Note, if such payment can be made without such withholding by any other Paying Agent;
- (i) to any withholding or deduction on or in respect of any Note pursuant to sections 1471 through 1474 of the Code, and the regulations, administrative guidance and official interpretations promulgated thereunder (“FATCA”), any agreement between AHFC and the United States or any authority thereof entered into for FATCA purposes or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA; or
- (j) to any tax imposed as a result of any combination of the above.

The term “United States” means the United States of America, the States thereof (including the District of Columbia) and any other political subdivision or taxing authority thereof or therein affecting taxation, and the term “United States Alien” means any corporation, partnership, individual or fiduciary that, as to the United States, is for United States federal income tax purposes (A) a foreign corporation, (B) a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien

individual or a non-resident alien fiduciary of a foreign estate or trust, (C) a non-resident alien individual, or (D) a non-resident alien fiduciary of a foreign estate or trust.

### **Redemption for Tax Reasons**

If we have or will become obliged to pay additional amounts (as described above under the heading “—Payment of Additional Amounts”) as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after December 14, 2015, and we determine that such obligation cannot be avoided by the use of reasonable measures then available to us, we may, at our option, at any time, having given not less than 30 nor more than 60 days’ prior written notice to Holders, redeem, in whole, but not in part, the Notes at a redemption price equal to 100% of their principal amount, together with unpaid interest, if any, on the Notes accrued to but excluding the redemption date, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which we would be obliged to pay such additional amounts if a payment in respect to the Notes were due on such date. Prior to the transmission or publication of any notice of redemption pursuant to this paragraph, we shall deliver to the Trustee a certificate signed by two directors of AHFC stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem the Notes has occurred.

### **Modification of the Indenture**

See “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus.

### **Events of Default, Notice and Waiver**

See “Description of Debt Securities—Events of Default” in the prospectus.

### **Discharge, Defeasance and Covenant Defeasance**

The defeasance provisions described in the prospectus under “Description of Debt Securities—Discharge, Legal Defeasance and Covenant Defeasance” are applicable to the Notes.

### **Governing Law**

The Indenture and the Notes are governed by, and construed in accordance with, the laws of the State of New York.

### **Benefit of the HMC-AHFC Keep Well Agreement**

The Notes will have the benefit of the Keep Well Agreement (as defined below) described under “Description of Debt Securities—Keep Well Agreement” in the prospectus.

### **Certain Covenants**

#### *Merger, Consolidation and Transfer of Assets*

The Indenture provides that AHFC may not, in any transaction or series of related transactions, (i) consolidate or amalgamate with or merge into any other person; or (ii) sell, lease, assign, transfer or otherwise convey all or substantially all of the assets of AHFC and its subsidiaries, taken as a whole, to any other person, in each case, unless:

- in such transaction or transactions, either (1) AHFC shall be the continuing person (in the case of a merger) or (2) the successor person (if other than AHFC) formed by or resulting from the consolidation, amalgamation or merger or to which such assets shall have been sold, leased, assigned, transferred or otherwise conveyed (i) is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof or under the laws of Japan or any member country in the Organization for Economic Co-operation and Development or any political subdivision or governmental authority thereof, and (ii) shall, by a supplemental indenture, (a) if organized and existing other than under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof (A) expressly agree to make all payments in respect of the debt securities outstanding under the Indenture free and clear of, and without withholding or deduction for, or on account of, present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the jurisdiction of organization or residence (for tax purposes) of such successor person or any political subdivision or governmental authority thereof or therein having the power to tax, unless required by law, in which case such successor person shall have expressly agreed to pay such additional amounts as may be necessary in order that the net amount received by each holder of outstanding debt securities after such withholding or deduction is equal to the amount that would have been receivable in respect of each such debt security in the absence of such withholding or deduction, and (B) irrevocably and unconditionally (I) consent and submit to the jurisdiction of any United States federal court or New York state court, in each case located in the Borough of Manhattan, The City of New York, in respect of any action, suit or proceeding against it arising out of, or in connection with, the Indenture or the debt securities outstanding thereunder, (II) waive, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (III) appoint an agent in the Borough of Manhattan, The City of New York for service of process in any such action, suit or proceeding, and (b) expressly assume the due and punctual performance of all of AHFC's payment and other obligations under the Indenture and all of the debt securities outstanding thereunder;
- immediately after giving effect to such transaction or transactions, no Event of Default (as defined in the Indenture) under the Indenture, and no event which, after notice or lapse of time or both would become an Event of Default under the Indenture, shall have occurred and be continuing; and
- the Trustee shall have received an officer's certificate and opinion of counsel from AHFC to the effect that all conditions precedent to such transaction or transactions have been satisfied.

Upon any consolidation or amalgamation by AHFC with, or AHFC's merger into, any other person or any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of AHFC to any person, in each case in accordance with the provisions of the Indenture described above, the successor person formed by the consolidation or amalgamation or into which AHFC is merged or to which such sale, lease, assignment, transfer or other conveyance is made, as applicable, shall succeed to, and be substituted for, AHFC and may exercise every right and power of AHFC under the Indenture with the same effect as if such successor person had been named as AHFC in the Indenture; and thereafter, except in the case of a lease, the predecessor person shall be released from all obligations and covenants under the Indenture and the outstanding debt securities and any coupons appertaining thereto.

#### *Termination, Modification or Amendment of the Keep Well Agreement*

AHFC shall not effect any termination, modification or amendment of the Keep Well Agreement (as defined below) and the Keep Well Agreement may not be otherwise terminated without the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series issued under the Indenture that has the benefit of the Keep Well Agreement and is affected by such termination, modification or amendment (voting as separate classes) unless:

- with respect to any series of outstanding debt securities affected by such termination, modification or amendment that is rated by one or more Rating Agencies (as defined below), each such Rating Agency confirms in writing that the rating assigned to such series of outstanding debt securities will not be withdrawn or reduced by reason of such termination, modification or amendment; or
- the termination, modification or amendment is to: (i) replace, at the discretion of Honda Motor Co., Ltd. (“HMC”), AHFC as a party to the Keep Well Agreement with any successor person that assumes the obligations of AHFC under the Indenture and the outstanding debt securities pursuant to a transaction permitted under “—Merger, Consolidation and Transfer of Assets” discussed above, (ii) terminate, modify or amend the Keep Well Agreement between AHFC and HMC after AHFC has been released of its obligations under the Indenture and the outstanding debt securities in accordance with “—Merger, Consolidation and Transfer of Assets” discussed above, or (iii) terminate, modify or amend the Keep Well Agreement if such termination, modification or amendment affects only debt securities that have not yet been issued under the Indenture.

Any termination, modification or amendment of the Keep Well Agreement that is not in compliance with these provisions shall not be effective with respect to the outstanding debt securities of the applicable series.

#### *Negative Pledge*

AHFC shall not create or permit to be outstanding any Lien (as defined below) upon any of its present or future properties or assets, unless all the debt securities outstanding under the Indenture are secured by such Lien equally and ratably with all the other obligations and indebtedness for money borrowed secured by such Lien for so long as such other obligations and indebtedness for money borrowed are so secured, *provided, however*, that this covenant shall not apply to (1) Liens securing obligations (or securing any refunding or extensions of such obligations not exceeding the principal amount of the obligations so refunded or extended at the time of the refunding or extension thereof and covering only the same property theretofore securing the same) which, after giving effect to the initial incurrence of such obligations, do not in the aggregate exceed 30% of Consolidated Net Tangible Assets (as defined below) or (2) any Permitted Lien (as defined below).

#### *Definitions*

“ABS Obligation” means any security or other obligation that is (i) issued by a trust or entity created for the special purpose of issuing such security or obligation (regardless of whether it may also issue others of the same or another series or class), (ii) secured by specific assets transferred to such trust or entity by AHFC in connection with the issuance of such security or obligation, and (iii) payable by its terms solely from specified assets (including such security) of such trust or entity and, if applicable, specified third party credit support.

“Consolidated Net Tangible Assets” means the aggregate amount of assets (less applicable reserves and other items deductible from the gross book value of specific asset amounts), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles of AHFC and its consolidated subsidiaries calculated as of the date of the most recently prepared quarterly consolidated financial statements of AHFC prepared in accordance with GAAP.

“GAAP” means, unless otherwise specified with respect to any series of debt securities in the applicable prospectus supplement, generally accepted accounting principles in the United States as in effect on the date of any calculation or determination required under the Indenture.

“Group Subsidiary” means an entity the financial statements of which are consolidated with the financial statements of HMC.

“Keep Well Agreement” means either (i) if clause (ii) of this definition does not apply, the Keep Well Agreement, dated as of September 9, 2005, between the Company and HMC, or (ii) if HMC has elected to enter into a keep well agreement (substantially in the form of the keep well agreement described in clause (i) of this definition)

with a successor person as permitted under “—Termination, Modification or Amendment of the Keep Well Agreement” above as a result of a transaction permitted under “—Merger, Consolidation and Transfer of Assets” above, such keep well agreement between HMC and the successor person, in each case as the same may be amended or supplemented from time to time.

“Lien” means, with respect to any asset or property, any mortgage, lien (statutory or otherwise), pledge, hypothecation, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset or property, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof or sale/leaseback, any option or other agreement to sell or give a security interest in, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction, *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Nonrecourse,” with respect to AHFC and any ABS Obligation, means that AHFC has no obligation in respect of any payment due on such ABS Obligation and the holders thereof have so agreed (or are deemed to have so agreed by acquiring such ABS Obligation).

“Permitted Lien” means:

- (a) any deposit of AHFC’s assets with any surety company or clerk of any court, or in escrow as collateral in connection with, or in lieu of, any bond on appeal by AHFC from any judgment or decree against it, or in connection with other proceedings in actions at law or in equity by or against AHFC or to exercise any privilege or license, performance of bids, contracts or leases or to secure other public or statutory obligations of AHFC or other similar deposits or pledges made in the ordinary course of business;
- (b) any Lien on any property, tangible or intangible, real or personal, existing at the time of acquisition thereof (whether through purchase or through merger or consolidation) or given to secure the payment of all or any part of the purchase price thereof or to secure any indebtedness incurred prior to, at the time of, or within one year after, the acquisition thereof for the purpose of financing all or any part of the purchase price thereof;
- (c) mechanic’s, workmen’s, repairmen’s, materialmen’s or carriers’ Liens or other similar Liens arising in the ordinary course of business or deposits or pledges to obtain the release of any such Liens;
- (d) any Lien arising out of a judgment or award against AHFC with respect to which AHFC shall in good faith be prosecuting an appeal or proceedings for review or Liens incurred by AHFC for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which AHFC is a party;
- (e) any Lien for taxes not yet subject to penalties for nonpayment or contest, or minor survey exceptions, or minor encumbrances, assessments or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, assessments, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of AHFC’s business;
- (f) any Lien on any property, tangible or intangible, which may arise as a result of a transaction involving a transfer of assets by AHFC if such transfer of assets is treated as a sale in accordance with GAAP or if such transfer of assets is to an entity that issues ABS Obligations backed by such assets and such ABS Obligations are Nonrecourse to AHFC;

- (g) any pledge of assets to secure any financing by AHFC of the exporting of goods to or between, or the marketing thereof in, countries other than the United States in connection with which AHFC reserves the right, in accordance with customary and established banking practice, to deposit, or otherwise subject to a Lien, cash, securities or receivables for the purpose of securing banking accommodations or as the basis for the issuance of bankers' acceptances or in aid of other similar borrowing arrangements;
- (h) any pledge of receivables payable in currencies other than the United States dollar to secure borrowings in countries other than the United States;
- (i) any Lien in favor of the United States or any state thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- (j) any Lien securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining of advances or credit or the securing of debt, if made and continuing in the ordinary course of business;
- (k) any Lien to secure non-recourse obligations in connection with AHFC engaging in leveraged or single-investor lease transactions;
- (l) any Lien on property acquired or sold by AHFC resulting from the exercise of any rights arising out of defaults on receivables;
- (m) any Lien to secure obligations with respect to any interest rate, foreign currency exchange, swap, collar, cap or similar agreements entered into in the ordinary course of business to hedge or mitigate risks to which AHFC or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;
- (n) bankers' Liens or bankers' rights of offset, in each case arising in the ordinary course of banking business with respect to any bank accounts or bank deposits; and
- (o) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) to (n) inclusive; provided, however, that the amount of any and all obligations and indebtedness secured thereby does not exceed the amount thereof so secured immediately prior to the time of such extension, renewal or replacement and that such extension, renewal or replacement is limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property), and provided further, that AHFC is free to substitute collateral of equal value for the existing collateral in any transaction covered by clauses (a) through (n) above.

"Rating Agency" with respect to any security, means any rating agency that (i) has been requested by HMC or AHFC to issue a rating with respect to such security and (ii) has issued such a rating and such rating remains in effect at the time the termination, modification or amendment of the Keep Well Agreement referred to under "— Termination, Modification or Amendment of the Keep Well Agreement" above is to be effected.

"Subsidiary" means (1) any corporation a majority of the total voting power of whose outstanding Voting Stock is owned or controlled, directly or indirectly, at the date of determination by AHFC, and (2) any other person in which AHFC and/or one or more other Subsidiaries, directly or indirectly, at the date of determination, (x) own a majority of the outstanding equity interests or (y) have the power to elect or direct the election of, or to appoint or approve the appointment of, a majority of the directors, trustees or managing members of, or other persons holding similar positions with, such Person.



“Voting Stock” means, with respect to any person, any class or series of capital stock of, or other equity interests in, such person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of, or to appoint or to approve the appointment of, the directors, trustees or managing members of, or other persons holding similar positions with, such person.

### **Book-Entry Delivery and Settlement**

We have obtained the information in this section concerning Clearstream and Euroclear and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of Clearstream and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

### ***Global Clearance and Settlement***

The Notes were issued in the form of one or more global notes in fully registered form, without coupons, and deposited with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to the common depositary, its successors or their respective nominees.

Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be, with respect to the Notes, in denominations of £100,000 and integral multiples of £1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and, except as described herein, will not receive or be entitled to receive physical delivery of Notes in definitive form. So long as the common depositary for Euroclear and Clearstream is the registered owner of the global notes, the common depositary for all purposes will be considered the sole holder of the Notes represented by the global notes under the Indenture and the global notes. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the Indenture, including for purposes of receiving any reports delivered by us or the Trustee pursuant to the Indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the Indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

### ***Clearstream***

Clearstream has advised that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance

and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator (as defined below) to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream participant, either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

### ***Euroclear***

Euroclear has advised that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A. /N.V. (the “Euroclear Operator”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no records of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

### ***Euroclear and Clearstream Arrangements***

So long as the common depositary for Euroclear or Clearstream or such common depositary’s nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Indenture and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the global notes will be made to the common depositary or such common depositary’s nominee, as the case may be, as registered holder thereof. None of us, the Trustee, any agent and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act of 1933, as amended) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium, if any, and interest with respect to the global notes, including any distributions of redemption payments, will be credited in Sterling or, in the event the Notes are redenominated in euro, euro to the extent received by Euroclear or Clearstream from the Paying Agent to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

### ***Initial Settlement***

We understand that investors that hold their Notes through Clearstream or Euroclear accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form. Subject to applicable procedures of Clearstream and Euroclear, Notes will be credited to the securities custody accounts of Clearstream and Euroclear participants on the business day following the Settlement Date, for value on the Settlement Date.

### ***Secondary Market Trading***

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand that secondary market trading between Clearstream and/or Euroclear participants will occur in the ordinary way following the applicable rules and operating procedures of Clearstream and Euroclear. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Clearstream and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to make or receive a payment or delivery of the Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

Clearstream or Euroclear will credit payments to the cash accounts of Clearstream customers or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depository. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures.

Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Notes among participants of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

### ***Exchange of Global Notes for Certificated Notes***

Subject to certain conditions, the Notes represented by the global notes are exchangeable for notes in definitive form of like tenor in minimum denominations of £100,000 principal amount and multiples of £1,000 in excess thereof if:

- (1) Clearstream, Euroclear or any successor thereto notifies us that it is unwilling or unable to act as a clearing system for the Notes;
- (2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes; or
- (3) there has occurred and is continuing an Event of Default with respect to the Notes.

In all cases, definitive notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the common depositary (in accordance with its customary procedures).

Payments (including principal, premium, if any, and interest) and transfers with respect to notes in definitive form may be executed at the office or agency maintained for such purpose, at our option, by check mailed to the holders thereof at the respective addresses set forth in the register of holders of the Notes, provided that all payments (including principal, premium, if any, and interest) with respect to notes in definitive form, for which the holders thereof have given wire transfer instructions, will be required to be made by wire transfer of immediately available funds to the accounts specified by the holders thereof. No service charge will be made for any registration of transfer, but payment of a sum sufficient to cover any tax or governmental charge payable in connection with that registration may be required.

**DESCRIPTION OF AHFC'S  
€700,000,000 1.375% MEDIUM-TERM NOTES, SERIES A, DUE NOVEMBER 10, 2022**

The following is a description of American Honda Finance Corporation's €700,000,000 1.375% Medium-Term Notes, Series A, due November 10, 2022 (the "Notes") as provided in our pricing supplement, dated September 3, 2015, and filed with the Securities and Exchange Commission (the "SEC") on September 4, 2015. This description is subject to, and qualified in its entirety by reference to, the description of the general terms and provisions of the debt securities found in our prospectus, dated August 10, 2016 and filed with the SEC on August 10, 2016, and our Medium-Term Notes, Series A, described in the prospectus supplement, dated August 10, 2016 and filed with the SEC on August 10, 2016. The following summary of specified provisions of the Indenture (defined below) and the Notes is subject to, and qualified in its entirety by reference to, the actual provisions of the Indenture, including the definitions contained in the Indenture of some of the terms used below, and the Notes. A copy of the Indenture has been filed as an exhibit to our Registration Statement on Form S-3 filed with the SEC on August 10, 2016 and of which the pricing supplement, prospectus supplement and prospectus are a part.

Unless otherwise indicated by the context, as used herein, "AHFC," "we," "us" and "our" refer solely to American Honda Finance Corporation (excluding its subsidiaries).

**General**

The Notes are a tranche of our Medium-Term Notes, Series A. The Notes were issued under the Indenture dated as of September 5, 2013, between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of February 8, 2018, between AHFC and the Trustee (as so supplemented, the "Indenture"). The terms of the Notes include those provisions contained in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The Notes were initially limited to an aggregate principal amount of €700,000,000. See "—Further Issuances" below. The Notes were issued in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes are our general unsecured and unsubordinated obligations, rank equally with all of our existing and future unsecured and unsubordinated indebtedness from time to time outstanding and are considered part of the same series of notes as any of our other Medium-Term Notes, Series A, previously issued or issued in the future. The Indenture does not limit the amount of Notes, debentures or other evidence of indebtedness that we may issue under the Indenture or otherwise and provides that debt securities under the Indenture may be issued from time to time in one or more series.

We have initially designated Deutsche Bank Trust Company Americas as our paying agent (the "Paying Agent"), registrar and transfer agent where Notes may be presented for payment.

The entire principal amount of the Notes will mature and become payable, together with unpaid interest, if any, accrued thereon on November 10, 2022 (the "Stated Maturity Date") unless redeemed earlier as described below under "—Optional Redemption" and "—Redemption for Tax Reasons." The Notes are not subject to any sinking fund provisions and are not convertible into or exchangeable for any of our equity interests.

The principal of each Note payable at maturity or earlier redemption will be paid in euro against presentation and surrender at the office or agency maintained for such purpose.

Under the Indenture, holders of the Notes will vote with holders of all other tranches of our Medium-Term Notes, Series A, as a single class.

The Indenture contains provisions that require the consent of or action by a specified percentage of the aggregate principal amount of our Medium-Term Notes, Series A, acting as a single class. For example, holders of a

majority in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may consent to certain modifications or amendments to the Indenture and waiver of certain continuing defaults under the Indenture, as described under “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus, and holders of at least 25% in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may declare the principal amount of our Medium-Term Notes, Series A, to be due and payable immediately upon the occurrence of certain events of default, as described under “Description of Debt Securities—Events of Default” in the prospectus. Therefore, because the Medium-Term Notes, Series A, vote as a single class, a greater percentage of the principal amount of the Notes may be required to take action under the Indenture and the aggregate principal amount of the Notes, acting alone or jointly, may not be sufficient to take action under the Indenture in the future. In addition, under the prospectus supplement, we may issue up to \$30,000,000,000 aggregate principal amount of Medium-Term Notes, Series A, under the Indenture. As of May 31, 2019, we had \$19.95 billion aggregate principal amount, £600.00 million aggregate principal amount, and €2.80 billion aggregate principal amount of Medium-Term Notes, Series A, outstanding under the Indenture.

The Notes bear interest at 1.375% per year, accruing from September 11, 2015 (the “Settlement Date”) or from the immediately preceding interest payment date to which interest has been paid. Interest on the Notes is payable annually in arrears on November 10 (each an “Interest Payment Date”). Interest payable on an Interest Payment Date will be paid to the persons in whose names the Notes are registered at the close of business on the regular record date; provided, however, that interest payable at the Stated Maturity Date or earlier redemption date will be payable to the person to whom principal shall be payable. The regular record date for the Notes will be the fifteenth calendar day, whether or not a Business Day (as defined below), immediately preceding the related Interest Payment Date. Interest payable on an Interest Payment Date will be computed on the basis of an ACTUAL/ACTUAL (ICMA) (as defined in the rulebook of the International Capital Market Association) day count convention.

If any Interest Payment Date, the Stated Maturity Date or earlier redemption date falls on a day that is not a Business Day, the related payment will be made on the next succeeding Business Day as if made on the date the applicable payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, the Stated Maturity Date or such redemption date, as the case may be, to the date of such payment on the next succeeding Business Day. For purposes of the Notes, “Business Day” means any day, other than a Saturday or Sunday, (i) which is not a day on which banking institutions in The City of New York or London are authorized or required by law, regulation or executive order to close and (ii) on which the Trans-European Automated Real-Time Gross Settlement Express Transfer system (the TARGET system) or any successor thereto, is open.

### **Issuance in Euro**

Initial holders were required to pay for the Notes in euro, and principal, premium, if any, and interest payments in respect of the Notes, including any redemption payments on the Notes, will be payable in euro.

If the euro is not available in our good faith judgment for the payment of principal, premium, if any, or interest with respect to the Notes, including payments of redemption on the Notes, due to the imposition of exchange controls or other circumstances beyond the control of AHFC, or is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, AHFC will be entitled to satisfy its obligations to holders of the Notes by making that payment in U.S. dollars on the basis of the Market Exchange Rate (as defined below) as computed by the exchange rate agent on the second Business Day before that payment is due, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date that payment is due or as otherwise determined by AHFC in good faith, if the foregoing is impracticable. Any payment in respect of the Notes so made in U.S. dollars will not constitute a default under the Indenture. Neither the Trustee nor the Paying Agent shall be responsible for obtaining exchange rates, effecting conversions or otherwise handling redenominations.

The “Market Exchange Rate” means the noon buying rate in The City of New York for cable transfers of euros as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

In the event that the euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or an official redenomination of the euro, AHFC’s obligations with respect to payments on the Notes shall, in all cases, be regarded immediately following such redenomination as providing for the payment of that amount of euros representing the amount of such obligations immediately before such redenomination. The Notes do not provide for any adjustment to any amount payable under the Notes as a result of any change in the value of the euro relative to any other currency due solely to fluctuations in exchange rates.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and will, in the absence of clear error, be conclusive for all purposes and binding on the holders of the Notes.

### **Further Issuances**

We may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional notes having the same ranking, interest rate, Stated Maturity Date, redemption provisions and other terms as the Notes, except for (1) the original issue date, (2) the issue price and (3) the first interest payment date. Additional notes will be considered part of the same series of notes as the Notes and any of our other Medium-Term Notes, Series A previously issued or issued in the future. We also may, from time to time, without notice to or the consent of the registered holders of the Notes, create and issue additional debt securities, under the Indenture or otherwise, ranking equally with the Notes and our other Medium-Term Notes, Series A.

### **Optional Redemption**

The Notes will be redeemable before their maturity, in whole or in part, at our option, at any time, at a “make-whole” redemption price in cash equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed (exclusive of interest accrued to but excluding the redemption date) discounted to the redemption date on an annual basis (based on an ACTUAL/ACTUAL (ICMA) (as defined in the rulebook of International Capital Markets Association) day count convention) at the applicable Comparable Government Bond Rate plus 15 basis points, plus, in each of clause (i) and (ii), unpaid interest, if any, thereon accrued to but excluding the redemption date.

The following definitions will apply with respect to the foregoing:

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of an Independent Investment Banker, a German government bond whose maturity is closest to the maturity of the Notes to be redeemed, or if the Independent Investment Banker in its discretion determines that such similar bond is not in issue, such other European government bond as such Independent Investment Banker may, with the advice of three brokers of, and/or market makers in, European government bonds selected by such Independent Investment Banker, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond Rate” means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes to be redeemed, if they were to be purchased at such price on the third Business Day prior to the date fixed for redemption, would be equal to the gross redemption yield on such Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such Business Day as determined by an Independent Investment Banker.

“Independent Investment Banker” means each of Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, London Branch and Mitsubishi UFJ Securities International plc and their respective successors, or, if such firm is

unwilling or unable to select the Comparable Government Bond, an independent investment banking institution of international standing appointed by AHFC.

Notice of any redemption will be given in writing not more than 60 nor less than 30 days before the redemption date to each holder of the Notes to be redeemed. Such notice of redemption shall specify the principal amount of Notes to be redeemed, ISIN and Common Code numbers of the Notes to be redeemed, the redemption date, the redemption price, the place or places of payment and that payment will be made upon presentation and surrender of such Notes. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes to be redeemed, which, in the case of Notes in book-entry form, will be in accordance with the procedures of the applicable depository. The Trustee may select Notes and portions of Notes in amounts of €100,000 and integral multiples of €1,000 in excess thereof.

### **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay as additional interest such additional amounts as are necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable. However, the foregoing obligation to pay additional amounts shall not apply:

- (a) to any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:
  - (i) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment therein;
  - (ii) being a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business;
  - (iii) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof; or
  - (iv) being or having been, for United States federal income tax purposes, a “controlled foreign corporation”, a “passive foreign investment company” (including a qualified electing fund), a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization;
- (b) to any tax, assessment or other governmental charge imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of AHFC entitled to vote, (ii) receiving interest described in Section 881(c)(3)(A) of the United States Internal Revenue Code of 1986, as amended (the “Code”) or (iii) being a controlled foreign corporation with respect to the United States that is related to AHFC by actual or constructive stock ownership;



- (c) to any holder who is a fiduciary or partnership or other than the sole beneficial owner of the Note, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Note would not have been entitled to the payment of such additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;
- (d) to any tax, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Note, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (e) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of such Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (f) to any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge;
- (g) to any tax, assessment or governmental charge that is payable otherwise than by withholding by AHFC or the Paying Agent from the payment of the principal of or interest on such Note;
- (h) to any withholding or deduction imposed on a payment to an individual or entity that is required to be made pursuant to the EC Council Directive 2003/48/EC on taxation of savings income in the form of interest payments (the "Savings Directive") or any law implementing, complying with or introduced in order to conform to the Savings Directive or any arrangements entered into between the Member States and certain other third countries and territories in connection with the Savings Directive;
- (i) to any tax, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Note, if such payment can be made without such withholding by any other Paying Agent;
- (j) to any withholding or deduction on or in respect of any Note pursuant to sections 1471 through 1474 of the Code, and the regulations, administrative guidance and official interpretations promulgated thereunder ("FATCA"), any agreement between AHFC and the United States or any authority thereof entered into for FATCA purposes or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA; or
- (k) to any tax imposed as a result of any combination of the above.

The term "United States" means the United States of America, the States thereof (including the District of Columbia) and any other political subdivision or taxing authority thereof or therein affecting taxation, and the term "United States Alien" means any corporation, partnership, individual or fiduciary that, as to the United States, is for United States federal income tax purposes (A) a foreign corporation, (B) a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust, (C) a non-resident alien individual, or (D) a non-resident alien fiduciary of a foreign estate or trust.

### **Redemption for Tax Reasons**

If we have or will become obliged to pay additional amounts (as described above under the heading “—Payment of Additional Amounts”) as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the Settlement Date, and we determine that such obligation cannot be avoided by the use of reasonable measures then available to us, we may, at our option, at any time, having given not less than 30 nor more than 60 days’ prior written notice to Holders, redeem, in whole, but not in part, the Notes at a redemption price equal to 100% of their principal amount, together with unpaid interest, if any, on the Notes accrued to but excluding the redemption date, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which we would be obliged to pay such additional amounts if a payment in respect to the Notes were due on such date. Prior to the transmission or publication of any notice of redemption pursuant to this paragraph, we shall deliver to the Trustee a certificate signed by two directors of AHFC stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem the Notes has occurred.

### **Modification of the Indenture**

See “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus.

### **Events of Default, Notice and Waiver**

See “Description of Debt Securities—Events of Default” in the prospectus.

### **Discharge, Defeasance and Covenant Defeasance**

The defeasance provisions described in the prospectus under “Description of Debt Securities—Discharge, Legal Defeasance and Covenant Defeasance” are applicable to the Notes.

### **Governing Law**

The Indenture and the Notes are governed by, and construed in accordance with, the laws of the State of New York.

### **Benefit of the HMC-AHFC Keep Well Agreement**

The Notes will have the benefit of the Keep Well Agreement (as defined below) described under “Description of Debt Securities—Keep Well Agreement” in the prospectus.

### **Certain Covenants**

#### *Merger, Consolidation and Transfer of Assets*

The Indenture provides that AHFC may not, in any transaction or series of related transactions, (i) consolidate or amalgamate with or merge into any other person; or (ii) sell, lease, assign, transfer or otherwise convey all or substantially all of the assets of AHFC and its subsidiaries, taken as a whole, to any other person, in each case, unless:

- in such transaction or transactions, either (1) AHFC shall be the continuing person (in the case of a merger) or (2) the successor person (if other than AHFC) formed by or resulting from the consolidation, amalgamation or merger or to which such assets shall have been sold, leased, assigned, transferred or otherwise conveyed (i) is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof or under the laws of Japan or any member country in the Organization for Economic Co-operation and Development or any political subdivision or governmental authority thereof, and (ii) shall, by a supplemental indenture, (a) if organized and existing other than under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof (A) expressly agree to make all payments in respect of the debt securities outstanding under the Indenture free and clear of, and without withholding or deduction for, or on account of, present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the jurisdiction of organization or residence (for tax purposes) of such successor person or any political subdivision or governmental authority thereof or therein having the power to tax, unless required by law, in which case such successor person shall have expressly agreed to pay such additional amounts as may be necessary in order that the net amount received by each holder of outstanding debt securities after such withholding or deduction is equal to the amount that would have been receivable in respect of each such debt security in the absence of such withholding or deduction, and (B) irrevocably and unconditionally (I) consent and submit to the jurisdiction of any United States federal court or New York state court, in each case located in the Borough of Manhattan, The City of New York, in respect of any action, suit or proceeding against it arising out of, or in connection with, the Indenture or the debt securities outstanding thereunder, (II) waive, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (III) appoint an agent in the Borough of Manhattan, The City of New York for service of process in any such action, suit or proceeding, and (b) expressly assume the due and punctual performance of all of AHFC's payment and other obligations under the Indenture and all of the debt securities outstanding thereunder;
- immediately after giving effect to such transaction or transactions, no Event of Default (as defined in the Indenture) under the Indenture, and no event which, after notice or lapse of time or both would become an Event of Default under the Indenture, shall have occurred and be continuing; and
- the Trustee shall have received an officer's certificate and opinion of counsel from AHFC to the effect that all conditions precedent to such transaction or transactions have been satisfied.

Upon any consolidation or amalgamation by AHFC with, or AHFC's merger into, any other person or any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of AHFC to any person, in each case in accordance with the provisions of the Indenture described above, the successor person formed by the consolidation or amalgamation or into which AHFC is merged or to which such sale, lease, assignment, transfer or other conveyance is made, as applicable, shall succeed to, and be substituted for, AHFC and may exercise every right and power of AHFC under the Indenture with the same effect as if such successor person had been named as AHFC in the Indenture; and thereafter, except in the case of a lease, the predecessor person shall be released from all obligations and covenants under the Indenture and the outstanding debt securities and any coupons appertaining thereto.

#### *Termination, Modification or Amendment of the Keep Well Agreement*

AHFC shall not effect any termination, modification or amendment of the Keep Well Agreement (as defined below) and the Keep Well Agreement may not be otherwise terminated without the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series issued under the Indenture that has the benefit of the Keep Well Agreement and is affected by such termination, modification or amendment (voting as separate classes) unless:

- with respect to any series of outstanding debt securities affected by such termination, modification or amendment that is rated by one or more Rating Agencies (as defined below), each such Rating Agency confirms in writing that the rating assigned to such series of outstanding debt securities will not be withdrawn or reduced by reason of such termination, modification or amendment; or
- the termination, modification or amendment is to: (i) replace, at the discretion of Honda Motor Co., Ltd. (“HMC”), AHFC as a party to the Keep Well Agreement with any successor person that assumes the obligations of AHFC under the Indenture and the outstanding debt securities pursuant to a transaction permitted under “—Merger, Consolidation and Transfer of Assets” discussed above, (ii) terminate, modify or amend the Keep Well Agreement between AHFC and HMC after AHFC has been released of its obligations under the Indenture and the outstanding debt securities in accordance with “—Merger, Consolidation and Transfer of Assets” discussed above, or (iii) terminate, modify or amend the Keep Well Agreement if such termination, modification or amendment affects only debt securities that have not yet been issued under the Indenture.

Any termination, modification or amendment of the Keep Well Agreement that is not in compliance with these provisions shall not be effective with respect to the outstanding debt securities of the applicable series.

#### *Negative Pledge*

AHFC shall not create or permit to be outstanding any Lien (as defined below) upon any of its present or future properties or assets, unless all the debt securities outstanding under the Indenture are secured by such Lien equally and ratably with all the other obligations and indebtedness for money borrowed secured by such Lien for so long as such other obligations and indebtedness for money borrowed are so secured, *provided, however*, that this covenant shall not apply to (1) Liens securing obligations (or securing any refunding or extensions of such obligations not exceeding the principal amount of the obligations so refunded or extended at the time of the refunding or extension thereof and covering only the same property theretofore securing the same) which, after giving effect to the initial incurrence of such obligations, do not in the aggregate exceed 30% of Consolidated Net Tangible Assets (as defined below) or (2) any Permitted Lien (as defined below).

#### *Definitions*

“ABS Obligation” means any security or other obligation that is (i) issued by a trust or entity created for the special purpose of issuing such security or obligation (regardless of whether it may also issue others of the same or another series or class), (ii) secured by specific assets transferred to such trust or entity by AHFC in connection with the issuance of such security or obligation, and (iii) payable by its terms solely from specified assets (including such security) of such trust or entity and, if applicable, specified third party credit support.

“Consolidated Net Tangible Assets” means the aggregate amount of assets (less applicable reserves and other items deductible from the gross book value of specific asset amounts), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles of AHFC and its consolidated subsidiaries calculated as of the date of the most recently prepared quarterly consolidated financial statements of AHFC prepared in accordance with GAAP.

“GAAP” means, unless otherwise specified with respect to any series of debt securities in the applicable prospectus supplement, generally accepted accounting principles in the United States as in effect on the date of any calculation or determination required under the Indenture.

“Group Subsidiary” means an entity the financial statements of which are consolidated with the financial statements of HMC.

“Keep Well Agreement” means either (i) if clause (ii) of this definition does not apply, the Keep Well Agreement, dated as of September 9, 2005, between the Company and HMC, or (ii) if HMC has elected to enter into a keep well agreement (substantially in the form of the keep well agreement described in clause (i) of this definition)

with a successor person as permitted under “—Termination, Modification or Amendment of the Keep Well Agreement” above as a result of a transaction permitted under “—Merger, Consolidation and Transfer of Assets” above, such keep well agreement between HMC and the successor person, in each case as the same may be amended or supplemented from time to time.

“Lien” means, with respect to any asset or property, any mortgage, lien (statutory or otherwise), pledge, hypothecation, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset or property, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof or sale/leaseback, any option or other agreement to sell or give a security interest in, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction, *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Nonrecourse,” with respect to AHFC and any ABS Obligation, means that AHFC has no obligation in respect of any payment due on such ABS Obligation and the holders thereof have so agreed (or are deemed to have so agreed by acquiring such ABS Obligation).

“Permitted Lien” means:

- (a) any deposit of AHFC’s assets with any surety company or clerk of any court, or in escrow as collateral in connection with, or in lieu of, any bond on appeal by AHFC from any judgment or decree against it, or in connection with other proceedings in actions at law or in equity by or against AHFC or to exercise any privilege or license, performance of bids, contracts or leases or to secure other public or statutory obligations of AHFC or other similar deposits or pledges made in the ordinary course of business;
- (b) any Lien on any property, tangible or intangible, real or personal, existing at the time of acquisition thereof (whether through purchase or through merger or consolidation) or given to secure the payment of all or any part of the purchase price thereof or to secure any indebtedness incurred prior to, at the time of, or within one year after, the acquisition thereof for the purpose of financing all or any part of the purchase price thereof;
- (c) mechanic’s, workmen’s, repairmen’s, materialmen’s or carriers’ Liens or other similar Liens arising in the ordinary course of business or deposits or pledges to obtain the release of any such Liens;
- (d) any Lien arising out of a judgment or award against AHFC with respect to which AHFC shall in good faith be prosecuting an appeal or proceedings for review or Liens incurred by AHFC for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which AHFC is a party;
- (e) any Lien for taxes not yet subject to penalties for nonpayment or contest, or minor survey exceptions, or minor encumbrances, assessments or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, assessments, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of AHFC’s business;
- (f) any Lien on any property, tangible or intangible, which may arise as a result of a transaction involving a transfer of assets by AHFC if such transfer of assets is treated as a sale in accordance with GAAP or if such transfer of assets is to an entity that issues ABS Obligations backed by such assets and such ABS Obligations are Nonrecourse to AHFC;

- (g) any pledge of assets to secure any financing by AHFC of the exporting of goods to or between, or the marketing thereof in, countries other than the United States in connection with which AHFC reserves the right, in accordance with customary and established banking practice, to deposit, or otherwise subject to a Lien, cash, securities or receivables for the purpose of securing banking accommodations or as the basis for the issuance of bankers' acceptances or in aid of other similar borrowing arrangements;
- (h) any pledge of receivables payable in currencies other than the United States dollar to secure borrowings in countries other than the United States;
- (i) any Lien in favor of the United States or any state thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- (j) any Lien securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining of advances or credit or the securing of debt, if made and continuing in the ordinary course of business;
- (k) any Lien to secure non-recourse obligations in connection with AHFC engaging in leveraged or single-investor lease transactions;
- (l) any Lien on property acquired or sold by AHFC resulting from the exercise of any rights arising out of defaults on receivables;
- (m) any Lien to secure obligations with respect to any interest rate, foreign currency exchange, swap, collar, cap or similar agreements entered into in the ordinary course of business to hedge or mitigate risks to which AHFC or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;
- (n) bankers' Liens or bankers' rights of offset, in each case arising in the ordinary course of banking business with respect to any bank accounts or bank deposits; and
- (o) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) to (n) inclusive; provided, however, that the amount of any and all obligations and indebtedness secured thereby does not exceed the amount thereof so secured immediately prior to the time of such extension, renewal or replacement and that such extension, renewal or replacement is limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property), and provided further, that AHFC is free to substitute collateral of equal value for the existing collateral in any transaction covered by clauses (a) through (n) above.

"Rating Agency" with respect to any security, means any rating agency that (i) has been requested by HMC or AHFC to issue a rating with respect to such security and (ii) has issued such a rating and such rating remains in effect at the time the termination, modification or amendment of the Keep Well Agreement referred to under "— Termination, Modification or Amendment of the Keep Well Agreement" above is to be effected.

"Subsidiary" means (1) any corporation a majority of the total voting power of whose outstanding Voting Stock is owned or controlled, directly or indirectly, at the date of determination by AHFC, and (2) any other person in which AHFC and/or one or more other Subsidiaries, directly or indirectly, at the date of determination, (x) own a majority of the outstanding equity interests or (y) have the power to elect or direct the election of, or to appoint or approve the appointment of, a majority of the directors, trustees or managing members of, or other persons holding similar positions with, such Person.

“Voting Stock” means, with respect to any person, any class or series of capital stock of, or other equity interests in, such person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of, or to appoint or to approve the appointment of, the directors, trustees or managing members of, or other persons holding similar positions with, such person.

### **Book-Entry Delivery and Settlement**

We have obtained the information in this section concerning Clearstream and Euroclear and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of Clearstream and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

### ***Global Clearance and Settlement***

The Notes were issued in the form of one or more global notes in fully registered form, without coupons, and deposited with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to Euroclear or Clearstream or their respective nominees.

Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and, except as described herein, will not receive or be entitled to receive physical delivery of Notes in definitive form. So long as the common depositary for Euroclear and Clearstream is the registered owner of the global notes, the common depositary for all purposes will be considered the sole holder of the Notes represented by the global notes under the Indenture and the global notes. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the Indenture, including for purposes of receiving any reports delivered by us or the Trustee pursuant to the Indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the Indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

### ***Clearstream***

Clearstream has advised that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of

its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator (as defined below) to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream participant, either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

### ***Euroclear***

Euroclear has advised that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A. /N.V. (the “Euroclear Operator”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no records of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

### ***Euroclear and Clearstream Arrangements***

So long as Euroclear or Clearstream or their nominee or their common depositary is the registered holder of the global notes, Euroclear, Clearstream or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Indenture and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the global notes will be made to Euroclear, Clearstream, such nominee or such common depositary, as the case may be, as registered holder thereof. None of us, the Trustee, any agent and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act of 1933) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium, if any, and interest with respect to the global notes, including any distributions of redemption payments, will be credited in euro to the extent received by Euroclear or Clearstream



from the Paying Agent to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

### ***Initial Settlement***

We understand that investors that hold their Notes through Clearstream or Euroclear accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form. Subject to applicable procedures of Clearstream and Euroclear, Notes will be credited to the securities custody accounts of Clearstream and Euroclear participants on the business day following the Settlement Date, for value on the Settlement Date.

### ***Secondary Market Trading***

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand that secondary market trading between Clearstream and/or Euroclear participants will occur in the ordinary way following the applicable rules and operating procedures of Clearstream and Euroclear. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Clearstream and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to make or receive a payment or delivery of the Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

Clearstream or Euroclear will credit payments to the cash accounts of Clearstream customers or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depositary. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures.

Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Notes among participants of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

### ***Exchange of Global Notes for Certificated Notes***

Subject to certain conditions, the Notes represented by the global notes are exchangeable for notes in definitive form of like tenor in minimum denominations of €100,000 principal amount and multiples of €1,000 in excess thereof if:

- (1) the common depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary for the global notes and we fail to appoint a successor depositary within 90 calendar days;

(2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes; or

(3) there has occurred and is continuing an Event of Default with respect to the Notes.

In all cases, definitive notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the common depositary (in accordance with its customary procedures).

Payments (including principal, premium, if any, and interest) and transfers with respect to notes in definitive form may be executed at the office or agency maintained for such purpose, at our option, by check mailed to the holders thereof at the respective addresses set forth in the register of holders of the Notes, provided that all payments (including principal, premium, if any, and interest) with respect to notes in definitive form, for which the holders thereof have given wire transfer instructions, will be required to be made by wire transfer of immediately available funds to the accounts specified by the holders thereof. No service charge will be made for any registration of transfer, but payment of a sum sufficient to cover any tax or governmental charge payable in connection with that registration may be required.

**DESCRIPTION OF AHFC'S  
€500,000,000 0.550% MEDIUM-TERM NOTES, SERIES A, DUE MARCH 17, 2023**

The following is a description of American Honda Finance Corporation's €500,000,000 0.550% Medium-Term Notes, Series A, due March 17, 2023 (the "Notes") as provided in our pricing supplement, dated March 12, 2018, and filed with the Securities and Exchange Commission (the "SEC") on March 13, 2018. This description is subject to, and qualified in its entirety by reference to, the description of the general terms and provisions of the debt securities found in our prospectus, dated August 10, 2016 and filed with the SEC on August 10, 2016, and our Medium-Term Notes, Series A, described in the prospectus supplement, dated August 10, 2016 and filed with the SEC on August 10, 2016. The following summary of specified provisions of the Indenture (defined below) and the Notes is subject to, and qualified in its entirety by reference to, the actual provisions of the Indenture, including the definitions contained in the Indenture of some of the terms used below, and the Notes. A copy of the Indenture has been filed as an exhibit to our Registration Statement on Form S-3 filed with the SEC on August 10, 2016 and of which the pricing supplement, prospectus supplement and prospectus are a part.

Unless otherwise indicated by the context, as used herein, "AHFC," "we," "us" and "our" refer solely to American Honda Finance Corporation (excluding its subsidiaries).

**General**

The Notes are a tranche of our Medium-Term Notes, Series A. The Notes were issued under the Indenture, dated as of September 5, 2013, between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of February 8, 2018, between AHFC and the Trustee (as so supplemented, the "Indenture"). The terms of the Notes include those provisions contained in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The Notes were initially limited to an aggregate principal amount of €500,000,000. See "— Further Issuances" below. The Notes were issued in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes are our general unsecured and unsubordinated obligations, rank equally with all of our existing and future unsecured and unsubordinated indebtedness from time to time outstanding and are considered part of the same series of notes as any of our other Medium-Term Notes, Series A, previously issued or issued in the future. The Indenture does not limit the amount of Notes, debentures or other evidence of indebtedness that we may issue under the Indenture or otherwise and provides that debt securities under the Indenture may be issued from time to time in one or more series.

We have initially designated Deutsche Bank Trust Company Americas as our paying agent (the "Paying Agent"), registrar and transfer agent where Notes may be presented for payment.

The entire principal amount of the Notes will mature and become payable, together with unpaid interest, if any, accrued thereon on March 17, 2023 (the "Stated Maturity Date") unless redeemed earlier as described below under "—Optional Redemption" and "—Redemption for Tax Reasons." The Notes are not subject to any sinking fund provisions and are not convertible into or exchangeable for any of our equity interests.

The principal of each Note payable at maturity or earlier redemption will be paid in euro against presentation and surrender at the office or agency maintained for such purpose.

Under the Indenture, holders of the Notes will vote with holders of all other tranches of our Medium-Term Notes, Series A, as a single class.

The Indenture contains provisions that require the consent of or action by a specified percentage of the aggregate principal amount of our Medium-Term Notes, Series A, acting as a single class. For example, holders of a majority in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may consent to

certain modifications or amendments to the Indenture and waiver of certain continuing defaults under the Indenture, as described under “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus, and holders of at least 25% in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may declare the principal amount of our Medium-Term Notes, Series A, to be due and payable immediately upon the occurrence of certain events of default, as described under “Description of Debt Securities—Events of Default” in the prospectus. Therefore, because the Medium-Term Notes, Series A, vote as a single class, a greater percentage of the principal amount of the Notes, may be required to take action under the Indenture and the aggregate principal amount of the Notes may not be sufficient to take action under the Indenture in the future. In addition, under the prospectus supplement, we may issue up to \$30,000,000,000 aggregate principal amount of Medium-Term Notes, Series A, under the Indenture. As of May 31, 2019, we had \$19.95 billion aggregate principal amount, £600.00 million aggregate principal amount, and €2.80 billion aggregate principal amount of Medium-Term Notes, Series A, outstanding under the Indenture.

The Notes bear interest at 0.550% per year, accruing from March 19, 2018 (the “Settlement Date”) or from the immediately preceding interest payment date to which interest has been paid. Interest on the Notes is payable annually in arrears on March 17 (each an “Interest Payment Date”). Interest payable on an Interest Payment Date will be paid to the persons in whose names the Notes are registered at the close of business on the regular record date; provided, however, that interest payable at the Stated Maturity Date or earlier redemption date will be payable to the person to whom principal shall be payable. The regular record date for the Notes will be the fifteenth calendar day, whether or not a Business Day (as defined below), immediately preceding the related Interest Payment Date. Interest payable on an Interest Payment Date will be computed on the basis of an Actual/Actual (ICMA) (as defined in the rulebook of the International Capital Market Association) day count convention.

If any Interest Payment Date, the Stated Maturity Date or earlier redemption date falls on a day that is not a Business Day, the related payment of principal, premium, if any, or interest and additional amounts (“Additional Amounts”), if any, will be made on the next succeeding Business Day as if made on the date the applicable payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, the Stated Maturity Date or such redemption date, as the case may be, to the date of such payment on the next succeeding Business Day. For purposes of the Notes, “Business Day” means any day, other than a Saturday or Sunday, (i) which is not a day on which banking institutions in The City of New York or London are authorized or required by law, regulation or executive order to close and (ii) on which the Trans-European Automated Real-Time Gross Settlement Express Transfer system (the TARGET2 system) or any successor thereto is open.

### **Issuance of the Notes in Euro**

Initial holders were required to pay for the Notes in euro, and principal, premium, if any, and interest payments in respect of the Notes, including any payments made upon any redemption of the Notes, will be payable in euro.

If the euro is not available in our good faith judgment for the payment of principal, premium, if any, or interest with respect to the Notes, including payments of redemption on the Notes, due to the imposition of exchange controls or other circumstances beyond the control of AHFC, or is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions within the international banking community, AHFC will be entitled to satisfy its obligations to holders of the Notes by making that payment in U.S. dollars on the basis of the Market Exchange Rate (as defined below) as computed by the exchange rate agent on the second Business Day before that payment is due, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date that payment is due or as otherwise determined by AHFC in good faith, if the foregoing is impracticable. Any payment in respect of the Notes so made in U.S. dollars will not constitute a default under the Indenture. Neither the Trustee nor the Paying Agent shall be responsible for obtaining exchange rates, effecting conversions or otherwise handling redenominations.

The “Market Exchange Rate” means the noon buying rate in The City of New York for cable transfers of euros as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

In the event that the euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or an official redenomination of the euro, AHFC’s obligations with respect to payments on the Notes shall, in each case, be regarded immediately following such redenomination as providing for the payment of that amount of euros representing the amount of such obligations immediately before such redenomination. The Notes do not provide for any adjustment to any amount payable under the Notes as a result of any change in the value of euros relative to any other currency due solely to fluctuations in exchange rates.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and will, in the absence of clear error, be conclusive for all purposes and binding on the holders of the Notes.

### **Further Issuances**

We may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional notes, having the same ranking, interest rate, Stated Maturity Date, redemption provisions and other terms as the Notes, except for (1) the original issue date, (2) the issue price and (3) the first interest payment date. Additional notes will be considered part of the same series of notes as the Notes and any of our other Medium-Term Notes, Series A previously issued or issued in the future. We also may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional debt securities, under the Indenture or otherwise, ranking equally with the Notes and our other Medium-Term Notes, Series A.

### **Optional Redemption**

The Notes will be redeemable before their maturity, in whole or in part, at our option, at any time, at a “make-whole” redemption price in cash equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed (exclusive of interest accrued to but excluding the redemption date) discounted to the redemption date on an annual basis (based on an Actual/Actual (ICMA) (as defined in the rulebook of International Capital Markets Association) day count convention) at the applicable Comparable Government Bond Rate plus 10 basis points, plus, in each of clause (i) and (ii), unpaid interest, if any, thereon accrued to but excluding the redemption date. The following definitions will apply with respect to the foregoing:

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of an Independent Investment Banker, a German government bond whose maturity is closest to the maturity of the Notes to be redeemed, or if the Independent Investment Banker in its discretion determines that such similar bond is not in issue, such other European government bond as such Independent Investment Banker may, with the advice of three brokers of, and/or market makers in, European government bonds selected by such Independent Investment Banker, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond Rate” means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes to be redeemed, if they were to be purchased at such price on the third Business Day prior to the date fixed for redemption, would be equal to the gross redemption yield on such Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such Business Day as determined by an Independent Investment Banker.

“Independent Investment Banker” means each of BNP Paribas, J.P. Morgan Securities plc and MUFG Securities EMEA plc and their respective successors, or, if such firm is unwilling or unable to select the Comparable Government Bond, an independent investment banking institution of international standing appointed by AHFC.

Notice of any redemption will be given in writing not more than 60 nor less than 30 days before the redemption date to each holder of the Notes to be redeemed. Such notice of redemption shall specify the principal amount of Notes to be redeemed, ISIN and Common Code numbers of the Notes to be redeemed, the redemption date, the redemption price, the place or places of payment and that payment will be made upon presentation and surrender of such Notes. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes to be redeemed, which, in the case of Notes in book-entry form, will be in accordance with the procedures of the applicable depository. The Trustee may select Notes and portions of Notes in amounts of €100,000 and integral multiples of €1,000 in excess thereof.

### **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay as additional interest such Additional Amounts as are necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable. However, the foregoing obligation to pay Additional Amounts shall not apply:

- (a) to any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:
  - (i) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment therein;
  - (ii) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof; or
  - (iii) being or having been, for United States federal income tax purposes, a “controlled foreign corporation”, a “passive foreign investment company” (including a qualified electing fund), a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization;
- (b) to any tax, assessment or other governmental charge imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of AHFC entitled to vote, (ii) receiving interest described in Section 881(c)(3)(A) of the Code or (iii) being a controlled foreign corporation with respect to the United States that is related to AHFC by actual or constructive stock ownership;

- (c) to any holder who is a fiduciary or partnership or other than the sole beneficial owner of the Note, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Note would not have been entitled to the payment of such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;
- (d) to any tax, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Note, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (e) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of such Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (f) to any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge;
- (g) to any tax, assessment or governmental charge that is payable otherwise than by withholding by AHFC or the Paying Agent from the payment of the principal of or interest on such Note;
- (h) to any tax, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Note, if such payment can be made without such withholding by any other Paying Agent;
- (i) to any withholding or deduction on or in respect of any Note pursuant to sections 1471 through 1474 of the Code, and the regulations, administrative guidance and official interpretations promulgated thereunder ("FATCA"), any agreement between AHFC and the United States or any authority thereof entered into for FATCA purposes or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA; or
- (j) to any tax imposed as a result of any combination of the above.

The term "United States" means the United States of America, the States thereof (including the District of Columbia) and any other political subdivision or taxing authority thereof or therein affecting taxation, and the term "United States Alien" means any corporation, partnership, individual or fiduciary that, as to the United States, is for United States federal income tax purposes (A) a foreign corporation, (B) a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust, (C) a non-resident alien individual, or (D) a non-resident alien fiduciary of a foreign estate or trust.

### **Redemption for Tax Reasons**

If we have or will become obliged to pay Additional Amounts (as described above under the heading "— Payment of Additional Amounts") as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the Settlement Date, and we determine that such obligation cannot be

avoided by the use of reasonable measures then available to us, we may, at our option, at any time, having given not less than 30 nor more than 60 days' prior written notice to Holders, redeem, in whole, but not in part, the Notes at a redemption price equal to 100% of their principal amount, together with unpaid interest, if any, on the Notes accrued to but excluding the redemption date, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which we would be obliged to pay such Additional Amounts if a payment in respect to the Notes were due on such date. Prior to the transmission or publication of any notice of redemption pursuant to this paragraph, we shall deliver to the Trustee a certificate signed by two directors of AHFC stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem the Notes has occurred.

#### **Modification of the Indenture**

See "Description of Debt Securities—Modification, Waivers and Meetings" in the prospectus.

#### **Events of Default, Notice and Waiver**

See "Description of Debt Securities—Events of Default" in the prospectus.

#### **Discharge, Defeasance and Covenant Defeasance**

The defeasance provisions described in the prospectus under "Description of Debt Securities—Discharge, Legal Defeasance and Covenant Defeasance" are applicable to the Notes.

#### **Governing Law**

The Indenture and the Notes are governed by, and construed in accordance with, the laws of the State of New York.

#### **Benefit of the HMC-AHFC Keep Well Agreement**

The Notes will have the benefit of the Keep Well Agreement (as defined below) described under "Description of Debt Securities—Keep Well Agreement" in the prospectus.

#### **Certain Covenants**

##### *Merger, Consolidation and Transfer of Assets*

The Indenture provides that AHFC may not, in any transaction or series of related transactions, (i) consolidate or amalgamate with or merge into any other person; or (ii) sell, lease, assign, transfer or otherwise convey all or substantially all of the assets of AHFC and its subsidiaries, taken as a whole, to any other person, in each case, unless:



- in such transaction or transactions, either (1) AHFC shall be the continuing person (in the case of a merger) or (2) the successor person (if other than AHFC) formed by or resulting from the consolidation, amalgamation or merger or to which such assets shall have been sold, leased, assigned, transferred or otherwise conveyed (i) is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof or under the laws of Japan or any member country in the Organization for Economic Co-operation and Development or any political subdivision or governmental authority thereof, and (ii) shall, by a supplemental indenture, (a) if organized and existing other than under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof (A) expressly agree to make all payments in respect of the debt securities outstanding under the Indenture free and clear of, and without withholding or deduction for, or on account of, present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the jurisdiction of organization or residence (for tax purposes) of such successor person or any political subdivision or governmental authority thereof or therein having the power to tax, unless required by law, in which case such successor person shall have expressly agreed to pay such additional amounts as may be necessary in order that the net amount received by each holder of outstanding debt securities after such withholding or deduction is equal to the amount that would have been receivable in respect of each such debt security in the absence of such withholding or deduction, and (B) irrevocably and unconditionally (I) consent and submit to the jurisdiction of any United States federal court or New York state court, in each case located in the Borough of Manhattan, The City of New York, in respect of any action, suit or proceeding against it arising out of, or in connection with, the Indenture or the debt securities outstanding thereunder, (II) waive, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (III) appoint an agent in the Borough of Manhattan, The City of New York for service of process in any such action, suit or proceeding, and (b) expressly assume the due and punctual performance of all of AHFC's payment and other obligations under the Indenture and all of the debt securities outstanding thereunder;
- immediately after giving effect to such transaction or transactions, no Event of Default (as defined in the Indenture) under the Indenture, and no event which, after notice or lapse of time or both would become an Event of Default under the Indenture, shall have occurred and be continuing; and
- the Trustee shall have received an officer's certificate and opinion of counsel from AHFC to the effect that all conditions precedent to such transaction or transactions have been satisfied.

Upon any consolidation or amalgamation by AHFC with, or AHFC's merger into, any other person or any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of AHFC to any person, in each case in accordance with the provisions of the Indenture described above, the successor person formed by the consolidation or amalgamation or into which AHFC is merged or to which such sale, lease, assignment, transfer or other conveyance is made, as applicable, shall succeed to, and be substituted for, AHFC and may exercise every right and power of AHFC under the Indenture with the same effect as if such successor person had been named as AHFC in the Indenture; and thereafter, except in the case of a lease, the predecessor person shall be released from all obligations and covenants under the Indenture and the outstanding debt securities and any coupons appertaining thereto.

#### *Termination, Modification or Amendment of the Keep Well Agreement*

AHFC shall not effect any termination, modification or amendment of the Keep Well Agreement (as defined below) and the Keep Well Agreement may not be otherwise terminated without the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series issued under the Indenture that has the benefit of the Keep Well Agreement and is affected by such termination, modification or amendment (voting as separate classes) unless:

- with respect to any series of outstanding debt securities affected by such termination, modification or amendment that is rated by one or more Rating Agencies (as defined below), each such Rating Agency confirms in writing that the rating assigned to such series of outstanding debt securities will not be withdrawn or reduced by reason of such termination, modification or amendment; or
- the termination, modification or amendment is to: (i) replace, at the discretion of Honda Motor Co., Ltd. (“HMC”), AHFC as a party to the Keep Well Agreement with any successor person that assumes the obligations of AHFC under the Indenture and the outstanding debt securities pursuant to a transaction permitted under “—Merger, Consolidation and Transfer of Assets” discussed above, (ii) terminate, modify or amend the Keep Well Agreement between AHFC and HMC after AHFC has been released of its obligations under the Indenture and the outstanding debt securities in accordance with “—Merger, Consolidation and Transfer of Assets” discussed above, or (iii) terminate, modify or amend the Keep Well Agreement if such termination, modification or amendment affects only debt securities that have not yet been issued under the Indenture.

Any termination, modification or amendment of the Keep Well Agreement that is not in compliance with these provisions shall not be effective with respect to the outstanding debt securities of the applicable series.

#### *Negative Pledge*

AHFC shall not create or permit to be outstanding any Lien (as defined below) upon any of its present or future properties or assets, unless all the debt securities outstanding under the Indenture are secured by such Lien equally and ratably with all the other obligations and indebtedness for money borrowed secured by such Lien for so long as such other obligations and indebtedness for money borrowed are so secured, *provided, however*, that this covenant shall not apply to (1) Liens securing obligations (or securing any refunding or extensions of such obligations not exceeding the principal amount of the obligations so refunded or extended at the time of the refunding or extension thereof and covering only the same property theretofore securing the same) which, after giving effect to the initial incurrence of such obligations, do not in the aggregate exceed 30% of Consolidated Net Tangible Assets (as defined below) or (2) any Permitted Lien (as defined below).

#### *Definitions*

“ABS Obligation” means any security or other obligation that is (i) issued by a trust or entity created for the special purpose of issuing such security or obligation (regardless of whether it may also issue others of the same or another series or class), (ii) secured by specific assets transferred to such trust or entity by AHFC in connection with the issuance of such security or obligation, and (iii) payable by its terms solely from specified assets (including such security) of such trust or entity and, if applicable, specified third party credit support.

“Consolidated Net Tangible Assets” means the aggregate amount of assets (less applicable reserves and other items deductible from the gross book value of specific asset amounts), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles of AHFC and its consolidated subsidiaries calculated as of the date of the most recently prepared quarterly consolidated financial statements of AHFC prepared in accordance with GAAP.

“GAAP” means, unless otherwise specified with respect to any series of debt securities in the applicable prospectus supplement, generally accepted accounting principles in the United States as in effect on the date of any calculation or determination required under the Indenture.

“Group Subsidiary” means an entity the financial statements of which are consolidated with the financial statements of HMC.

“Keep Well Agreement” means either (i) if clause (ii) of this definition does not apply, the Keep Well Agreement, dated as of September 9, 2005, between the Company and HMC, or (ii) if HMC has elected to enter into a keep well agreement (substantially in the form of the keep well agreement described in clause (i) of this definition)

with a successor person as permitted under “—Termination, Modification or Amendment of the Keep Well Agreement” above as a result of a transaction permitted under “—Merger, Consolidation and Transfer of Assets” above, such keep well agreement between HMC and the successor person, in each case as the same may be amended or supplemented from time to time.

“Lien” means, with respect to any asset or property, any mortgage, lien (statutory or otherwise), pledge, hypothecation, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset or property, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof or sale/leaseback, any option or other agreement to sell or give a security interest in, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction, *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Nonrecourse,” with respect to AHFC and any ABS Obligation, means that AHFC has no obligation in respect of any payment due on such ABS Obligation and the holders thereof have so agreed (or are deemed to have so agreed by acquiring such ABS Obligation).

“Permitted Lien” means:

- (a) any deposit of AHFC’s assets with any surety company or clerk of any court, or in escrow as collateral in connection with, or in lieu of, any bond on appeal by AHFC from any judgment or decree against it, or in connection with other proceedings in actions at law or in equity by or against AHFC or to exercise any privilege or license, performance of bids, contracts or leases or to secure other public or statutory obligations of AHFC or other similar deposits or pledges made in the ordinary course of business;
- (b) any Lien on any property, tangible or intangible, real or personal, existing at the time of acquisition thereof (whether through purchase or through merger or consolidation) or given to secure the payment of all or any part of the purchase price thereof or to secure any indebtedness incurred prior to, at the time of, or within one year after, the acquisition thereof for the purpose of financing all or any part of the purchase price thereof;
- (c) mechanic’s, workmen’s, repairmen’s, materialmen’s or carriers’ Liens or other similar Liens arising in the ordinary course of business or deposits or pledges to obtain the release of any such Liens;
- (d) any Lien arising out of a judgment or award against AHFC with respect to which AHFC shall in good faith be prosecuting an appeal or proceedings for review or Liens incurred by AHFC for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which AHFC is a party;
- (e) any Lien for taxes not yet subject to penalties for nonpayment or contest, or minor survey exceptions, or minor encumbrances, assessments or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, assessments, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of AHFC’s business;
- (f) any Lien on any property, tangible or intangible, which may arise as a result of a transaction involving a transfer of assets by AHFC if such transfer of assets is treated as a sale in accordance with GAAP or if such transfer of assets is to an entity that issues ABS Obligations backed by such assets and such ABS Obligations are Nonrecourse to AHFC;

- (g) any pledge of assets to secure any financing by AHFC of the exporting of goods to or between, or the marketing thereof in, countries other than the United States in connection with which AHFC reserves the right, in accordance with customary and established banking practice, to deposit, or otherwise subject to a Lien, cash, securities or receivables for the purpose of securing banking accommodations or as the basis for the issuance of bankers' acceptances or in aid of other similar borrowing arrangements;
- (h) any pledge of receivables payable in currencies other than the United States dollar to secure borrowings in countries other than the United States;
- (i) any Lien in favor of the United States or any state thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- (j) any Lien securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining of advances or credit or the securing of debt, if made and continuing in the ordinary course of business;
- (k) any Lien to secure non-recourse obligations in connection with AHFC engaging in leveraged or single-investor lease transactions;
- (l) any Lien on property acquired or sold by AHFC resulting from the exercise of any rights arising out of defaults on receivables;
- (m) any Lien to secure obligations with respect to any interest rate, foreign currency exchange, swap, collar, cap or similar agreements entered into in the ordinary course of business to hedge or mitigate risks to which AHFC or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;
- (n) bankers' Liens or bankers' rights of offset, in each case arising in the ordinary course of banking business with respect to any bank accounts or bank deposits; and
- (o) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) to (n) inclusive; provided, however, that the amount of any and all obligations and indebtedness secured thereby does not exceed the amount thereof so secured immediately prior to the time of such extension, renewal or replacement and that such extension, renewal or replacement is limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property), and provided further, that AHFC is free to substitute collateral of equal value for the existing collateral in any transaction covered by clauses (a) through (n) above.

"Rating Agency" with respect to any security, means any rating agency that (i) has been requested by HMC or AHFC to issue a rating with respect to such security and (ii) has issued such a rating and such rating remains in effect at the time the termination, modification or amendment of the Keep Well Agreement referred to under "— Termination, Modification or Amendment of the Keep Well Agreement" above is to be effected.

"Subsidiary" means (1) any corporation a majority of the total voting power of whose outstanding Voting Stock is owned or controlled, directly or indirectly, at the date of determination by AHFC, and (2) any other person in which AHFC and/or one or more other Subsidiaries, directly or indirectly, at the date of determination, (x) own a majority of the outstanding equity interests or (y) have the power to elect or direct the election of, or to appoint or approve the appointment of, a majority of the directors, trustees or managing members of, or other persons holding similar positions with, such Person.

“Voting Stock” means, with respect to any person, any class or series of capital stock of, or other equity interests in, such person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of, or to appoint or to approve the appointment of, the directors, trustees or managing members of, or other persons holding similar positions with, such person.

### **Book-Entry Delivery and Settlement**

We have obtained the information in this section concerning Clearstream and Euroclear and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of Clearstream and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

### ***Global Clearance and Settlement***

The Notes were issued in the form of one or more global notes in fully registered form, without coupons, and deposited with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to the common depositary, its successors or their respective nominees.

Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and, except as described herein, will not receive or be entitled to receive physical delivery of Notes in definitive form. So long as the common depositary for Euroclear and Clearstream or such common depositary's nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole holder of the Notes represented by the global notes for all purposes under the Indenture and the global notes. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the Indenture, including for purposes of receiving any reports delivered by us or the Trustee pursuant to the Indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the Indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

### ***Clearstream***

Clearstream has advised that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator (as defined below) to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream participant, either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

### ***Euroclear***

Euroclear has advised that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV (the “Euroclear Operator”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no records of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

### ***Euroclear and Clearstream Arrangements***

So long as the common depositary for Euroclear or Clearstream or such common depositary’s nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Indenture and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of the global notes will be made to the common depositary or such common depositary’s nominee, as the case may be, as registered holder thereof. None of us, the Trustee, any agent and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act of 1933, as amended, or the “Securities Act”) will have any responsibility or liability for any records relating to or payments made on account of

beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium, if any, and interest with respect to the global notes, including any payments made upon any redemption of the global notes, will be credited in euro to the extent received by Euroclear or Clearstream from the Paying Agent to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

### ***Initial Settlement***

We understand that investors that hold their Notes through Clearstream or Euroclear accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form. Subject to applicable procedures of Clearstream and Euroclear, Notes will be credited to the securities custody accounts of Clearstream and Euroclear participants on the business day following the Settlement Date, for value on the Settlement Date.

### ***Secondary Market Trading***

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand that secondary market trading between Clearstream and/or Euroclear participants will occur in the ordinary way following the applicable rules and operating procedures of Clearstream and Euroclear. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Clearstream and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to make or receive a payment or delivery of the Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

Clearstream or Euroclear will credit payments to the cash accounts of Clearstream customers or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depository. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures.

Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Notes among participants of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

### ***Exchange of Global Notes for Certificated Notes***

Subject to certain conditions, the Notes represented by the global notes are exchangeable for notes in definitive form of like tenor in minimum denominations of €100,000 principal amount and multiples of €1,000 in excess thereof if:

- (1) Clearstream, Euroclear or any successor thereto notifies us that it is unwilling or unable to act as a clearing system for the Notes;
- (2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes; or
- (3) there has occurred and is continuing an Event of Default with respect to the Notes.

In all cases, definitive notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the common depositary (in accordance with its customary procedures).

Payments (including principal, premium, if any, and interest) and transfers with respect to notes in definitive form may be executed at the office or agency maintained for such purpose, at our option, by check mailed to the holders thereof at the respective addresses set forth in the register of holders of the Notes, provided that all payments (including principal, premium, if any, and interest) with respect to notes in definitive form, for which the holders thereof have given wire transfer instructions, will be required to be made by wire transfer of immediately available funds to the accounts specified by the holders thereof. No service charge will be made for any registration of transfer, but payment of a sum sufficient to cover any tax or governmental charge payable in connection with that registration may be required.



**DESCRIPTION OF AHFC'S  
€500,000,000 0.750% MEDIUM-TERM NOTES, SERIES A, DUE JANUARY 17, 2024**

The following is a description of American Honda Finance Corporation's €500,000,000 0.750% Medium-Term Notes, Series A, due January 17, 2024 (the "Notes") as provided in our pricing supplement, dated January 9, 2017, and filed with the Securities and Exchange Commission (the "SEC") on January 10, 2017. This description is subject to, and qualified in its entirety by reference to, the description of the general terms and provisions of the debt securities found in our prospectus, dated August 10, 2016 and filed with the SEC on August 10, 2016, and our Medium-Term Notes, Series A, described in the prospectus supplement, dated August 10, 2016 and filed with the SEC on August 10, 2016. The following summary of specified provisions of the Indenture (defined below) and the Notes is subject to, and qualified in its entirety by reference to, the actual provisions of the Indenture, including the definitions contained in the Indenture of some of the terms used below, and the Notes. A copy of the Indenture has been filed as an exhibit to our Registration Statement on Form S-3 filed with the SEC on August 10, 2016 and of which the pricing supplement, prospectus supplement and prospectus are a part.

Unless otherwise indicated by the context, as used herein, "AHFC," "we," "us" and "our" refer solely to American Honda Finance Corporation (excluding its subsidiaries).

**General**

The Notes are a tranche of our Medium-Term Notes, Series A. The Notes were issued under the Indenture, dated as of September 5, 2013, between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee") (the "Indenture"). The terms of the Notes include those provisions contained in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The Notes were initially limited to an aggregate principal amount of €500,000,000. See "— Further Issuances" below. The Notes were issued in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes are our general unsecured and unsubordinated obligations, rank equally with all of our existing and future unsecured and unsubordinated indebtedness from time to time outstanding and are considered part of the same series of notes as any of our other Medium-Term Notes, Series A, previously issued or issued in the future. The Indenture does not limit the amount of Notes, debentures or other evidence of indebtedness that we may issue under the Indenture or otherwise and provides that debt securities under the Indenture may be issued from time to time in one or more series.

We have initially designated Deutsche Bank Trust Company Americas as our paying agent (the "Paying Agent"), registrar and transfer agent where Notes may be presented for payment.

The entire principal amount of the Notes will mature and become payable, together with unpaid interest, if any, accrued thereon on January 17, 2024 (the "Stated Maturity Date") unless redeemed earlier as described below under "—Optional Redemption" and "— Redemption for Tax Reasons." The Notes are not subject to any sinking fund provisions and are not convertible into or exchangeable for any of our equity interests.

The principal of each Note payable at maturity or earlier redemption will be paid in euro against presentation and surrender at the office or agency maintained for such purpose.

Under the Indenture, holders of the Notes will vote with holders of all other tranches of our Medium-Term Notes, Series A, as a single class.

The Indenture contains provisions that require the consent of or action by a specified percentage of the aggregate principal amount of our Medium-Term Notes, Series A, acting as a single class. For example, holders of a majority in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may consent to certain modifications or amendments to the Indenture and waiver of certain continuing defaults under the Indenture,

as described under “Description of Debt Securities— Modification, Waivers and Meetings” in the prospectus, and holders of at least 25% in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may declare the principal amount of our Medium-Term Notes, Series A, to be due and payable immediately upon the occurrence of certain events of default, as described under “Description of Debt Securities—Events of Default” in the prospectus. Therefore, because the Medium-Term Notes, Series A, vote as a single class, a greater percentage of the principal amount of the Notes, may be required to take action under the Indenture and the aggregate principal amount of the Notes may not be sufficient to take action under the Indenture in the future. In addition, under the prospectus supplement, we may issue up to \$30,000,000,000 aggregate principal amount of Medium-Term Notes, Series A, under the Indenture. As of May 31, 2019, we had \$19.95 billion aggregate principal amount, £600.00 million aggregate principal amount, and €2.80 billion aggregate principal amount of Medium-Term Notes, Series A, outstanding under the Indenture.

The Notes bear interest at 0.750% per year, accruing from January 17, 2017 (the “Settlement Date”) or from the immediately preceding interest payment date to which interest has been paid. Interest on the Notes is payable annually in arrears on January 17 (each an “Interest Payment Date”). Interest payable on an Interest Payment Date will be paid to the persons in whose names the Notes are registered at the close of business on the regular record date; provided, however, that interest payable at the Stated Maturity Date or earlier redemption date will be payable to the person to whom principal shall be payable. The regular record date for the Notes will be the fifteenth calendar day, whether or not a Business Day (as defined below), immediately preceding the related Interest Payment Date. Interest payable on an Interest Payment Date will be computed on the basis of an Actual/Actual (ICMA) (as defined in the rulebook of the International Capital Market Association) day count convention.

If any Interest Payment Date, the Stated Maturity Date or earlier redemption date falls on a day that is not a Business Day, the related payment of principal, premium, if any, or interest will be made on the next succeeding Business Day as if made on the date the applicable payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, the Stated Maturity Date or such redemption date, as the case may be, to the date of such payment on the next succeeding Business Day. For purposes of the Notes, “Business Day” means any day, other than a Saturday or Sunday, (i) which is not a day on which banking institutions in The City of New York or London are authorized or required by law, regulation or executive order to close and (ii) on which the Trans-European Automated Real-Time Gross Settlement Express Transfer system (the TARGET system) or any successor thereto, is open.

### **Issuance in Euro**

Initial holders were required to pay for the Notes in euro, and principal, premium, if any, and interest payments in respect of the Notes, including any payments made upon any redemption of the Notes, will be payable in euro.

If the euro is not available in our good faith judgment for the payment of principal, premium, if any, or interest with respect to the Notes, including payments of redemption on the Notes, due to the imposition of exchange controls or other circumstances beyond the control of AHFC, or is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, AHFC will be entitled to satisfy its obligations to holders of the Notes by making that payment in U.S. dollars on the basis of the Market Exchange Rate (as defined below) as computed by the exchange rate agent on the second Business Day before that payment is due, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date that payment is due or as otherwise determined by AHFC in good faith, if the foregoing is impracticable. Any payment in respect of the Notes so made in U.S. dollars will not constitute a default under the Indenture. Neither the Trustee nor the Paying Agent shall be responsible for obtaining exchange rates, effecting conversions or otherwise handling redenominations.

The “Market Exchange Rate” means the noon buying rate in The City of New York for cable transfers of euros as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

In the event that the euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency, an official redenomination of the euro, AHFC's obligations with respect to payments on the Notes shall, in all cases, be regarded immediately following such redenomination as providing for the payment of that amount of euros representing the amount of such obligations immediately before such redenomination. The Notes do not provide for any adjustment to any amount payable under the Notes as a result of any change in the value of the euro relative to any other currency due solely to fluctuations in exchange rates.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and will, in the absence of clear error, be conclusive for all purposes and binding on the holders of the Notes.

### **Further Issuances**

We may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional notes, having the same ranking, interest rate, Stated Maturity Date, redemption provisions and other terms as the Notes, except for (1) the original issue date, (2) the issue price and (3) the first interest payment date. Additional notes will be considered part of the same series of notes as the Notes and any of our other Medium-Term Notes, Series A previously issued or issued in the future. We also may, from time to time, without notice to or the consent of the registered holders of the Notes, create and issue additional debt securities, under the Indenture or otherwise, ranking equally with the Notes and our other Medium-Term Notes, Series A.

### **Optional Redemption**

The Notes will be redeemable before their maturity, in whole or in part, at our option, at any time, at a "make-whole" redemption price in cash equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed (exclusive of interest accrued to but excluding the redemption date) discounted to the redemption date on an annual basis (based on an Actual/Actual (ICMA) (as defined in the rulebook of International Capital Markets Association) day count convention) at the applicable Comparable Government Bond Rate plus 15 basis points (any excess of (ii) over (i) being referred to as the "Make Whole Premium"), plus, in each of clause (i) and (ii), unpaid interest, if any, thereon accrued to but excluding the redemption date. The following definitions will apply with respect to the foregoing:

"Comparable Government Bond" means, in relation to any Comparable Government Bond Rate calculation, at the discretion of an Independent Investment Banker, a German government bond whose maturity is closest to the maturity of the Notes to be redeemed, or if the Independent Investment Banker in its discretion determines that such similar bond is not in issue, such other European government bond as such Independent Investment Banker may, with the advice of three brokers of, and/or market makers in, European government bonds selected by such Independent Investment Banker, determine to be appropriate for determining the Comparable Government Bond Rate.

"Comparable Government Bond Rate" means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes to be redeemed, if they were to be purchased at such price on the third Business Day prior to the date fixed for redemption, would be equal to the gross redemption yield on such Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such Business Day as determined by an Independent Investment Banker.

"Independent Investment Banker" means each of Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited and Société Générale, and their respective successors, or, if such firm is unwilling or unable to select the Comparable Government Bond, an independent investment banking institution of international standing appointed by AHFC.

Notice of any redemption will be given in writing not more than 60 nor less than 30 days before the redemption date to each holder of the Notes to be redeemed. Such notice of redemption shall specify the principal

amount of Notes to be redeemed, ISIN and Common Code numbers of the Notes to be redeemed, the redemption date, the redemption price, the place or places of payment and that payment will be made upon presentation and surrender of such Notes. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes to be redeemed, which, in the case of Notes in book-entry form, will be in accordance with the procedures of the applicable depository. The Trustee may select Notes and portions of Notes in amounts of €100,000 and integral multiples of €1,000 in excess thereof.

Notwithstanding any other provision of the Indenture or the Notes, (i) the holders of the Notes shall not be entitled to specific performance of the optional redemption provisions described in this section or the payment of Additional Amounts (as defined below) described under “— Payment of Additional Amounts”, and no Make Whole Premium or Additional Amount will be due or available as a remedy, in each case in connection with (x) any default or Event of Default under the Indenture or (y) any acceleration (automatic or otherwise) of all, or any portion of, the Notes (other than an acceleration in respect of an Event of Default, as applicable, for (a) failing to pay the “make-whole” redemption price when due following AHFC’s voluntary election, if any, to redeem the Notes pursuant to the optional redemption provisions described in this section, to the extent any Make Whole Premium is due in connection therewith) or (b) failing to pay the Additional Amount when due pursuant to the requirement described under “— Payment of Additional Amounts”, to the extent any Additional Amount is due in connection therewith), and (ii) the requirement to pay any Make Whole Premium or Additional Amount shall only arise in connection with AHFC’s voluntary election, if any, to redeem the Notes pursuant to the optional redemption provisions described in this section or the payment of the Additional Amount becomes necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable, respectively, and not in connection with any other payment, distribution, satisfaction or other recovery in respect of the Notes or in connection with any refinancing of the Notes following an Event of Default upon certain events of bankruptcy or insolvency set forth in the Indenture.

### **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay as additional interest such additional amounts (“Additional Amounts”) as are necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable. However, the foregoing obligation to pay Additional Amounts shall not apply:

- (a) to any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:
  - (i) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment therein;
  - (ii) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof; or

- (iii) being or having been, for United States federal income tax purposes, a “controlled foreign corporation”, a “passive foreign investment company” (including a qualified electing fund), a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization;
- (b) to any tax, assessment or other governmental charge imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of AHFC entitled to vote, (ii) receiving interest described in Section 881(c)(3)(A) of the Code or (iii) being a controlled foreign corporation with respect to the United States that is related to AHFC by actual or constructive stock ownership;
- (c) to any holder who is a fiduciary or partnership or other than the sole beneficial owner of the Note, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Note would not have been entitled to the payment of such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;
- (d) to any tax, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Note, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (e) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of such Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (f) to any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge;
- (g) to any tax, assessment or governmental charge that is payable otherwise than by withholding by AHFC or the Paying Agent from the payment of the principal of or interest on such Note;
- (h) to any tax, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Note, if such payment can be made without such withholding by any other Paying Agent;
- (i) to any withholding or deduction on or in respect of any Note pursuant to sections 1471 through 1474 of the Code, and the regulations, administrative guidance and official interpretations promulgated thereunder (“FATCA”), any agreement between AHFC and the United States or any authority thereof entered into for FATCA purposes or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA; or
- (j) to any tax imposed as a result of any combination of the above.

The term “United States” means the United States of America, the States thereof (including the District of Columbia) and any other political subdivision or taxing authority thereof or therein affecting taxation, and the term

“United States Alien” means any corporation, partnership, individual or fiduciary that, as to the United States, is for United States federal income tax purposes (A) a foreign corporation, (B) a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust, (C) a non-resident alien individual, or (D) a non-resident alien fiduciary of a foreign estate or trust.

### **Redemption for Tax Reasons**

If we have or will become obliged to pay Additional Amounts (as described above under the heading “—Payment of Additional Amounts”) as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the Settlement Date, and we determine that such obligation cannot be avoided by the use of reasonable measures then available to us, we may, at our option, at any time, having given not less than 30 nor more than 60 days’ prior written notice to Holders, redeem, in whole, but not in part, the Notes at a redemption price equal to 100% of their principal amount, together with unpaid interest, if any, on the Notes accrued to but excluding the redemption date, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which we would be obliged to pay such Additional Amounts if a payment in respect to the Notes were due on such date. Prior to the transmission or publication of any notice of redemption pursuant to this paragraph, we shall deliver to the Trustee a certificate signed by two directors of AHFC stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem the Notes has occurred.

### **Modification of the Indenture**

See “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus.

### **Events of Default, Notice and Waiver**

See “Description of Debt Securities—Events of Default” in the prospectus.

### **Discharge, Defeasance and Covenant Defeasance**

The defeasance provisions described in the prospectus under “Description of Debt Securities—Discharge, Legal Defeasance and Covenant Defeasance” are applicable to the Notes.

### **Governing Law**

The Indenture and the Notes are governed by, and construed in accordance with, the laws of the State of New York.

### **Benefit of the HMC-AHFC Keep Well Agreement**

The Notes will have the benefit of the Keep Well Agreement (as defined below) described under “Description of Debt Securities—Keep Well Agreement” in the prospectus.

### **Certain Covenants**

#### *Merger, Consolidation and Transfer of Assets*

The Indenture provides that AHFC may not, in any transaction or series of related transactions, (i) consolidate or amalgamate with or merge into any other person; or (ii) sell, lease, assign, transfer or otherwise convey all or substantially all of the assets of AHFC and its subsidiaries, taken as a whole, to any other person, in each case, unless:

- in such transaction or transactions, either (1) AHFC shall be the continuing person (in the case of a merger) or (2) the successor person (if other than AHFC) formed by or resulting from the consolidation, amalgamation or merger or to which such assets shall have been sold, leased, assigned, transferred or otherwise conveyed (i) is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof or under the laws of Japan or any member country in the Organization for Economic Co-operation and Development or any political subdivision or governmental authority thereof, and (ii) shall, by a supplemental indenture, (a) if organized and existing other than under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof (A) expressly agree to make all payments in respect of the debt securities outstanding under the Indenture free and clear of, and without withholding or deduction for, or on account of, present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the jurisdiction of organization or residence (for tax purposes) of such successor person or any political subdivision or governmental authority thereof or therein having the power to tax, unless required by law, in which case such successor person shall have expressly agreed to pay such additional amounts as may be necessary in order that the net amount received by each holder of outstanding debt securities after such withholding or deduction is equal to the amount that would have been receivable in respect of each such debt security in the absence of such withholding or deduction, and (B) irrevocably and unconditionally (I) consent and submit to the jurisdiction of any United States federal court or New York state court, in each case located in the Borough of Manhattan, The City of New York, in respect of any action, suit or proceeding against it arising out of, or in connection with, the Indenture or the debt securities outstanding thereunder, (II) waive, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (III) appoint an agent in the Borough of Manhattan, The City of New York for service of process in any such action, suit or proceeding, and (b) expressly assume the due and punctual performance of all of AHFC's payment and other obligations under the Indenture and all of the debt securities outstanding thereunder;
- immediately after giving effect to such transaction or transactions, no Event of Default under the Indenture, and no event which, after notice or lapse of time or both would become an Event of Default under the Indenture, shall have occurred and be continuing; and
- the Trustee shall have received an officer's certificate and opinion of counsel from AHFC to the effect that all conditions precedent to such transaction or transactions have been satisfied.

Upon any consolidation or amalgamation by AHFC with, or AHFC's merger into, any other person or any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of AHFC to any person, in each case in accordance with the provisions of the Indenture described above, the successor person formed by the consolidation or amalgamation or into which AHFC is merged or to which such sale, lease, assignment, transfer or other conveyance is made, as applicable, shall succeed to, and be substituted for, AHFC and may exercise every right and power of AHFC under the Indenture with the same effect as if such successor person had been named as AHFC in the Indenture; and thereafter, except in the case of a lease, the predecessor person shall be released from all obligations and covenants under the Indenture and the outstanding debt securities and any coupons appertaining thereto.

#### *Termination, Modification or Amendment of the Keep Well Agreement*

AHFC shall not effect any termination, modification or amendment of the Keep Well Agreement (as defined below) and the Keep Well Agreement may not be otherwise terminated without the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series issued under the Indenture that has the benefit of the Keep Well Agreement and is affected by such termination, modification or amendment (voting as separate classes) unless:

- with respect to any series of outstanding debt securities affected by such termination, modification or amendment that is rated by one or more Rating Agencies (as defined below), each such Rating Agency confirms in writing that the rating assigned to such series of outstanding debt securities will not be withdrawn or reduced by reason of such termination, modification or amendment; or
- the termination, modification or amendment is to: (i) replace, at the discretion of Honda Motor Co., Ltd. (“HMC”), AHFC as a party to the Keep Well Agreement with any successor person that assumes the obligations of AHFC under the Indenture and the outstanding debt securities pursuant to a transaction permitted under “—Merger, Consolidation and Transfer of Assets” discussed above, (ii) terminate, modify or amend the Keep Well Agreement between AHFC and HMC after AHFC has been released of its obligations under the Indenture and the outstanding debt securities in accordance with “—Merger, Consolidation and Transfer of Assets” discussed above, or (iii) terminate, modify or amend the Keep Well Agreement if such termination, modification or amendment affects only debt securities that have not yet been issued under the Indenture.

Any termination, modification or amendment of the Keep Well Agreement that is not in compliance with these provisions shall not be effective with respect to the outstanding debt securities of the applicable series.

#### *Negative Pledge*

AHFC shall not create or permit to be outstanding any Lien (as defined below) upon any of its present or future properties or assets, unless all the debt securities outstanding under the Indenture are secured by such Lien equally and ratably with all the other obligations and indebtedness for money borrowed secured by such Lien for so long as such other obligations and indebtedness for money borrowed are so secured, *provided, however*, that this covenant shall not apply to (1) Liens securing obligations (or securing any refunding or extensions of such obligations not exceeding the principal amount of the obligations so refunded or extended at the time of the refunding or extension thereof and covering only the same property theretofore securing the same) which, after giving effect to the initial incurrence of such obligations, do not in the aggregate exceed 30% of Consolidated Net Tangible Assets (as defined below) or (2) any Permitted Lien (as defined below).

#### *Definitions*

“ABS Obligation” means any security or other obligation that is (i) issued by a trust or entity created for the special purpose of issuing such security or obligation (regardless of whether it may also issue others of the same or another series or class), (ii) secured by specific assets transferred to such trust or entity by AHFC in connection with the issuance of such security or obligation, and (iii) payable by its terms solely from specified assets (including such security) of such trust or entity and, if applicable, specified third party credit support.

“Consolidated Net Tangible Assets” means the aggregate amount of assets (less applicable reserves and other items deductible from the gross book value of specific asset amounts), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles of AHFC and its consolidated subsidiaries calculated as of the date of the most recently prepared quarterly consolidated financial statements of AHFC prepared in accordance with GAAP.

“GAAP” means, unless otherwise specified with respect to any series of debt securities in the applicable prospectus supplement, generally accepted accounting principles in the United States as in effect on the date of any calculation or determination required under the Indenture.

“Group Subsidiary” means an entity the financial statements of which are consolidated with the financial statements of HMC.

“Keep Well Agreement” means either (i) if clause (ii) of this definition does not apply, the Keep Well Agreement, dated as of September 9, 2005, between the Company and HMC, or (ii) if HMC has elected to enter into a keep well agreement (substantially in the form of the keep well agreement described in clause (i) of this definition)



with a successor person as permitted under “—Termination, Modification or Amendment of the Keep Well Agreement” above as a result of a transaction permitted under “—Merger, Consolidation and Transfer of Assets” above, such keep well agreement between HMC and the successor person, in each case as the same may be amended or supplemented from time to time.

“Lien” means, with respect to any asset or property, any mortgage, lien (statutory or otherwise), pledge, hypothecation, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset or property, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof or sale/leaseback, any option or other agreement to sell or give a security interest in, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction, *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Nonrecourse,” with respect to AHFC and any ABS Obligation, means that AHFC has no obligation in respect of any payment due on such ABS Obligation and the holders thereof have so agreed (or are deemed to have so agreed by acquiring such ABS Obligation).

“Permitted Lien” means:

- (a) any deposit of AHFC’s assets with any surety company or clerk of any court, or in escrow as collateral in connection with, or in lieu of, any bond on appeal by AHFC from any judgment or decree against it, or in connection with other proceedings in actions at law or in equity by or against AHFC or to exercise any privilege or license, performance of bids, contracts or leases or to secure other public or statutory obligations of AHFC or other similar deposits or pledges made in the ordinary course of business;
- (b) any Lien on any property, tangible or intangible, real or personal, existing at the time of acquisition thereof (whether through purchase or through merger or consolidation) or given to secure the payment of all or any part of the purchase price thereof or to secure any indebtedness incurred prior to, at the time of, or within one year after, the acquisition thereof for the purpose of financing all or any part of the purchase price thereof;
- (c) mechanic’s, workmen’s, repairmen’s, materialmen’s or carriers’ Liens or other similar Liens arising in the ordinary course of business or deposits or pledges to obtain the release of any such Liens;
- (d) any Lien arising out of a judgment or award against AHFC with respect to which AHFC shall in good faith be prosecuting an appeal or proceedings for review or Liens incurred by AHFC for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which AHFC is a party;
- (e) any Lien for taxes not yet subject to penalties for nonpayment or contest, or minor survey exceptions, or minor encumbrances, assessments or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, assessments, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of AHFC’s business;
- (f) any Lien on any property, tangible or intangible, which may arise as a result of a transaction involving a transfer of assets by AHFC if such transfer of assets is treated as a sale in accordance with GAAP or if such transfer of assets is to an entity that issues ABS Obligations backed by such assets and such ABS Obligations are Nonrecourse to AHFC;

- (g) any pledge of assets to secure any financing by AHFC of the exporting of goods to or between, or the marketing thereof in, countries other than the United States in connection with which AHFC reserves the right, in accordance with customary and established banking practice, to deposit, or otherwise subject to a Lien, cash, securities or receivables for the purpose of securing banking accommodations or as the basis for the issuance of bankers' acceptances or in aid of other similar borrowing arrangements;
- (h) any pledge of receivables payable in currencies other than the United States dollar to secure borrowings in countries other than the United States;
- (i) any Lien in favor of the United States or any state thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- (j) any Lien securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining of advances or credit or the securing of debt, if made and continuing in the ordinary course of business;
- (k) any Lien to secure non-recourse obligations in connection with AHFC engaging in leveraged or single-investor lease transactions;
- (l) any Lien on property acquired or sold by AHFC resulting from the exercise of any rights arising out of defaults on receivables;
- (m) any Lien to secure obligations with respect to any interest rate, foreign currency exchange, swap, collar, cap or similar agreements entered into in the ordinary course of business to hedge or mitigate risks to which AHFC or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;
- (n) bankers' Liens or bankers' rights of offset, in each case arising in the ordinary course of banking business with respect to any bank accounts or bank deposits; and
- (o) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) to (n) inclusive; provided, however, that the amount of any and all obligations and indebtedness secured thereby does not exceed the amount thereof so secured immediately prior to the time of such extension, renewal or replacement and that such extension, renewal or replacement is limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property), and provided further, that AHFC is free to substitute collateral of equal value for the existing collateral in any transaction covered by clauses (a) through (n) above.

"Rating Agency" with respect to any security, means any rating agency that (i) has been requested by HMC or AHFC to issue a rating with respect to such security and (ii) has issued such a rating and such rating remains in effect at the time the termination, modification or amendment of the Keep Well Agreement referred to under "— Termination, Modification or Amendment of the Keep Well Agreement" above is to be effected.

"Subsidiary" means (1) any corporation a majority of the total voting power of whose outstanding Voting Stock is owned or controlled, directly or indirectly, at the date of determination by AHFC, and (2) any other person in which AHFC and/or one or more other Subsidiaries, directly or indirectly, at the date of determination, (x) own a majority of the outstanding equity interests or (y) have the power to elect or direct the election of, or to appoint or approve the appointment of, a majority of the directors, trustees or managing members of, or other persons holding similar positions with, such Person.

“Voting Stock” means, with respect to any person, any class or series of capital stock of, or other equity interests in, such person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of, or to appoint or to approve the appointment of, the directors, trustees or managing members of, or other persons holding similar positions with, such person.

### **Book-Entry Delivery and Settlement**

We have obtained the information in this section concerning Clearstream and Euroclear and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of Clearstream and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

### ***Global Clearance and Settlement***

The Notes were issued in the form of one or more global notes in fully registered form, without coupons, and deposited with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to the common depositary, its successors or their respective nominees.

Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and, except as described herein, will not receive or be entitled to receive physical delivery of Notes in definitive form. So long as the common depositary for Euroclear and Clearstream or such common depositary's nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole holder of the Notes represented by the global notes for all purposes under the Indenture and the global notes. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the Indenture, including for purposes of receiving any reports delivered by us or the Trustee pursuant to the Indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the Indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

### ***Clearstream***

Clearstream has advised that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of

its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator (as defined below) to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream participant, either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

### ***Euroclear***

Euroclear has advised that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A. /N.V. (the “Euroclear Operator”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no records of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

### ***Euroclear and Clearstream Arrangements***

So long as the common depositary for Euroclear or Clearstream or such common depositary’s nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Indenture and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of the global notes will be made to the common depositary or such common depositary’s nominee, as the case may be, as registered holder thereof. None of us, the Trustee, any agent and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act of 1933, as amended) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium, if any, and interest with respect to the global notes, including any payments made upon any redemption of the global notes, will be credited in euro to the extent received by Euroclear or Clearstream from the Paying Agent to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

### ***Initial Settlement***

We understand that investors that hold their Notes through Clearstream or Euroclear accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form. Subject to applicable procedures of Clearstream and Euroclear, Notes will be credited to the securities custody accounts of Clearstream and Euroclear participants on the business day following the Settlement Date, for value on the Settlement Date.

### ***Secondary Market Trading***

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand that secondary market trading between Clearstream and/or Euroclear participants will occur in the ordinary way following the applicable rules and operating procedures of Clearstream and Euroclear. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Clearstream and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to make or receive a payment or delivery of the Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

Clearstream or Euroclear will credit payments to the cash accounts of Clearstream customers or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depository. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures.

Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Notes among participants of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

### ***Exchange of Global Notes for Certificated Notes***

Subject to certain conditions, the Notes represented by the global notes are exchangeable for notes in definitive form of like tenor in minimum denominations of €100,000 principal amount and multiples of €1,000 in excess thereof if:

- (1) Clearstream, Euroclear or any successor thereto notifies us that it is unwilling to act as a clearing system for the Notes;
- (2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes; or
- (3) there has occurred and is continuing an Event of Default with respect to the Notes.

In all cases, definitive notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the common depositary (in accordance with its customary procedures).

Payments (including principal, premium, if any, and interest) and transfers with respect to notes in definitive form may be executed at the office or agency maintained for such purpose, at our option, by check mailed to the holders thereof at the respective addresses set forth in the register of holders of the Notes, provided that all payments (including principal, premium, if any, and interest) with respect to notes in definitive form, for which the holders thereof have given wire transfer instructions, will be required to be made by wire transfer of immediately available funds to the accounts specified by the holders thereof. No service charge will be made for any registration of transfer, but payment of a sum sufficient to cover any tax or governmental charge payable in connection with that registration may be required.

**DESCRIPTION OF AHFC'S  
€1,100,000,000 0.350% MEDIUM-TERM NOTES, SERIES A, DUE AUGUST 26, 2022**

The following is a description of American Honda Finance Corporation's €1,100,000,000 0.350% Medium-Term Notes, Series A, due August 26, 2022 (the "Notes") as provided in our pricing supplement, dated February 21, 2019, and filed with the Securities and Exchange Commission (the "SEC") on February 22, 2019. This description is subject to, and qualified in its entirety by reference to, the description of the general terms and provisions of the debt securities found in our prospectus, dated August 10, 2016 and filed with the SEC on August 10, 2016, and our Medium-Term Notes, Series A, described in the prospectus supplement, dated August 10, 2016 and filed with the SEC on August 10, 2016. The following summary of specified provisions of the Indenture (defined below) and the Notes is subject to, and qualified in its entirety by reference to, the actual provisions of the Indenture, including the definitions contained in the Indenture of some of the terms used below, and the Notes. A copy of the Indenture has been filed as an exhibit to our Registration Statement on Form S-3 filed with the SEC on August 10, 2016 and of which the pricing supplement, prospectus supplement and prospectus are a part.

Unless otherwise indicated by the context, as used herein, "AHFC," "we," "us" and "our" refer solely to American Honda Finance Corporation (excluding its subsidiaries).

**General**

The Notes are a tranche of our Medium-Term Notes, Series A. The Notes were issued under the Indenture, dated as of September 5, 2013, between us and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), as supplemented by the First Supplemental Indenture, dated as of February 8, 2018, between AHFC and the Trustee (as so supplemented, the "Indenture"). The terms of the Notes include those provisions contained in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The Notes were initially limited to an aggregate principal amount of €1,100,000,000. See "— Further Issuances" below. The Notes were issued in minimum denominations of €100,000, and integral multiples of €1,000, in excess thereof.

The Notes are our general unsecured and unsubordinated obligations, rank equally with all of our existing and future unsecured and unsubordinated indebtedness from time to time outstanding and are considered part of the same series of notes as any of our other Medium-Term Notes, Series A, previously issued or issued in the future. The Indenture does not limit the amount of Notes, debentures or other evidence of indebtedness that we may issue under the Indenture or otherwise and provides that debt securities under the Indenture may be issued from time to time in one or more series.

We have initially designated Deutsche Bank Trust Company Americas as our paying agent (the "Paying Agent"), registrar and transfer agent where Notes may be presented for payment.

The entire principal amount of the Notes will mature and become payable, together with unpaid interest, if any, accrued thereon on August 26, 2022 (the "Stated Maturity Date") unless redeemed earlier as described below under "—Optional Redemption" and "—Redemption for Tax Reasons." The Notes are not subject to any sinking fund provisions and are not convertible into or exchangeable for any of our equity interests.

The principal of each Note payable at maturity or earlier redemption will be paid in euro against presentation and surrender at the office or agency maintained for such purpose.

Under the Indenture, holders of the Notes will vote with holders of all other tranches of our Medium-Term Notes, Series A, as a single class.

The Indenture contains provisions that require the consent of or action by a specified percentage of the aggregate principal amount of our Medium-Term Notes, Series A, acting as a single class. For example, holders of a majority in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may consent to

certain modifications or amendments to the Indenture and waiver of certain continuing defaults under the Indenture, as described under “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus, and holders of at least 25% in aggregate principal amount of our Medium-Term Notes, Series A, as a single class, may declare the principal amount of our Medium-Term Notes, Series A, to be due and payable immediately upon the occurrence of certain events of default, as described under “Description of Debt Securities—Events of Default” in the prospectus. Therefore, because the Medium-Term Notes, Series A, vote as a single class, a greater percentage of the principal amount of the Notes, may be required to take action under the Indenture and the aggregate principal amount of the Notes may not be sufficient to take action under the Indenture in the future. In addition, under the prospectus supplement, we may issue up to \$30,000,000,000 aggregate principal amount of Medium-Term Notes, Series A, under the Indenture. As of May 31, 2019, we had \$19.95 billion aggregate principal amount, £600.00 million aggregate principal amount, and €2.80 billion aggregate principal amount of Medium-Term Notes, Series A, outstanding under the Indenture.

The Notes bear interest at 0.350% per year, accruing from February 26, 2019 (the “Settlement Date”) or from the immediately preceding interest payment date to which interest has been paid. Interest on the Notes is payable annually in arrears on August 26 (each an “Interest Payment Date”). Interest payable on an Interest Payment Date will be paid to the persons in whose names the Notes are registered at the close of business on the regular record date; provided, however, that interest payable at the Stated Maturity Date or earlier redemption date will be payable to the person to whom principal shall be payable. The regular record date for the Notes will be the fifteenth calendar day, whether or not a Business Day (as defined below), immediately preceding the related Interest Payment Date. Interest payable on an Interest Payment Date will be computed on the basis of an Actual/Actual (ICMA) (as defined in the rulebook of the International Capital Market Association) day count convention.

If any Interest Payment Date, the Stated Maturity Date or earlier redemption date falls on a day that is not a Business Day, the related payment of principal, premium, if any, or interest and additional amounts (“Additional Amounts”), if any, will be made on the next succeeding Business Day as if made on the date the applicable payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date, the Stated Maturity Date or such redemption date, as the case may be, to the date of such payment on the next succeeding Business Day. For purposes of the Notes, “Business Day” means any day, other than a Saturday or Sunday, (i) which is not a day on which banking institutions in The City of New York or London are authorized or required by law, regulation or executive order to close and (ii) on which the Trans-European Automated Real-Time Gross Settlement Express Transfer system (the TARGET2 system) or any successor thereto is open.

### **Issuance of the Notes in Euro**

Initial holders were required to pay for the Notes in euro, and principal, premium, if any, and interest payments in respect of the Notes, including any payments made upon any redemption of the Notes, will be payable in euro.

If the euro is not available in our good faith judgment for the payment of principal, premium, if any, or interest with respect to the Notes, including payments of redemption on the Notes, due to the imposition of exchange controls or other circumstances beyond the control of AHFC, or is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, AHFC will be entitled to satisfy its obligations to holders of the Notes by making that payment in U.S. dollars on the basis of the Market Exchange Rate (as defined below) as computed by the exchange rate agent on the second Business Day before that payment is due, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate on or before the date that payment is due or as otherwise determined by AHFC in good faith, if the foregoing is impracticable. Any payment in respect of the Notes so made in U.S. dollars will not constitute a default under the Indenture. Neither the Trustee nor the Paying Agent shall be responsible for obtaining exchange rates, effecting conversions or otherwise handling redenominations.



The “Market Exchange Rate” means the noon buying rate in The City of New York for cable transfers of euros as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

In the event that the euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or an official redenomination of the euro, AHFC’s obligations with respect to payments on the Notes shall, in each case, be regarded immediately following such redenomination as providing for the payment of that amount of euros representing the amount of such obligations immediately before such redenomination. The Notes do not provide for any adjustment to any amount payable under the Notes as a result of any change in the value of euros relative to any other currency due solely to fluctuations in exchange rates.

All determinations referred to above made by the exchange rate agent will be at its sole discretion and will, in the absence of clear error, be conclusive for all purposes and binding on the holders of the Notes.

### **Further Issuances**

We may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional notes, having the same ranking, interest rate, Stated Maturity Date, redemption provisions and other terms as the Notes, except for (1) the original issue date, (2) the issue price and (3) in some cases, the first interest payment date; provided, however, such additional notes must be fungible with the previously issued notes for U.S. federal income tax purposes. Additional notes will be considered part of the same series of notes as the Notes and any of our other Medium-Term Notes, Series A previously issued or issued in the future. We also may, from time to time, without notice to or the consent of the holders of the Notes, create and issue additional debt securities, under the Indenture or otherwise, ranking equally with the Notes and our other Medium-Term Notes, Series A.

### **Optional Redemption**

The Notes will be redeemable before their maturity, in whole or in part, at our option, at any time, at a “make-whole” redemption price in cash equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes to be redeemed (exclusive of interest accrued to but excluding the redemption date) discounted to the redemption date on an annual basis (based on an Actual/Actual (ICMA) (as defined in the rulebook of International Capital Markets Association) day count convention) at the applicable Comparable Government Bond Rate plus 15 basis points, plus, in each of clause (i) and (ii), unpaid interest, if any, thereon accrued to but excluding the redemption date. The following definitions will apply with respect to the foregoing:

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of an Independent Investment Banker, a German government bond whose maturity is closest to the maturity of the Notes to be redeemed, or if the Independent Investment Banker in its discretion determines that such similar bond is not in issue, such other European government bond as such Independent Investment Banker may, with the advice of three brokers of, and/or market makers in, European government bonds selected by such Independent Investment Banker, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond Rate” means the price, expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards), at which the gross redemption yield on the Notes to be redeemed, if they were to be purchased at such price on the third Business Day prior to the date fixed for redemption, would be equal to the gross redemption yield on such Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such Business Day as determined by an Independent Investment Banker.

“Independent Investment Banker” means each of Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, London Branch, and Société Générale and their respective successors, or, if such firm is unwilling or unable to

select the Comparable Government Bond, an independent investment banking institution of international standing appointed by AHFC.

Notice of any redemption will be given in writing not more than 60 nor less than 30 days before the redemption date to each holder of the Notes to be redeemed. Such notice of redemption shall specify the principal amount of Notes to be redeemed, ISIN and Common Code numbers of the Notes to be redeemed, the redemption date, the redemption price, the place or places of payment and that payment will be made upon presentation and surrender of such Notes. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Notes or portions thereof called for redemption.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes to be redeemed, which, in the case of Notes in book-entry form, will be in accordance with the procedures of the applicable depository. The Trustee may select Notes and portions of Notes in amounts of €100,000 and integral multiples of €1,000 in excess thereof.

### **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay as additional interest such Additional Amounts as are necessary in order that the net amount of such payment of the principal of and interest on a Note to a holder who is a United States Alien (as such term is defined below), after deduction for any present or future tax, assessment or governmental charge of the United States (as such term is defined below), or a political subdivision or authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount provided for in such Note to be then due and payable. However, the foregoing obligation to pay Additional Amounts shall not apply:

- (a) to any tax, assessment or governmental charge that would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or holder of power over, such holder, if such holder is an estate, trust, partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or holder of a power) being considered as:
  - (i) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment therein;
  - (ii) having a current or former relationship with the United States, including a relationship as a citizen or resident or being treated as a resident thereof; or
  - (iii) being or having been, for United States federal income tax purposes, a personal holding company, a “controlled foreign corporation”, a “passive foreign investment company” (including a qualified electing fund), a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization;
- (b) to any tax, assessment or other governmental charge imposed by reason of the holder (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of AHFC entitled to vote, (ii) receiving interest described in Section 881(c)(3)(A) of the United States Internal Revenue Code of 1986, as amended (the “Code”) or (iii) being a controlled foreign corporation with respect to the United States that is related to AHFC by actual or constructive stock ownership;

- (c) to any holder that is a fiduciary or partnership or other than the sole beneficial owner of the Note, but only to the extent that a beneficiary or settlor with respect to such fiduciary or member of such partnership or a beneficial owner of the Note would not have been entitled to the payment of such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note;
- (d) to any tax, assessment or governmental charge that would not have been imposed or withheld but for the failure of the holder or any other person to comply with certification, identification or information reporting requirements under United States income tax laws, without regard to any tax treaty, with respect to the payment, concerning the nationality, residence, identity or connection with the United States of the holder or a beneficial owner of such Note, if such compliance is required by United States income tax laws, without regard to any tax treaty, as a precondition to relief or exemption from such tax, assessment or governmental charge;
- (e) to any tax, assessment or governmental charge that is imposed otherwise than by withholding by us or a Paying Agent from the payment;
- (f) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of such Note for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
- (g) to any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment or governmental charge;
- (h) to any withholding or deduction that is imposed on a payment to an individual and that is required to be made pursuant to any law implementing or complying with, or introduced to conform to, any European Union Directive on the taxation of savings;
- (i) to any tax, assessment or governmental charge that is payable otherwise than by withholding by AHFC or the Paying Agent from the payment of the principal of or interest on such Note;
- (j) to any tax, assessment or governmental charge required to be withheld by any Paying Agent from such payment of principal of or interest on any Note, if such payment can be made without such withholding by any other Paying Agent;
- (k) to any withholding or deduction on or in respect of any Note pursuant to sections 1471 through 1474 of the Code, and the regulations, administrative guidance and official interpretations promulgated thereunder ("FATCA"), any agreement entered into pursuant to Section 1471(b)(1) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA; or
- (l) to any tax imposed as a result of any combination of the above.

The term "United States" means the United States of America, the States thereof (including the District of Columbia) and any other political subdivision or taxing authority thereof or therein affecting taxation, and the term "United States Alien" means any corporation, partnership, individual or fiduciary that, as to the United States, is for United States federal income tax purposes (A) a foreign corporation, (B) a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust, (C) a non-resident alien individual, or (D) a non-resident alien fiduciary of a foreign estate or trust.

## **Redemption for Tax Reasons**

If we have or will become obliged to pay Additional Amounts (as described above under the heading “—Payment of Additional Amounts”) as a result of any change in, or amendment to, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the Settlement Date, and we determine that such obligation cannot be avoided by the use of reasonable measures then available to us, we may, at our option, at any time, having given not less than 30 nor more than 60 days’ prior written notice to Holders, redeem, in whole, but not in part, the Notes at a redemption price equal to 100% of their principal amount, together with unpaid interest, if any, on the Notes accrued to but excluding the redemption date, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which we would be obliged to pay such Additional Amounts if a payment in respect to the Notes were due on such date. Prior to the transmission or publication of any notice of redemption pursuant to this paragraph, we shall deliver to the Trustee a certificate signed by two directors of AHFC stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem the Notes has occurred.

## **Modification of the Indenture**

See “Description of Debt Securities—Modification, Waivers and Meetings” in the prospectus.

## **Events of Default, Notice and Waiver**

See “Description of Debt Securities—Events of Default” in the prospectus.

## **Discharge, Defeasance and Covenant Defeasance**

The defeasance provisions described in the prospectus under “Description of Debt Securities—Discharge, Legal Defeasance and Covenant Defeasance” are applicable to the Notes.

## **Governing Law**

The Indenture and the Notes are governed by, and construed in accordance with, the laws of the State of New York.

## **Benefit of the HMC-AHFC Keep Well Agreement**

The Notes will have the benefit of the Keep Well Agreement (as defined below) described under “Description of Debt Securities—Keep Well Agreement” in the prospectus.

## **Certain Covenants**

### *Merger, Consolidation and Transfer of Assets*

The Indenture provides that AHFC may not, in any transaction or series of related transactions, (i) consolidate or amalgamate with or merge into any other person; or (ii) sell, lease, assign, transfer or otherwise convey all or substantially all of the assets of AHFC and its subsidiaries, taken as a whole, to any other person, in each case, unless:

- in such transaction or transactions, either (1) AHFC shall be the continuing person (in the case of a merger) or (2) the successor person (if other than AHFC) formed by or resulting from the consolidation, amalgamation or merger or to which such assets shall have been sold, leased, assigned, transferred or otherwise conveyed (i) is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof or under the laws of Japan or any member country in the Organization for Economic Co-operation and Development or any political subdivision or governmental authority thereof, and (ii) shall, by a supplemental indenture, (a) if organized and existing other than under the laws of the United States of America, any state thereof or the District of Columbia or any territory thereof (A) expressly agree to make all payments in respect of the debt securities outstanding under the Indenture free and clear of, and without withholding or deduction for, or on account of, present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the jurisdiction of organization or residence (for tax purposes) of such successor person or any political subdivision or governmental authority thereof or therein having the power to tax, unless required by law, in which case such successor person shall have expressly agreed to pay such additional amounts as may be necessary in order that the net amount received by each holder of outstanding debt securities after such withholding or deduction is equal to the amount that would have been receivable in respect of each such debt security in the absence of such withholding or deduction, and (B) irrevocably and unconditionally (I) consent and submit to the jurisdiction of any United States federal court or New York state court, in each case located in the Borough of Manhattan, The City of New York, in respect of any action, suit or proceeding against it arising out of, or in connection with, the Indenture or the debt securities outstanding thereunder, (II) waive, to the fullest extent permitted by law, any objection to the laying of venue in any such court or that any such action, suit or proceeding has been brought in an inconvenient forum and (III) appoint an agent in the Borough of Manhattan, The City of New York for service of process in any such action, suit or proceeding, and (b) expressly assume the due and punctual performance of all of AHFC's payment and other obligations under the Indenture and all of the debt securities outstanding thereunder;
- immediately after giving effect to such transaction or transactions, no Event of Default (as defined in the Indenture) under the Indenture, and no event which, after notice or lapse of time or both would become an Event of Default under the Indenture, shall have occurred and be continuing; and
- the Trustee shall have received an officer's certificate and opinion of counsel from AHFC to the effect that all conditions precedent to such transaction or transactions have been satisfied.

Upon any consolidation or amalgamation by AHFC with, or AHFC's merger into, any other person or any sale, lease, assignment, transfer or other conveyance of all or substantially all of the assets of AHFC to any person, in each case in accordance with the provisions of the Indenture described above, the successor person formed by the consolidation or amalgamation or into which AHFC is merged or to which such sale, lease, assignment, transfer or other conveyance is made, as applicable, shall succeed to, and be substituted for, AHFC and may exercise every right and power of AHFC under the Indenture with the same effect as if such successor person had been named as AHFC in the Indenture; and thereafter, except in the case of a lease, the predecessor person shall be released from all obligations and covenants under the Indenture and the outstanding debt securities and any coupons appertaining thereto.

#### *Termination, Modification or Amendment of the Keep Well Agreement*

AHFC shall not effect any termination, modification or amendment of the Keep Well Agreement (as defined below) and the Keep Well Agreement may not be otherwise terminated without the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of each series issued under the Indenture that has the benefit of the Keep Well Agreement and is affected by such termination, modification or amendment (voting as separate classes) unless:

- with respect to any series of outstanding debt securities affected by such termination, modification or amendment that is rated by one or more Rating Agencies (as defined below), each such Rating Agency confirms in writing that the rating assigned to such series of outstanding debt securities will not be withdrawn or reduced by reason of such termination, modification or amendment; or
- the termination, modification or amendment is to: (i) replace, at the discretion of Honda Motor Co., Ltd. (“HMC”), AHFC as a party to the Keep Well Agreement with any successor person that assumes the obligations of AHFC under the Indenture and the outstanding debt securities pursuant to a transaction permitted under “—Merger, Consolidation and Transfer of Assets” discussed above, (ii) terminate, modify or amend the Keep Well Agreement between AHFC and HMC after AHFC has been released of its obligations under the Indenture and the outstanding debt securities in accordance with “—Merger, Consolidation and Transfer of Assets” discussed above, or (iii) terminate, modify or amend the Keep Well Agreement if such termination, modification or amendment affects only debt securities that have not yet been issued under the Indenture.

Any termination, modification or amendment of the Keep Well Agreement that is not in compliance with these provisions shall not be effective with respect to the outstanding debt securities of the applicable series.

#### *Negative Pledge*

AHFC shall not create or permit to be outstanding any Lien (as defined below) upon any of its present or future properties or assets, unless all the debt securities outstanding under the Indenture are secured by such Lien equally and ratably with all the other obligations and indebtedness for money borrowed secured by such Lien for so long as such other obligations and indebtedness for money borrowed are so secured, *provided, however*, that this covenant shall not apply to (1) Liens securing obligations (or securing any refunding or extensions of such obligations not exceeding the principal amount of the obligations so refunded or extended at the time of the refunding or extension thereof and covering only the same property theretofore securing the same) which, after giving effect to the initial incurrence of such obligations, do not in the aggregate exceed 30% of Consolidated Net Tangible Assets (as defined below) or (2) any Permitted Lien (as defined below).

#### *Definitions*

“ABS Obligation” means any security or other obligation that is (i) issued by a trust or entity created for the special purpose of issuing such security or obligation (regardless of whether it may also issue others of the same or another series or class), (ii) secured by specific assets transferred to such trust or entity by AHFC in connection with the issuance of such security or obligation, and (iii) payable by its terms solely from specified assets (including such security) of such trust or entity and, if applicable, specified third party credit support.

“Consolidated Net Tangible Assets” means the aggregate amount of assets (less applicable reserves and other items deductible from the gross book value of specific asset amounts), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles of AHFC and its consolidated subsidiaries calculated as of the date of the most recently prepared quarterly consolidated financial statements of AHFC prepared in accordance with GAAP.

“GAAP” means, unless otherwise specified with respect to any series of debt securities in the applicable prospectus supplement, generally accepted accounting principles in the United States as in effect on the date of any calculation or determination required under the Indenture.

“Group Subsidiary” means an entity the financial statements of which are consolidated with the financial statements of HMC.

“Keep Well Agreement” means either (i) if clause (ii) of this definition does not apply, the Keep Well Agreement, dated as of September 9, 2005, between the Company and HMC, or (ii) if HMC has elected to enter into a keep well agreement (substantially in the form of the keep well agreement described in clause (i) of this definition)

with a successor person as permitted under “—Termination, Modification or Amendment of the Keep Well Agreement” above as a result of a transaction permitted under “—Merger, Consolidation and Transfer of Assets” above, such keep well agreement between HMC and the successor person, in each case as the same may be amended or supplemented from time to time.

“Lien” means, with respect to any asset or property, any mortgage, lien (statutory or otherwise), pledge, hypothecation, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset or property, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof or sale/leaseback, any option or other agreement to sell or give a security interest in, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction, *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Nonrecourse,” with respect to AHFC and any ABS Obligation, means that AHFC has no obligation in respect of any payment due on such ABS Obligation and the holders thereof have so agreed (or are deemed to have so agreed by acquiring such ABS Obligation).

“Permitted Lien” means:

- (a) any deposit of AHFC’s assets with any surety company or clerk of any court, or in escrow as collateral in connection with, or in lieu of, any bond on appeal by AHFC from any judgment or decree against it, or in connection with other proceedings in actions at law or in equity by or against AHFC or to exercise any privilege or license, performance of bids, contracts or leases or to secure other public or statutory obligations of AHFC or other similar deposits or pledges made in the ordinary course of business;
- (b) any Lien on any property, tangible or intangible, real or personal, existing at the time of acquisition thereof (whether through purchase or through merger or consolidation) or given to secure the payment of all or any part of the purchase price thereof or to secure any indebtedness incurred prior to, at the time of, or within one year after, the acquisition thereof for the purpose of financing all or any part of the purchase price thereof;
- (c) mechanic’s, workmen’s, repairmen’s, materialmen’s or carriers’ Liens or other similar Liens arising in the ordinary course of business or deposits or pledges to obtain the release of any such Liens;
- (d) any Lien arising out of a judgment or award against AHFC with respect to which AHFC shall in good faith be prosecuting an appeal or proceedings for review or Liens incurred by AHFC for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which AHFC is a party;
- (e) any Lien for taxes not yet subject to penalties for nonpayment or contest, or minor survey exceptions, or minor encumbrances, assessments or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, assessments, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or materially impair their use in the operation of AHFC’s business;
- (f) any Lien on any property, tangible or intangible, which may arise as a result of a transaction involving a transfer of assets by AHFC if such transfer of assets is treated as a sale in accordance with GAAP or if such transfer of assets is to an entity that issues ABS Obligations backed by such assets and such ABS Obligations are Nonrecourse to AHFC;

- (g) any pledge of assets to secure any financing by AHFC of the exporting of goods to or between, or the marketing thereof in, countries other than the United States in connection with which AHFC reserves the right, in accordance with customary and established banking practice, to deposit, or otherwise subject to a Lien, cash, securities or receivables for the purpose of securing banking accommodations or as the basis for the issuance of bankers' acceptances or in aid of other similar borrowing arrangements;
- (h) any pledge of receivables payable in currencies other than the United States dollar to secure borrowings in countries other than the United States;
- (i) any Lien in favor of the United States or any state thereof or the District of Columbia, or any agency, department or other instrumentality thereof, to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- (j) any Lien securing the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining of advances or credit or the securing of debt, if made and continuing in the ordinary course of business;
- (k) any Lien to secure non-recourse obligations in connection with AHFC engaging in leveraged or single-investor lease transactions;
- (l) any Lien on property acquired or sold by AHFC resulting from the exercise of any rights arising out of defaults on receivables;
- (m) any Lien to secure obligations with respect to any interest rate, foreign currency exchange, swap, collar, cap or similar agreements entered into in the ordinary course of business to hedge or mitigate risks to which AHFC or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for speculative purposes;
- (n) bankers' Liens or bankers' rights of offset, in each case arising in the ordinary course of banking business with respect to any bank accounts or bank deposits; and
- (o) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) to (n) inclusive; provided, however, that the amount of any and all obligations and indebtedness secured thereby does not exceed the amount thereof so secured immediately prior to the time of such extension, renewal or replacement and that such extension, renewal or replacement is limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property), and provided further, that AHFC is free to substitute collateral of equal value for the existing collateral in any transaction covered by clauses (a) through (n) above.

"Rating Agency" with respect to any security, means any rating agency that (i) has been requested by HMC or AHFC to issue a rating with respect to such security and (ii) has issued such a rating and such rating remains in effect at the time the termination, modification or amendment of the Keep Well Agreement referred to under "— Termination, Modification or Amendment of the Keep Well Agreement" above is to be effected.

"Subsidiary" means (1) any corporation a majority of the total voting power of whose outstanding Voting Stock is owned or controlled, directly or indirectly, at the date of determination by AHFC, and (2) any other person in which AHFC and/or one or more other Subsidiaries, directly or indirectly, at the date of determination, (x) own a majority of the outstanding equity interests or (y) have the power to elect or direct the election of, or to appoint or approve the appointment of, a majority of the directors, trustees or managing members of, or other persons holding similar positions with, such Person.



“Voting Stock” means, with respect to any person, any class or series of capital stock of, or other equity interests in, such person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of, or to appoint or to approve the appointment of, the directors, trustees or managing members of, or other persons holding similar positions with, such person.

### **Book-Entry Delivery and Settlement**

We have obtained the information in this section concerning Clearstream and Euroclear and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of Clearstream and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

### ***Global Clearance and Settlement***

The Notes were issued in the form of one or more global notes in fully registered form, without coupons, and deposited with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to the common depositary, its successors or their respective nominees.

Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and, except as described herein, will not receive or be entitled to receive physical delivery of Notes in definitive form. So long as the common depositary for Euroclear and Clearstream or such common depositary's nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole holder of the Notes represented by the global notes for all purposes under the Indenture and the global notes. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the Indenture, including for purposes of receiving any reports delivered by us or the Trustee pursuant to the Indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the Indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the Indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

### ***Clearstream***

Clearstream has advised that it is incorporated under the laws of Luxembourg and licensed as a bank and professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of

its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. Clearstream has established an electronic bridge with the Euroclear Operator (as defined below) to facilitate the settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream participant, either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures.

### ***Euroclear***

Euroclear has advised that it was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV (the “Euroclear Operator”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of Euroclear, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no records of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions.

### ***Euroclear and Clearstream Arrangements***

So long as the common depositary for Euroclear or Clearstream or such common depositary’s nominee is the registered holder of the global notes, the common depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Indenture and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of the global notes will be made to the common depositary or such common depositary’s nominee, as the case may be, as registered holder thereof. None of us, the Trustee, any agent and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act of 1933, as amended), will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium, if any, and interest with respect to the global notes, including any payments made upon any redemption of the global notes, will be credited in euro to the extent received by Euroclear or Clearstream from the Paying Agent to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

### ***Initial Settlement***

We understand that investors that hold their Notes through Clearstream or Euroclear accounts will follow the settlement procedures that are applicable to conventional eurobonds in registered form. Subject to applicable procedures of Clearstream and Euroclear, Notes will be credited to the securities custody accounts of Clearstream and Euroclear participants on the business day following the Settlement Date, for value on the Settlement Date.

### ***Secondary Market Trading***

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand that secondary market trading between Clearstream and/or Euroclear participants will occur in the ordinary way following the applicable rules and operating procedures of Clearstream and Euroclear. Secondary market trading will be settled using procedures applicable to conventional eurobonds in registered form.

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Clearstream and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to make or receive a payment or delivery of the Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream or Euroclear is used.

Clearstream or Euroclear will credit payments to the cash accounts of Clearstream customers or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depository. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures.

Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Notes among participants of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

### ***Exchange of Global Notes for Certificated Notes***

Subject to certain conditions, the Notes represented by the global notes are exchangeable for notes in definitive form of like tenor in minimum denominations of €100,000 principal amount and multiples of €1,000 in excess thereof if:

- (1) Clearstream, Euroclear or any successor thereto notifies us that it is unwilling or unable to act as a clearing system for the Notes;
- (2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes; or
- (3) there has occurred and is continuing an Event of Default with respect to the Notes.

In all cases, definitive notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the common depositary (in accordance with its customary procedures).

Payments (including principal, premium, if any, and interest) and transfers with respect to notes in definitive form may be executed at the office or agency maintained for such purpose, at our option, by check mailed to the holders thereof at the respective addresses set forth in the register of holders of the Notes, provided that all payments (including principal, premium, if any, and interest) with respect to notes in definitive form, for which the holders thereof have given wire transfer instructions, will be required to be made by wire transfer of immediately available funds to the accounts specified by the holders thereof. No service charge will be made for any registration of transfer, but payment of a sum sufficient to cover any tax or governmental charge payable in connection with that registration may be required.

SIXTH AMENDMENT dated as of March 12, 2019 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, a fourth amendment dated as of March 23, 2017 and a fifth amendment dated as of March 13, 2018, 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 and (ii) the Credit Agreement be amended (x) to delete the specified notice period for a request by the Borrower to extend the Commitment Termination Date of a Class and (y) to change the method of determination of the Borrower’s Rating Level, 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 hereby amended by deleting “March 24, 2019” and replacing it with “March 25, 2020”; and
- (b) The definition of “Tranche B Commitment Termination Date” is hereby amended by deleting “March 24, 2023” and replacing it with “March 25, 2024”.
- (c) The definition of “Borrower’s Debt Ratings” is hereby deleted and replaced with the following:

“**“Borrower’s Debt Ratings”** shall mean the ratings of the Index Debt of the Borrower assigned by Moody’s, S&P and DBRS. If such ratings correspond to two or more different rating levels of such Index Debt, the Borrower’s Debt Ratings shall be determined based on the highest of the three ratings of such Index Debt assigned by Moody’s, S&P and DBRS; provided that, if more than one rating level separates the highest and the lowest of such ratings, then the Borrower’s Debt Ratings shall be determined based on the Borrower’s Debt Ratings of such Index Debt that is one rating level lower than the highest of such three ratings. If any of Moody’s, S&P or DBRS shall not have in effect a rating of the Index Debt of the Borrower, then the Borrower’s Debt Ratings shall be determined based on the rating of such Index Debt provided by the balance of such rating agencies (or rating agency) providing such a rating; provided that, if such ratings provided by the balance of such rating agencies fall within more than one rating level, the Borrower’s Debt Ratings of such Index Debt shall be

determined based on the higher rating or, if more than one rating level separates the two ratings, then the Borrower's Debt Ratings shall be determined based on the Borrower's Debt Ratings of such Index Debt that is one level lower than the higher of the two ratings; provided further, that, if no rating of the Borrower's Index Debt is so available, then the applicable Borrower's Rating Level shall be level 5."

- (2) Section 2.11(a) of the Credit Agreement is hereby deleted and replaced with the following:

"(a) The Borrower may, by notice once a year to the Administrative Agent in substantially the form of Exhibit "J" hereto, request that the then existing Commitment Termination Date of a Class (as applicable, the "**Existing Commitment Termination Date**") be extended to a date which is one year after the Existing Commitment Termination Date of such Class (as applicable, the "**New Commitment Termination Date**"). The Administrative Agent shall promptly, but in any event within three (3) Business Days, advise each Bank of the applicable Class (the "**Extension Class Banks**") of such request. Each Extension Class Bank shall consider such request and may elect to extend or not to extend in its sole and independent discretion and may, at its option, conduct a full credit evaluation of the Borrower in considering such request. If the Borrower requests that both Commitment Termination Dates be extended, each Extension Class Bank shall agree to either extend both of its Commitments or decline to extend both of its Commitments. Each Extension Class Bank agreeing to any such extension (each an "**Extending Class Bank**") shall notify the Administrative Agent thereof (which shall notify the Borrower) on or prior to the date which is 30 days after the date the Administrative Agent has advised the Extension Class Banks of such request to extend the Existing Commitment Termination Date of the applicable Class (or if such 30th day is not a Business Day, then such notice may also be given on the next succeeding Business Day) (the "**Consent Date**"). Each Extension Class Bank that determines not to extend such Existing Commitment Termination Date (a "**Non-Extending Bank**") shall notify the Administrative Agent (which shall notify the Borrower) of such fact promptly after such determination (but in any event no later than the Consent Date). Any Extension Class Bank that does not advise the Administrative Agent on or before the Consent Date shall be deemed to be a Non-Extending Bank."

- (3) Section 8.4 of the Credit Agreement is hereby amended by deleting each reference to "March 31, 2017" and replacing it with "March 31, 2018".

### **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/Tony Facciolo

Name: Tony Facciolo

Title: Vice President – Secretary &  
Risk Management Officer

By: /s/Harold Ladewig

Name: Harold Ladewig

Title: Vice President – Treasurer &  
Compliance Officer

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

By: /s/Matthew Reis

Name: Matthew Reis

Title: Executive Director

By: /s/Sushant Pathak

Name: Sushant Pathak

Title: Director

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

By: /s/Matthew Reis

Name: Matthew Reis

Title: Executive Director

By: /s/Sushant Pathak

Name: Sushant Pathak

Title: Director

**BANK OF MONTREAL, as a Bank**

By: /s/Matthew Brink

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Name: Matthew Brink

Title: Vice President

**ROYAL BANK OF CANADA, as a Bank**

By: /s/Chris Cowan

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Name: Chris Cowan

Title: Authorized Signatory

**THE TORONTO-DOMINION BANK, as a  
Bank**

By: /s/Linh Dang

Name: Linh Dang

Title: Authorized Signatory

**MUFG BANK, LTD., CANADA BRANCH, as  
a Bank**

By: /s/Hiroyuki Sawano

Name: Hiroyuki Sawano

Title: Vice President

**MIZUHO BANK LTD., CANADA BRANCH,  
as a Bank**

By: /s/Ryo Shimada

Name: Ryo Shimada

Title: Managing Director, Canada



## SUPPORT COMPENSATION AGREEMENT

This Support Compensation Agreement (“Agreement”) dated as of April 1, 2019, between Honda Motor Co., Ltd. (“HMC”), a Japanese corporation having an address at No. 1-1 Minami-Aoyama, 2-chome, Minato-ku, Tokyo 107-8556, Japan, and American Honda Finance Corporation (“AHFC”), a California corporation having an address at 20800 Madrona Avenue, Torrance, California 90503 (HMC and AHFC together constituting the “Parties” to this Agreement).

WHEREAS, the Parties have executed that certain Keepwell Agreement dated September 9, 2005 (the “Keepwell Agreement”), pursuant to which HMC agrees, inter alia, to assure that AHFC has the liquidity to punctually meet its payment obligations under any Debt, as defined in the Keepwell Agreement, and that AHFC has a positive consolidated tangible net worth; and

WHEREAS, the Parties wish to specify the compensation that HMC will be entitled to receive from AHFC as consideration for undertaking its obligations under the Keepwell Agreement.

NOW, THEREFORE, in consideration of the foregoing the Parties hereby agree that:

### 1. PAYMENTS

1.01. (a) As consideration for HMC’s undertaking its obligations under the Keepwell Agreement, AHFC agrees to pay a fee to HMC (the “Keepwell Fee”) for each calendar quarter beginning on or after the date of this Agreement (“Coverage Period”) equal to the Period Average, as defined in paragraph (b) of this section, of each type of Keepwell Obligation, as defined in paragraph (c) of this section, multiplied by the Quarterly Fee Rate for that type of Keepwell Obligation, as specified in paragraph (d) of this section.

(b) The period Average is the sum divided by three of the amounts outstanding at the end of the last U.S. Business Day (“Business Day”) of each month of the Coverage Period, disregarding any adjustments under FAS 133 and FAS 52.

(c) The types of Keepwell Obligations are:

(i) Debt, as defined in the Keepwell Agreement, with an initial maturity of one year or less (“Short-Term Keepwell Obligations”), and

(ii) Such Debt with an initial maturity of more than one year (“Medium-Term Keepwell Obligations”).

(d) The Quarterly Fee Rates are:

(i) For Short-Term Keepwell Obligations, one-fourth of the Short-Term Rate, as specified in Attachment A to this Agreement, and

(ii) For Medium Term Keepwell Obligations, one-fourth of the Medium-Term Rate as specified in Attachment A to this Agreement.

### 2. PAYMENT TERMS

2.01. (a) Within two Business Days after the end of a Coverage Period, AHFC shall send to HMC a Support Compensation Report (“Report”) for the Coverage Period substantially in the form of ATTACHMENT B to this Agreement, which contains AHFC’s calculation of the Keepwell Fee owed to HMC for the Coverage Period.

(b) When HMC receives a Report pursuant to paragraph (a) of this section 2.01, HMC shall promptly review the Report and inform AHFC if it disagrees with any part of the Report,

in which case the Parties shall confer to resolve the disagreement, and, if necessary, AHFC shall promptly send HMC a revised Report.

(c) If the HMC accepts a Report (either the initial Report or a revised Report), HMC shall send AHFC an invoice for the amount shown in the Report as owned to HMC, and AHFC shall pay that amount within 15 Business Days from the date of the invoice.

2.02. AHFC may offset against a Keepwell Fee the amount of any expenses that AHFC has incurred on behalf of HMC since the effective date of this Agreement (and not previously used as an offset under this section) in connection with any obligation subject to the Keepwell Agreement, provided that AHFC lists these expenses in the Report covering the Keepwell Fee against which the offset is claimed.

2.03. If any amount payable by AHFC pursuant to this Agreement is subject to withholding tax in the United States, AHFC is authorized to withhold and pay such tax to the United States rather than to HMC, but AHFC shall note the tax to be withheld in the Report that calculates the taxable amount.

2.04. (a) All payments to HMC pursuant to this Agreement shall be determined and made in U.S. dollars.

(b) For purposes of determining Period Average Keepwell Obligations, the amount of such Obligations that are not denominated in U.S. dollars shall be converted to U.S. dollars at prevailing exchange rates on the last Business Day of the Coverage Period over which the Period Average is determined.

### 3. TERM OF AGREEMENT

3.01. The initial term of this Agreement shall expire on March 31, 2020, but shall automatically be renewed for subsequent 12-month terms unless one Party gives written notice of non-renewal to the other Party more than 30 days prior to the end of a term.

3.02 Notwithstanding section 3.01 of this Agreement, AHFC's duties under this Agreement shall terminate when the Keepwell Agreement terminates and AHFC has paid HMC the amounts due under the Reports for all Coverage Periods through the one during which the Keepwell Agreement terminates.

4. OTHER PROVISIONS

4.01. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of California.

4.02. The Attachments to this Agreement are part of this Agreement, and capitalized terms in the Attachments shall have the same meaning as they do in the rest of this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

HONDA MOTOR CO., LTD

By: /s/ Masao Kawaguchi

Name: Masao Kawaguchi

Title: General Manager, Finance Division

AMERICAN HONDA FINANCE CORPORATION

By: /s/ Masahiro Nakamura

Name: Masahiro Nakamura

Title: Vice President and Treasurer

**ATTACHMENT A****FEE RATES****1. FEE RATES**

1.01. Unless modified pursuant to sections 2.01 through 2.03 of this Attachment A:

- (i) The Short-Term Rate is 0.05 percent; and
- (ii) The Medium-Term Rate is 0.22 percent.

**2. MODIFICATION OF FEE RATES**

2.01. If a Triggering Event, as defined in section 2.03 of this Attachment, occurs, the Parties shall negotiate whether and to what extent the Short-Term and Medium Term Rates ("Fee Rates") should be modified and, if they cannot agree, shall hire a third party satisfactory to both Parties to determine Fee Rates that are consistent with arm's length principles promulgated by the Organization for Economic Cooperation and Development and transfer pricing regulations in Japan and the United States. The determination of the third party shall be binding on the Parties, and the Parties shall share equally the costs of obtaining the determination.

2.02. If new Fee Rates are determined pursuant to section 2.01 of this Attachment, the new Fee Rates shall be recorded in a schedule to this Attachment and shall be effective at the beginning of the first Coverage Period following the date of the Triggering Event, unless the Parties agree on a different effective date.

2.03. For purposes of this Attachment, a Triggering Event is:

- (a) A notice from one Party to the other of a desire to reconsider the Fee Rates,
- (b) A payment by HMC required under the Keepwell Agreement, or
- (c) A change in the credit rating of HMC by Standard & Poor's and Moody's Investor Service, Inc.

**ATTACHMENT B****FORM OF SUPPORT COMPENSATION REPORT****SUPPORT COMPENSATION REPORT FROM  
AHFC TO HMC****REGARDING THE KEEPWELL AGREEMENT  
FOR THE PERIOD [Dates of Coverage Period]**

	Short-Term Keepwell Obligations	Keepwell Medium- Term Obligations	Total
A. Month-End Obligations			
B. 1 <sup>st</sup> Month			
C. 2 <sup>nd</sup> Month			
D. 3 <sup>rd</sup> Month			
E. Period Avg. Obligations [(B+C+D)/3]			
F. Fee Rate			
G. Quarterly Fee Rate [(F/4)]			
H. Keepwell Fee [E x G]			
I. Offsets			
[List]			
J. Total Offsets			
K. Payment Due [H – J]			
L. Withholding Tax			
M. Net Payment Due [K - L]			

## SUPPORT COMPENSATION AGREEMENT

This Support Compensation Agreement (“Agreement”) dated as of April 1, 2019, between Honda Motor Co., Ltd. (“HMC”), a Japanese corporation having an address at No. 1-1 Minami-Aoyama, 2-chome, Minato-ku, Tokyo 107-8556, Japan, and Honda Canada Finance Inc. (“HCFI”), a Canadian corporation with an address at 180 Honda Blvd., Suite200, Markham, Ontario, L6C 0H9 (HMC and HCFI together constituting the “Parties” to this Agreement).

WHEREAS, the Parties have executed that certain Keepwell Agreement dated September 26, 2005 (the “Keepwell Agreement”), pursuant to which HMC agrees, inter alia, to assure that HCFI has the liquidity to punctually meet its payment obligations under any Debt, as defined in the Keepwell Agreement, and that HCFI has a positive consolidated tangible net worth; and

WHEREAS, the Parties wish to specify the compensation that HMC will be entitled to receive from HCFI as consideration for undertaking its obligations under the Keepwell Agreement.

NOW, THEREFORE, in consideration of the foregoing the Parties hereby agree that:

### 1. PAYMENTS

1.01. (a) As consideration for HMC’s undertaking its obligations under the Keepwell Agreement, HCFI agrees to pay a fee to HMC (the “Keepwell Fee”) for each calendar quarter beginning on or after the date of this Agreement (“Coverage Period”) equal to the Period Average, as defined in paragraph (b) of this section, of each type of Keepwell Obligation, as defined in paragraph (c) of this section, multiplied by the Quarterly Fee Rate for that type of Keepwell Obligation, as specified in paragraph (d) of this section.

(b) The period Average is the sum divided by three of the amounts outstanding at the end of the last Canadian Business Day (“Business Day”) of each month of the Coverage Period, disregarding any adjustments under FAS 133 and FAS 52.

(c) The types of Keepwell Obligations are:

(i) Debt, as defined in the Keepwell Agreement, with an initial maturity of one year or less (“Short-Term Keepwell Obligations”), and

(ii) Such Debt with an initial maturity of more than one year (“Medium-Term Keepwell Obligations”).

(d) The Quarterly Fee Rates are:

(i) For Short-Term Keepwell Obligations, one-fourth of the Short-Term Rate, as specified in Attachment A to this Agreement, and

(ii) For Medium Term Keepwell Obligations, one-fourth of the Medium-Term Rate as specified in Attachment A to this Agreement.

### 2. PAYMENT TERMS

2.01. (a) Within two Business Days after the end of a Coverage Period, HCFI shall send to HMC a Support Compensation Report (“Report”) for the Coverage Period substantially in the form of ATTACHMENT B to this Agreement, which contains HCFI’s calculation of the Keepwell Fee owed to HMC for the Coverage Period.

(b) When HMC receives a Report pursuant to paragraph (a) of this section 2.01, HMC shall promptly review the Report and inform HCFI if it disagrees with any part of the Report, in

which case the Parties shall confer to resolve the disagreement, and, if necessary, HCFI shall promptly send HMC a revised Report.

(c) If the HMC accepts a Report (either the initial Report or a revised Report), HMC shall send HCFI an invoice for the amount shown in the Report as owned to HMC, and HCFI shall pay that amount within 15 Business Days from the date of the invoice.

2.02. HCFI may offset against a Keepwell Fee the amount of any expenses that HCFI has incurred on behalf of HMC since the effective date of this Agreement (and not previously used as an offset under this section) in connection with any obligation subject to the Keepwell Agreement, provided that HCFI lists these expenses in the Report covering the Keepwell Fee against which the offset is claimed.

2.03. If any amount payable by HCFI pursuant to this Agreement is subject to withholding tax in Canada, HCFI is authorized to withhold and pay such tax to Canada rather than to HMC, but HCFI shall note the tax to be withheld in the Report that calculates the taxable amount.

2.04. (a) All payments to HMC pursuant to this Agreement shall be determined and made in Canadian dollars.

(b) For purposes of determining Period Average Keepwell Obligations, the amount of such Obligations that are not denominated in Canadian dollars shall be converted to Canadian dollars at prevailing exchange rates on the last Business Day of the Coverage Period over which the Period Average is determined.

### 3. TERM OF AGREEMENT

3.01. The initial term of this Agreement shall expire on March 31, 2020, but shall automatically be renewed for subsequent 12-month terms unless one Party gives written notice of non-renewal to the other Party more than 30 days prior to the end of a term.

3.02. Notwithstanding section 3.01 of this Agreement, HCFI's duties under this Agreement shall terminate when the Keepwell Agreement terminates and HCFI has paid HMC the amounts due under the Reports for all Coverage Periods through the one during which the Keepwell Agreement terminates.

4. OTHER PROVISIONS

4.01. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of Japan.

4.02. The Attachments to this Agreement are part of this Agreement, and capitalized terms in the Attachments shall have the same meaning as they do in the rest of this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

HONDA MOTOR CO., LTD

By: /s/ Masao Kawaguchi

Name: Masao Kawaguchi

Title: General Manager, Finance Division

HONDA CANADA FINANCE INC.

By: /s/ Kei Yamada

Name: Kei Yamada

Title: President



## **ATTACHMENT A**

### **FEE RATES**

#### **1. FEE RATES**

1.01. Unless modified pursuant to sections 2.01 through 2.03 of this Attachment A

(i) The Short-Term Rate is 0.05 percent; and

(ii) The Medium-Term Rate is 0.22 percent.

#### **2. MODIFICATION OF FEE RATES**

2.01. If a Triggering Event, as defined in section 2.03 of this Attachment, occurs, the Parties shall negotiate whether and to what extent the Short-Term and Medium Term Rates ("Fee Rates") should be modified and, if they cannot agree, shall hire a third party satisfactory to both Parties to determine Fee Rates that are consistent with arm's length principles promulgated by the Organization for Economic Cooperation and Development and transfer pricing regulations in Japan and Canada. The determination of the third party shall be binding on the Parties, and the Parties shall share equally the costs of obtaining the determination.

2.02. If new Fee Rates are determined pursuant to section 2.01 of this Attachment, the new Fee Rates shall be recorded in a schedule to this Attachment and shall be effective at the beginning of the first Coverage Period following the date of the Triggering Event, unless the Parties agree on a different effective date.

2.03. For purposes of this Attachment, a Triggering Event is:

- (a) A notice from one Party to the other of a desire to reconsider the Fee Rates,
- (b) A payment by HMC required under the Keepwell Agreement, or
- (c) A change in the credit rating of HMC by Standard & Poor's and Moody's Investor Service, Inc.

**ATTACHMENT B**

**FORM OF SUPPORT COMPENSATION REPORT**

**SUPPORT COMPENSATION REPORT FROM HCFI TO HMC**

**REGARDING THE KEEPWELL AGREEMENT FOR THE PERIOD**

[Dates of Coverage Period]

	Short-Term Keepwell Obligations	Keepwell Medium- Term Obligations	Total
A. Month-End Obligations			
B. 1 <sup>st</sup> Month			
C. 2 <sup>nd</sup> Month			
D. 3 <sup>rd</sup> Month			
E. Period Avg. Obligations [(B+C+D)/3]			
F. Fee Rates			
G. Quarterly Fee Rate [(F/4)F]			
H. Keepwell Fee [E x G]			
I. Offsets			
[List]			
J. Total Offsets			
K. Payment Due [H – J]			
L. Withholding Tax			
M. Net Payment Due [K - L]			

**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, 2019, with respect to the consolidated balance sheets of the Company as of March 31, 2019 and 2018, 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, 2019, and the related notes (collectively, the “consolidated financial statements”), which report appears in the March 31, 2019 annual report on Form 10-K of the Company.

/s/ KPMG LLP

Los Angeles, California  
June 21, 2019