Pricing Supplement No. 1
dated April 2, 2020 to Offering
Memorandum dated March 16, 2020

CONFIDENTIAL

$1,800,000,000

Hyundai Capital America

Medium-Term Notes, Series A

$550,000,000 5.750% Notes due 2023
$600,000,000 5.875% Notes due 2025
$650,000,000 6.375% Notes due 2030

Hyundai Capital America is offering $550,000,000 aggregate principal amount of 5.750% notes due 2023 (the "Notes due 2023"), $600,000,000 aggregate principal amount of 5.875% notes due 2025 (the "Notes due 2025") and $650,000,000 aggregate principal amount of 6.375% notes due 2030 (the "Notes due 2030" and, together with the Notes due 2023 and the Notes due 2025, the "Notes"). This document constitutes the Pricing Supplement relating to the Notes and the offering. This Pricing Supplement should be read in conjunction with the Offering Memorandum dated March 16, 2020 (the "Offering Memorandum"). Terms used but not defined herein shall be deemed to be defined as set forth in the Offering Memorandum. The provisions of the Offering Memorandum to which this Pricing Supplement relates are modified and supplemented by the information contained herein and shall be construed to such extent as may be necessary to give effect to such information.

In this document, the words "Company," "HCA," "we," "us" and "our" refer only to Hyundai Capital America and to our subsidiaries.

Notes due 2023 Offering Price: 99.886% plus accrued interest, if any, from April 7, 2020
Notes due 2025 Offering Price: 99.919% plus accrued interest, if any, from April 7, 2020
Notes due 2030 Offering Price: 99.941% plus accrued interest, if any, from April 7, 2020

Joint Book-Running Managers

Barclays **Citigroup** **Credit Agricole CIB** **Mizuho Securities** **RBC Capital Markets**

SUPPLEMENTAL RISK FACTORS

An investment in the Notes is subject to numerous risks, including those set forth below. You should carefully consider the following risks and the risks described under "Risk Factors" starting on page 8 of the accompanying Offering Memorandum, as well as the other information contained in the Offering Memorandum, before purchasing the Notes. These risks could materially affect our ability to meet our obligations under the Notes. In such case, you may lose all or part of your original investment in, and the expected return on, the Notes.

The recent global COVID-19 pandemic could materially adversely affect our business, results of operations and financial condition.

The global outbreak of the novel coronavirus, or COVID-19, changes in consumer behavior related to the illness, pandemic fears and market downturns, and restrictions intended to slow the spread of COVID-19, including quarantines, government-mandated actions, stay-at-home orders and other restrictions have negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets.

In addition, the COVID-19 pandemic and restrictions intended to slow the spread of COVID-19 have adversely affected our business in a number of ways. Similar to relief options we have previously offered to customers and dealers impacted by natural disasters, such as hurricanes, floods, tornadoes and wildfires, we are offering payment relief options to customers and dealers impacted by COVID-19, including finance contract extensions, lease deferred payments, temporary interest deferrals for dealer floorplan financing, and principal payment deferral options for dealer real estate and working capital loans, and have temporarily suspended repossession activities nationwide (collectively, the "COVID-19 Relief"). Unlike the relief options offered for natural disasters, which were limited to the affected geographies, the COVID-19 Relief is being offered nationwide due to the global impact of the COVID-19 pandemic, is expected to increase our credit and residual value losses, and will adversely affect our business, financial condition, results of operations, and cash flows. We have also temporarily transitioned the majority of our team members to remote work arrangements.

HMA has suspended production at its U.S. automobile plant through at least April 13, 2020 and HMC has temporarily suspended production at selected plants in other countries outside of the United States. These actions were taken due to the increasing social and economic impact of the COVID-19 pandemic and HMC's desire to protect the health and safety of its employees, dealers, suppliers and communities. In addition, Hyundai, Genesis and Kia dealer sales operations have been deemed non-essential businesses and forced to close pursuant to government decree in many states with additional states expected to follow. There can be no assurance when these plans and dealer sales operations will reopen.

These events have caused a decline in the sale of vehicles and our financing and insurance products, and could ultimately have a material adverse effect on the sale of vehicles and our financing and insurance products. These events have also caused an increase in unemployment claims, are expected to result in decreased consumer spending, and could cause economic deterioration. In addition, these events could result in lower used vehicle prices, increased delinquencies and dealer defaults, or cause other unpredictable and adverse events.

If significant portions of our workforce are unable to work effectively as a result of the COVID-19 pandemic, including because of illness, quarantines, facility closures, ineffective remote work arrangements or technology failures or limitations, our operations would be materially adversely impacted. Certain of our third-party suppliers and business partners that we rely on to deliver our products and services and to operate our business have informed us that they will be unable to perform fully, and we expect to continue to receive similar notifications from other suppliers and business partners in the near future, which could materially adversely impact our ability to operate our business and increase our costs and expenses. These increased costs and expenses may not be fully recoverable. We are working with our stakeholders (including customers, dealers, employees, suppliers and business partners) to assess the impact of the COVID-19 pandemic and to take actions in an effort to mitigate adverse consequences.

In addition, the continued spread of COVID-19 has led to disruption and volatility in the global capital markets which could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. Accordingly, we may in the future have difficulty accessing debt and capital on attractive terms, or at all, which could have a material adverse effect on our business, results of operations and financial condition.

The duration of the COVID-19 pandemic is uncertain, and the foregoing impacts and other unforeseen impacts not referenced herein, as well as the ultimate impact of the COVID-19 pandemic, are difficult to predict and could have a material adverse effect on our business, financial condition, results of operations and cash flows. To the extent the COVID-19 pandemic adversely affects our business, results of operations and financial condition, it may also have the effect of heightening many of the other risks described under "Risk Factors" starting on page 8 of the accompanying Offering Memorandum.

Changes in our credit ratings may affect the value of the Notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due, including our obligations under the Notes. These credit ratings may not reflect all of the factors that may affect the value of the Notes. Any downgrades or other changes in our credit ratings could affect our financial results and reduce the market value of the Notes. In addition, any ratings downgrade could increase our cost of borrowing or require certain actions to be performed to rectify such a situation. On March 26, 2020, Moody's Investors Service, Inc. ("Moody's") announced that it had placed under review for downgrade our and HMC's senior unsecured long-term ratings and changed the ratings outlooks to under review. Moody's stated that the review for downgrade of our ratings was prompted by the announcement of the review for downgrade of HMC's ratings, and any actions taken with respect to HMC's long-term ratings would also affect our long-term ratings. On April 2, 2020, S&P Global Ratings, a division of S&P Global Inc. ("S&P"), announced that it had placed our and HMC's long-term credit ratings on CreditWatch with negative implications. We cannot assure you that Moody's and/or S&P will not lower HMC's or our senior unsecured long-term ratings following conclusion of their reviews. The reduction, suspension or withdrawal of the ratings of the Notes by one or both of the rating agencies will not, in and of itself, constitute an event of default under the indenture governing the Notes.

SUPPLEMENTAL DESCRIPTION OF NOTES

		5.750% Notes due 2023	5.875% Notes due 2025	6.375% Notes due 2030
1.	Aggregate Principal Amount:	$550,000,000	$600,000,000	$650,000,000
2.	Issue Price:	99.886%	99.919%	99.941%
3.	Trade Date:	April 2, 2020	April 2, 2020	April 2, 2020
4.	Original Issue Date (Settlement Date):	April 7, 2020 (T+3)	April 7, 2020 (T+3)	April 7, 2020 (T+3)
5.	Form of Notes:	Global form only	Global form only	Global form only
6.	Authorized Denomination(s):	$2,000 and integral multiples of $1,000 in excess thereof	$2,000 and integral multiples of $1,000 in excess thereof	$2,000 and integral multiples of $1,000 in excess thereof
7.	Specified Currency:	U.S. Dollars ("$")	U.S. Dollars ("$")	U.S. Dollars ("$")
8.	Maturity Date:	April 6, 2023	April 7, 2025	April 8, 2030
9.	Indenture Trustee:	U.S. Bank National Association	U.S. Bank National Association	U.S. Bank National Association
10.	Interest Basis:	Fixed Interest Rate	Fixed Interest Rate	Fixed Interest Rate
11.	Interest Commencement Date (if different from the Settlement Date):	N/A	N/A	N/A
12.	Interest Payment Dates:	Each April 6 and October 6, commencing October 6, 2020	Each April 7 and October 7, commencing October 7, 2020	Each April 8 and October 8, commencing October 8, 2020
13.	Day Count Convention:	30/360, Unadjusted	30/360, Unadjusted	30/360, Unadjusted
14.	Interest Rate:	5.750% per annum	5.875% per annum	6.375% per annum
15.	Redemption at the Option of the Company:	Yes, as provided below:	Yes, as provided below:	Yes, as provided below:

Redemption at the Option of the Company

The Notes due 2023 will be redeemable at any time, in whole or from time to time in part at our option at a redemption price equal to the greater of:

- 100% of the principal amount of the Notes due 2023 to be redeemed, and
- as determined by the quotation agent (as defined below), the sum of the present values of the remaining scheduled payments of principal of and interest on the Notes due 2023 to be redeemed (not including any interest accrued to, but excluding, the redemption date) discounted to the redemption date on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the treasury rate plus 50 basis points,

plus, accrued and unpaid interest on the Notes due 2023 to be redeemed to, but excluding, the redemption date.

The Notes due 2025 and the Notes due 2030 will be redeemable, at any time prior to (i) in the case of the Notes due 2025, March 7, 2025 (one month prior to the maturity date of the Notes due 2025) (the "2025 Notes Par Call Date") and (ii) in the case of the 2030 Notes, January 8, 2030 (three months prior to the maturity date of the Notes due 2030) (the "2030 Notes Par Call Date," each a "Par Call Date"), in whole or from time to time in part at our option at a redemption price equal to the greater of:

- 100% of the principal amount of the applicable series of Notes to be redeemed, and
- as determined by the quotation agent (as defined below), the sum of the present values of the remaining scheduled payments of principal of and interest on the applicable series of Notes to be redeemed that would be due if such series of Notes matured on their applicable Par Call Date (not including any interest accrued to, but excluding, the redemption date) discounted to the redemption date on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the applicable treasury rate plus 50 basis points in the case of the Notes due 2025 and 50 basis points in the case of the Notes due 2030,

plus, accrued and unpaid interest on the applicable series of Notes to be redeemed to, but excluding, the redemption date.

In addition, we may redeem the Notes due 2025 or the Notes due 2030 at our option, at any time in whole or from time to time in part, on or after the applicable Par Call Date, at a redemption price equal to 100% of the principal amount of the applicable series of Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

"Comparable treasury issue" means the United States Treasury security selected by the quotation agent as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed (assuming that in the case of each of the Notes due 2025 and the Notes due 2030, the applicable series of Notes to be redeemed matured on their applicable Par Call Date) that would be utilized, at the time of a selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes to be redeemed (assuming that in the case of each of the Notes due 2025 and the Notes due 2030, the applicable series of Notes to be redeemed matured on their applicable Par Call Date).

"Comparable treasury price" means, with respect to any redemption date, (i) the average of at least three reference treasury dealer quotations for that redemption date, after excluding the highest and lowest of five or more reference treasury dealer quotations obtained by the Indenture Trustee, or (ii) if the Indenture Trustee obtains fewer than five reference dealer quotations, the average of all reference treasury dealer quotations so obtained.

"Quotation agent" means the reference treasury dealer appointed by us.

"Reference treasury dealer" means (i) each of Barclays Capital Inc., Citigroup Global Markets Inc., Mizuho Securities USA LLC and RBC Capital Markets, LLC, and their respective successors and/or their respective affiliates who are primary treasury dealers (as defined below); provided, however, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a "primary treasury dealer"), we will substitute another primary treasury dealer; and (ii) one other primary treasury dealer selected by Credit Agricole Securities (USA) Inc., or its successor.

"Reference treasury dealer quotations" means, with respect to each reference treasury dealer and any redemption date, the average, as determined by us, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Indenture Trustee by the reference treasury dealer at 5:00 p.m., New York City time, on the third business day preceding the redemption date.

"Treasury rate" means, with respect to any redemption date, the annual rate equal to the semi-annual equivalent yield to maturity of the comparable treasury issue, assuming a price of the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for that redemption date.

In the case of a partial redemption, selection of the Notes for redemption will be made pro rata, by lot or such other method as the Indenture Trustee in its sole discretion deems appropriate and fair. The Notes will be redeemed in denominations of $2,000 and integral multiples of $1,000 in excess thereof. Notice of any redemption will be mailed by first class mail at least 30 days but not more than 60 days before the redemption date to each holder of the Notes to be redeemed at its registered address. If any Notes are to be redeemed in part only, the notice of redemption that relates to the Notes will state the portion of the Notes to be redeemed. New Notes in principal amounts of at least $2,000 equal to the unredeemed portion of the Notes will be issued in the name of the holder of the Notes upon surrender for cancellation of the original 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 the portions of the Notes called for redemption.

16.	Redemption at the Option of the Holders:	No	No	No
17.	Additional Provisions relating to the Notes:	None	None	None
18.	Rule 144A CUSIP/ISIN:	44891ABJ5 / US44891ABJ51	44891ABK2 / US44891ABK25	44891ABL0 / US44891ABL08
19.	Regulation S CUSIP/ISIN:	44891CBJ1 / US44891CBJ18	44891CBK8 / US44891CBK80	44891CBL6 / US44891CBL63

SUPPLEMENTAL PLAN OF DISTRIBUTION

Subject to the terms of the Private Placement Agency Agreement, dated as of March 13, 2015, between the Company and the agents named therein, as amended and supplemented from time to time by the dealer accession letters between the Company and the agents named therein, as further supplemented by a Terms Agreement, dated April 2, 2020 (the "Terms Agreement"), between the Company and Barclays Capital Inc., Citigroup Global Markets Inc., Credit Agricole Securities (USA) Inc., Mizuho Securities USA LLC and RBC Capital Markets, LLC, as representatives of the several purchasing agents named therein (collectively, the "Purchasing Agents"), the Company has agreed to sell to the Purchasing Agents, and each of the Purchasing Agents has agreed severally, and not jointly, to purchase the principal amount of Notes set forth opposite its name below.

Purchasing Agents	Principal Amount of the Notes due 2023	Principal Amount of the Notes due 2025	Principal Amount of the Notes due 2030
Barclays Capital Inc.	$110,000,000	$120,000,000	$130,000,000
Citigroup Global Markets Inc.	110,000,000	120,000,000	130,000,000
Credit Agricole Securities (USA) Inc.	110,000,000	120,000,000	130,000,000
Mizuho Securities USA LLC	110,000,000	120,000,000	130,000,000
RBC Capital Markets, LLC	110,000,000	120,000,000	130,000,000
Total	$550,000,000	$600,000,000	$650,000,000

Under the terms and conditions of the Terms Agreement, the Purchasing Agents are committed to take and pay for all of the Notes, if any are taken. The Purchasing Agents propose to offer the Notes initially at an offering price equal to the Offering Prices set forth above. After the initial offering, the offering price and other selling terms may from time to time be varied by the Purchasing Agents.

We expect that delivery of the Notes will be made to investors on or about April 7, 2020, which will be the third business day following the date of pricing of the Notes (such settlement being referred to as "T+3"). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing will be required, by virtue of the fact that the Notes initially will settle in T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade Notes on the pricing date should consult their own advisor.

Notice to Prospective Investors in the European Economic Area and the United Kingdom

Neither this Pricing Supplement nor the Offering Memorandum is a prospectus for the purposes of the Prospectus Regulation (as defined below). This Pricing Supplement and the Offering Memorandum have been prepared on the basis that any offer of Notes in any Member State of the European Economic Area (the "EEA") or in the United Kingdom (the "UK") (each, a "Relevant State") will only be made to a legal entity which is a qualified investor under the Prospectus Regulation ("Qualified Investors"). Accordingly, any person making or intending to make an offer in that Relevant State of Notes which are the subject of the offering contemplated in this Pricing Supplement and the accompanying Offering Memorandum may only do so with respect to Qualified Investors. Neither the Company nor the Purchasing Agents have authorized, nor do they authorize, the making of any offer of Notes other than to Qualified Investors. The expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK. For these purposes, (a) a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation; and (b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Notice to Prospective Investors in Singapore

This Pricing Supplement and accompanying Offering Memorandum has not been and will not be registered as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") by the Monetary Authority of Singapore, and the offer of the Notes in Singapore is made primarily pursuant to the exemptions under Section 274 and 275 of the SFA. Accordingly, this Pricing Supplement and accompanying Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA (an "Institutional Investor") pursuant to Section 274 of the SFA, (ii) to an accredited investor as defined in Section 4A of the SFA (an "Accredited Investor") or other relevant person as defined in Section 275(2) of the SFA (a "Relevant Person") and pursuant to Section 275(1) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

It is a condition of the offer that where the Notes are subscribed for or acquired pursuant to an offer made in reliance on Section 275 of the SFA by a Relevant Person which is:

(a) a corporation (which is not an Accredited Investor), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an Accredited Investor; or

(b) a trust (where the trustee is not an Accredited Investor). the sole purpose of which is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor, securities or securities-based derivatives contracts (each as defined in Section 2(1) of the SFA) of that corporation and the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has subscribed for or acquired the Notes except:

(i) to an Institutional Investor, an Accredited Investor, a Relevant Person, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 276(4)(i)(B) of the SFA (in the case of that trust);

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

Singapore Securities and Futures Act Product Classification—Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

$40,000,000,000
Hyundai Capital America

Medium-Term Notes, Series A
General Terms of Sale

The following terms will generally apply to the Medium-Term Notes, Series A (the "Notes"), that Hyundai Capital America will offer and sell from time to time using this offering memorandum. We will include information regarding the specific terms for each note in a pricing supplement (a "Pricing Supplement") to this offering memorandum. We may include information regarding a type of medium-term note not described herein in an additional supplement to this offering memorandum and information regarding the specific terms of any such note in a pricing supplement to that additional supplement. Any reference to this "Offering Memorandum" or to a "pricing supplement" herein shall include any such additional supplement or pricing supplement, unless the context requires otherwise.

Maturity:	Generally, one year or more from the date of issue.	**Ranking**:	The Notes will constitute our senior unsecured obligations.
Redemption:	Terms of specific Notes may permit redemption at our option.	**Other Terms**:	You should review "Description of the Notes" and the applicable Pricing Supplement for other terms that apply to your Notes.
Interest Rates:	Fixed, floating or zero coupon.		

Investing in the Notes involves risks that are described in the "Risk Factors" section beginning on page 8 of this Offering Memorandum.

The Notes have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction. Unless they are registered, the Notes may be offered only in transactions that are exempt from registration under the Securities Act or the securities laws of any other jurisdiction. Accordingly, the Notes are being initially offered in the United States only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and outside the United States to non-U.S. persons in compliance with Regulation S of the Securities Act. For further details about eligible offerees and resale restrictions, see "Plan of Distribution" and "Transfer Restrictions."

Unless otherwise specified in an applicable Pricing Supplement, the Notes will not be listed on any securities exchange or any automated quotation system.

We may sell Notes to the agents referred to below as principals for resale at varying or fixed offering prices or through the agents as agents using their reasonable efforts on our behalf. We may also sell Notes without the assistance of the agents. For further details, see "Plan of Distribution."

Barclays	**Mizuho Securities**
BNP PARIBAS	**MUFG**
BNY Mellon Capital Markets, LLC	**RBC Capital Markets**
BofA Securities	**Santander**
Citigroup	**SMBC Nikko**
COMMERZBANK	**SOCIETE GENERALE**
Credit Agricole CIB	**TD Securities**
HSBC	**US Bancorp**
J.P. Morgan	**Wells Fargo Securities**
Lloyds Securities	

The date of this Offering Memorandum is March 16, 2020.

No agent, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Offering Memorandum. Neither we nor any of the agents named on the cover of this Offering Memorandum or in any amendment or supplement hereto (collectively, the "Agents") or our or their respective affiliates take any responsibility for, or provide assurance as to the reliability of, any information that others may give you. This Offering Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any of the securities offered hereby by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Offering Memorandum at any time, nor any sale made in connection with this Offering Memorandum, shall, in any circumstances, create an implication that there has been no change in our affairs or the affairs of Hyundai Motor Company since the date of this Offering Memorandum or that the information contained in this Offering Memorandum is correct as of any time subsequent to the date of this Offering Memorandum.

Notice to Prospective Investors in the United Kingdom

The communication of this Offering Memorandum and any other document or materials relating to the issue of any Notes is not and will not be made, and such documents and/or materials have not and will not be approved, by an authorized person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended (the "FSMA"). Accordingly, such documents and/or materials have not and will not be distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion must only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or to those persons who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or to any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "relevant persons"). In the United Kingdom, any Notes offered hereby are and will only be available to, and any investment or investment activity to which this Offering Memorandum relates will only be engaged in with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

Notice to Prospective Investors in the European Economic Area and in the United Kingdom

This Offering Memorandum is not a prospectus for the purposes of the Prospectus Regulation (as defined below). This Offering Memorandum been prepared on the basis that any offer of Notes in any Member State of the European Economic Area (the "EEA") or in the United Kingdom (each, a "Relevant State") will only be made to a legal entity which is a qualified investor under the Prospectus Regulation ("Qualified Investors"). Accordingly any person making or intending to make an offer in that Relevant State of Notes which are the subject of the offering contemplated in this Offering Memorandum may only do so with respect to Qualified Investors. Neither the Company nor the Agents have authorised, nor do they authorise, the making of any offer of Notes other than to Qualified Investors. The expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

PROHIBITION OF SALES TO EEA AND UNITED KINGDOM RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the United Kingdom may be unlawful under the PRIIPs Regulation.

TABLE OF CONTENTS

Page

Forward-Looking Statements iv
Summary 1
Risk Factors 8
Use of Proceeds 18
Capitalization 19
Selected Consolidated Financial and Other Data 20
Management's Discussion and Analysis of Financial Condition and Results of Operations 22
Business 43
Management 49
Certain Relationships and Related Transactions 50
Description of the Notes 52
Transfer Restrictions 82
Material United States Federal Income Tax Considerations 82
Certain Considerations for ERISA and other U.S. Employee Benefit Plans 95
Plan of Distribution 95
Legal Matters 101
Independent Auditors 101
Index to Financial Statements Hyundai Capital America F-1
Appendix A: Information Regarding Hyundai Motor Company A-1

In this Offering Memorandum, references to "HCA," the "Company," "we," "us" and "our" refer to Hyundai Capital America, a California corporation and the issuer of the Notes, and to its subsidiaries, except where otherwise indicated or where the context otherwise requires, including in the sections entitled "Summary—General Terms of the Notes" and "Description of the Notes."

This Offering Memorandum has been prepared by us solely for use in connection with the proposed offering of Notes described in this Offering Memorandum. This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Distribution of this Offering Memorandum to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and to make no photocopies of this Offering Memorandum or any documents referred to in this Offering Memorandum.

Notwithstanding anything in this Offering Memorandum to the contrary, each prospective investor (and each employee, representative or other agent of the prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of any offering and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective investor relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulation Section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions between us, the Agents or their respective representatives and each prospective investor regarding the transactions described in this Offering Memorandum.

We have furnished the information contained in this Offering Memorandum. The Agents make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Offering Memorandum (financial, legal or otherwise) and assume no responsibility for such information. Nothing contained in this Offering Memorandum is, or should be relied upon as, a promise or representation by the Agents as to the past or future.

Neither the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission nor any other regulatory authority has approved or disapproved the securities nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this Offering Memorandum entitled "Transfer Restrictions" and "Plan of Distribution."

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the Notes, including the merits and risks involved. Prospective investors should not construe anything in this Offering Memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

In this Offering Memorandum, we rely on and refer to information and statistics regarding our industry. We obtained this market data from independent industry publications or other publicly available information. Although we believe that these sources are reliable, we have not independently verified and do not guarantee the accuracy and completeness of this information.

This Offering Memorandum contains summaries of the indenture, Notes and support agreement that are believed to be accurate, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Memorandum constitute "forward-looking statements," including statements regarding HCA's expectations and projections for future operating performance and business prospects. The words "believe," "expect," "anticipate," "estimate," "project," "will," "aim," "will likely result," "will continue," "intend," "plan," "contemplate," "seek to," "future," "objective," "goal," "should," "will pursue" and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Memorandum, including, without limitation, those regarding HCA's financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to HCA's products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Memorandum (whether made by HCA or any third party) involve known and unknown risks, uncertainties and other factors that may cause HCA's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding HCA's present and future business strategies and the environment in which HCA will operate in the future. Factors that could cause HCA's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors." Any forward-looking statements contained in this Offering Memorandum speak only as of the date of this Offering Memorandum. HCA expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in HCA's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

SUMMARY

The following summary contains basic information about us and this offering. It may not contain all the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire document, including the financial statements and related notes, and the documents to which we have referred you.

Our Company

HCA was incorporated in the State of California on September 6, 1989. HCA is a majority-owned subsidiary of Hyundai Motor America ("HMA"), the primary distributor of Hyundai vehicles in the United States. HMA is a wholly owned subsidiary of Hyundai Motor Company ("HMC"), which is a worldwide manufacturer and distributor of motor vehicles headquartered in South Korea. As of December 31, 2019, HMA owns 80% of the outstanding common stock of HCA and Kia Motors America, Inc. ("KMA"), a wholly owned subsidiary of Kia Motors Corporation ("KMC"), owns 20% of the outstanding common stock of HCA. KMA is the primary distributor of Kia vehicles in the United States. KMC is an affiliate of HMC, and both companies have outstanding common stock listed on the Korea Exchange ("KRX"), but are not registered with the SEC in the United States of America. HCA offers indirect automotive consumer loan and lease financing and direct dealer financing through its retail dealer agreements with HMA, KMA and Genesis Motor America LLC, a subsidiary of HMA ("GMA"), and a small number of other dealerships, all of which are located within the United States. In August 2016, Genesis, as a division of HMA, began distributing a new line of vehicles under the Genesis brand. GMA began distributing Genesis brand vehicles beginning with the 2019 model year. As the sole captive finance subsidiary for HMA and KMA in the U.S., our company is strategically important to HMC. HMC has shown a strong willingness to support our business by providing a support agreement and allowing HCA to retain 100% of its net income. Our two shareholders have made $1.5 billion in equity investments since we began operations.

For the purposes of this offering memorandum, references to HMA include GMA, and references to Hyundai include the Genesis brand, unless otherwise noted.

We provide indirect retail passenger motor vehicle loan and lease financing by purchasing motor vehicle retail installment sale contracts and leases from dealers. We also provide direct wholesale financing to many of these dealers by financing inventories and making loans for facilities refurbishment, real estate purchases, construction, and working capital requirements. During the fiscal year ended December 31, 2019, approximately 48% of our total financing revenue, net of depreciation expense, came from leasing, 46% from retail financing, and 6% from wholesale dealer financing. We believe we are well positioned in the market and offer a full line-up of financing products to our customers and dealers. We had total assets of $35.9 billion as of December 31, 2019.

One of our funding sources has been the packaging and sale of retail and wholesale loans and leases through asset-backed securitization ("ABS") transactions. For the years ended December 31, 2019, 2018 and 2017, we securitized approximately $4.9 billion, $3.6 billion and $5.7 billion of receivables, respectively, through ABS debt offerings. At December 31, 2019, we had approximately $17.0 billion, or 44.0%, of our total gross finance receivables and investment in operating leases pledged to secure $11.1 billion of indebtedness incurred in connection with ABS transactions and asset-backed loans and conduits. Our other funding sources consist of borrowings from HMC affiliates, revolving lines of credit, term loans, and the issuance of commercial paper and bonds. At December 31, 2019, we had approximately $1.1 billion of affiliate borrowings outstanding, $2.7 billion of revolving lines of credit and term loans outstanding, $3.2 billion available to draw on revolving lines of credit, $3.0 billion aggregate principal amount outstanding under our commercial paper program and $10.6 billion aggregate principal amount of senior unsecured notes outstanding.

The retail installment sale contracts we purchase are for both new and used vehicles and are sourced from dealers. The leases we purchase are new vehicle, closed-end lease contracts and are also sourced from dealers. We are responsible for the residual value of leased vehicles if the lessee or dealer does not purchase the asset at lease maturity. We collect payments and service our leases and retail installment sales contracts, employing various collection methods, including a risk/behavioral-based collection strategy to minimize risk of loss. We extend credit lines to dealers that operate exclusive Hyundai and Kia dealerships, to dealers that operate Hyundai and Kia and non-Hyundai and non-Kia dealerships in one franchise, and to dealers that operate dealerships authorized by non-Hyundai and non-

Kia manufacturers for their purchase of inventories of new and used Hyundai, Kia and other vehicles in the normal course of business. Dealers who have non-Hyundai and non-Kia dealerships may use part of our financing, pursuant to their related wholesale financing agreement, to finance vehicles purchased from other manufacturers. We also extend term loans and revolving lines of credit to dealers for business acquisitions, facilities refurbishment, real estate purchases, construction and working capital requirements. For the fiscal years ended December 31, 2019, 2018 and 2017, our total financing revenue was $4.6 billion, $4.6 billion and $4.4 billion, respectively, and our net income was $216.4 million, $120.7 million and $1.1 billion, respectively. In December 2017, HCA remeasured its federal deferred tax assets and liabilities, reflecting the corporate tax rate applicable starting January 1, 2018 under the Tax Cuts and Jobs Act (HR1), which was signed into law on December 22, 2017. A cumulative adjustment of $979.6 million from the remeasurement of deferred tax assets (liabilities) was recognized as an income tax benefit from continuing operations.

Sound risk and operational foundations have been established with the growth of our business. Almost all of our $18.2 billion net finance receivables and $15.2 billion net investment in operating leases as of December 31, 2019 were originated from Hyundai and Kia dealer-related business. Our portfolio consists of high credit quality receivables, and as of December 31, 2019, 75% of our retail portfolio and 85% of our lease portfolio consisted of accounts with FICO® scores greater than 680 (percentage calculations exclude accounts with unavailable or invalid FICO® scores). For the years ended December 31, 2019, 2018 and 2017, our loss-to-receivables ratios were 1.3%, 1.5% and 1.7%, respectively. As of December 31, 2019, we had total undrawn committed sources of funding of $6.1 billion from credit lines in addition to $129.2 million in cash and cash equivalents.

Our headquarters are located at 3161 Michelson Drive, Irvine, California 92612. We also have regional offices in California, Texas and Georgia, which generally perform underwriting, servicing and collection activities. For more information about our business and our results of operations, see the “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections of this Offering Memorandum and our financial statements and related notes.

General Terms of the Notes

The summary below describes the principal terms of the Notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The terms "we," "us" and "our" in this subsection of the summary below refer only to Hyundai Capital America, the issuer of the Notes. The "Description of the Notes" section of this Offering Memorandum contains a more detailed description of the terms and conditions of the Notes.

Issuer:	Hyundai Capital America
Securities Offered:	We will issue from time to time (the "Program") up to $40,000,000,000 aggregate principal amount of the Notes or the equivalent in one or more foreign currencies. We may, however, from time to time provide for the issuance of Notes in excess of the foregoing amount.
Maturities:	Generally, one year or more from the date of issue, as agreed upon by the purchaser and us and specified in the applicable Pricing Supplement.
Ranking:	The Notes will be our senior unsecured obligations, and will rank equally in right of payment with all of our other senior unsecured indebtedness, will be senior in right of payment to any of our future indebtedness that is expressly subordinated to the Notes, will be effectively subordinated to all existing and future indebtedness that is secured, to the extent of the value of the assets securing such indebtedness, and will be structurally subordinated to all indebtedness and other liabilities of all of our subsidiaries, to the extent of the assets of such subsidiaries.
Support Agreement:	Holders of the Notes will have the benefit of a support agreement between us and HMC. The support agreement does not constitute a guarantee by HMC of any of the Notes offered hereby. See "Certain Relationships and Related Transactions—Support Agreement."
Agents:	We have appointed the Agents named on the cover of this Offering Memorandum or in an amendment or supplement hereto as agents under the Program. We may appoint additional broker-dealers with respect to specific issuances of Notes. We reserve the right to place Notes directly on our own behalf.
Interest Rates:	The Notes will bear interest at fixed rates ("Fixed Rate Notes") or at floating rates ("Floating Rate Notes") determined by reference to one or more Base Rates (as defined herein), which may be adjusted by a Spread and/or a Spread Multiplier and which may be subject to a Maximum Interest Rate and/or a Minimum Interest Rate, in either case as agreed to by the purchaser and us and specified in the applicable Pricing Supplement. The Base Rates will include the CMT Rate, the Commercial Paper Rate, EURIBOR, Euro LIBOR, the Federal Funds (Effective) Rate, the Federal Funds (Open) Rate, LIBOR, the Prime Rate, the Treasury Rate and such other interest rate formulas as may be specified in the applicable Pricing Supplement. Certain Notes issued at a discount from the principal amount payable at maturity may be non-interest bearing.
Interest Amount Computations:	Unless otherwise specified in the applicable Pricing Supplement, interest on (i) Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months, and (ii) Floating Rate Notes will be computed on the basis of the actual number of days in the interest period divided by 360 (or, in the case of a Floating Rate Note bearing interest at a rate determined by

	reference to the Treasury Rate or EURIBOR, by the actual number of days in the year or by 365, respectively).
Redemption:	Unless otherwise specified in the applicable Pricing Supplement, the Notes will not be subject to redemption at our option prior to their respective stated maturities. The Notes will not be subject to any sinking fund.
Covenants:	The indenture governing the Notes will, among other things, limit our ability and the ability of our subsidiaries to create liens and enter into mergers or consolidations. Under the indenture, we will be required to provide audited financial statements to the trustee annually but not on a more frequent basis. See "Description of the Notes—Certain Covenants—Reports to Holders of the Notes." These covenants will be subject to a number of important exceptions and qualifications. For more details, see "Description of the Notes."
Use of Proceeds:	We intend to use the net proceeds from the sale of the Notes for general corporate purposes. Pending application of the proceeds of the sale of the Notes, we intend to invest such proceeds in short-term investments. The use of proceeds of any individual issuance of Notes, if other than for general corporate purposes, will be described in the applicable Pricing Supplement See "Use of Proceeds."
Additional Notes:	We may from time to time, without giving notice to or seeking the consent of the holders of the Notes, issue debt securities having the same terms (except for the issue date and, in some cases, the offering price and the first interest payment date) as, and ranking equally and ratably with, the Notes of a particular tranche. Such additional debt securities will be consolidated and form a single tranche with, have the same CUSIP number as and trade interchangeably with such previously issued Notes, so long as such additional debt securities are fungible for U.S. federal income tax purposes with the previously issued Notes.
Form and Denomination:	Each Note will be issued in fully registered book-entry form and will be represented by one or more global Notes without coupons (each, a "Global Note") deposited with the Trustee and registered in the name of a nominee of The Depository Trust Company ("DTC"). Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Clearstream Banking, S.A. ("Clearstream,") and Euroclear Bank, SA/NV, as operator of the Euroclear System ("Euroclear"), will hold interests on behalf of their participants through their respective U.S. depositaries, which in turn will hold such interests in accounts as participants of DTC. Except in the limited circumstances described in this Offering Memorandum, owners of beneficial interests in the Notes will not be entitled to have Notes registered in their names, will not receive or be entitled to receive Notes in definitive form and will not be considered holders of Notes under the indenture. Unless otherwise specified in the applicable Pricing Supplement, the Notes will be issued only in denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Settlement:	Unless otherwise specified in the applicable Pricing Supplement, settlement for sales of Notes will be made in immediately available funds in New York, New York, generally two Business Days after the sale date. If we and a purchaser agree, however, settlement may occur on a different date.

Other Provisions:	The Notes may from time to time be issued with terms and provisions that differ from those described in this Offering Memorandum. In such event, the terms and provisions of such Notes will be as set forth in the applicable Pricing Supplement, which terms will supersede the description of the Notes contained herein to the extent inconsistent herewith.
Absence of Public Market for Notes:	Each tranche of the Notes will be a new issue of securities. No previous market exists for the Notes and no assurances can be given that any market for the Notes will develop. The Agents are under no obligation to make a market in the Notes and to the extent that such market-making is commenced, it may be discontinued at any time. There is no assurance that a secondary market will develop or, if it does develop, that it will provide holders with liquidity of investment or that it will continue for any period of time. Therefore, a holder of Notes may not be able to liquidate its investment readily, and the Notes may not be readily accepted as collateral for loans. Investors should proceed on the assumption that they may have to hold any Notes until the end of their scheduled term.
Transfer Restrictions:	The Notes have not been, and will not be, registered under the Securities Act and are subject to restrictions on transfer, as described under "Transfer Restrictions."
Indenture:	The Notes will be issued under, subject to and entitled to the benefits of an indenture, dated as of October 1, 2012 (as may be amended, modified or supplemented from time to time, the "Indenture"). See "Description of the Notes."
Risk Factors:	You should carefully read and consider the information set forth in "Risk Factors" beginning on page 8 before investing in the Notes.
Trustee:	U.S. Bank National Association.
Governing Law:	State of New York.

Summary Consolidated Financial and Other Data

The following table sets forth a summary of our consolidated financial and other information for the periods indicated. The information as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018, and 2017 has been derived from our audited consolidated financial statements included elsewhere in this Offering Memorandum. The information as of December 31, 2017 has been derived from our audited consolidated financial statements that are not included in this Offering Memorandum. These summary consolidated financial and other data should be read in conjunction with "Selected Consolidated Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included elsewhere in this Offering Memorandum.

	Years Ended December 31,		
	2019	**2018**	**2017**
	(dollars in thousands)		
Income Statement Data:			
Financing revenue			
Operating leases	$ 3,641,058	$ 3,772,333	$ 3,629,599
Retail	830,651	714,343	689,122
Wholesale	107,856	90,906	78,918
Total financing revenue	4,579,565	4,577,582	4,397,639
Depreciation on operating leases	2,781,163	3,016,532	2,932,095
Interest expense	822,256	713,388	599,192
Total depreciation and interest expense	3,603,419	3,729,920	3,531,287
Net financing revenue	976,146	847,662	866,352
Other revenue	146,262	142,748	89,641
Total net financing margin and other revenue	1,122,408	990,410	955,993
Expenses			
Operating expenses	571,852	502,326	477,527
Provision for credit losses	307,753	346,912	376,118
Total expenses	879,605	849,238	853,645
Income before provision for income taxes	242,803	141,172	102,348
Provision for income taxes	26,411	20,437	(969,009)
Net income	$ 216,392	$ 120,735	$ 1,071,357

	December 31,		
	2019	2018	2017
	(dollars in thousands)		
Balance Sheet Data:			
Finance receivables, net			
Retail	$ 16,025,942	$ 13,173,203	$ 13,400,548
Wholesale	2,459,620	2,195,387	2,023,282
Total finance receivables	18,485,562	15,368,590	15,423,830
Allowance for credit losses	(237,908)	(231,142)	(246,250)
Total finance receivables, net	$ 18,247,654	$ 15,137,448	$ 15,177,580
Investments in operating leases, net			
Vehicles and initial direct costs	$ 19,689,143	$ 20,545,654	$ 21,256,904
Accumulated depreciation	(4,403,932)	(4,752,366)	(4,454,420)
Allowance for credit losses	(102,714)	(111,375)	(85,963)
Total investment in operating leases, net	$ 15,182,497	$ 15,681,913	$ 16,716,521
Total assets	$ 35,886,145	$ 33,386,306	$ 36,465,396
Total debt	$ 28,461,778	$ 26,219,284	$ 29,289,878
Total liabilities	$ 31,695,638	$ 29,424,079	$ 32,619,384
Total shareholders' equity	$ 4,190,507	$ 3,962,227	$ 3,846,012
Total liabilities and shareholders' equity	$ 35,886,145	$ 33,386,306	$ 36,465,396
Other Financial Data:			
Net Income to Total Assets ratio	0.6%	0.4%	2.9%
Net Income to Equity ratio	5.2%	3.0%	27.9%
Loss-to-Receivables ratio **(1)**	1.3%	1.5%	1.7%
Allowance for Credit Losses to Finance Receivables ratio **(2)**	1.3%	1.5%	1.6%
Allowance for Credit Losses to Investment in Operating Leases ratio **(3)**	0.7%	0.7%	0.5%

(1) Calculated based on net charge-offs divided by the average amount of receivables outstanding, excluding the allowance for credit losses, unearned interest supplements and other deferred items

(2) Calculated based on allowance for credit losses related to retail and wholesale loans divided by total net finance receivables, excluding the allowance for credit losses.

(3) Calculated based on allowance for credit losses related to operating leases divided by total net investment in operating leases, excluding the allowance for credit losses.

RISK FACTORS

An investment in the Notes is subject to numerous risks, including those listed below. You should carefully consider the following risks as well as the other information contained in this Offering Memorandum before purchasing the Notes. These risks could materially affect our ability to meet our obligations under the Notes. In such case, you may lose all or part of your original investment in, and the expected return on, the Notes.

Risks Relating to Our Business

We are exposed to certain risks and uncertainties that could have an adverse impact on our business, financial condition, operating results and prospects:

Our business is substantially dependent upon the sale of Hyundai and Kia vehicles in the United States.

Our business is substantially dependent upon the sale of Hyundai and Kia vehicles and our ability to offer competitive financing in the United States. HMA, our majority shareholder, is the primary distributor of Hyundai vehicles in the United States. HMA is one of our primary sources of funding through affiliate borrowings and subvention programs for special rate retail financing and lease programs that we offer in the United States on certain new Hyundai vehicles. The level of subsidy varies based on HMA's marketing strategies, economic conditions and volume of vehicle sales. Changes in the volume of sales of such vehicles or level of sponsored programs resulting from changes in consumer demand, perceived quality, safety or reliability of Hyundai and Kia vehicles due to vehicle recalls, work stoppage, general economic conditions, availability and cost of consumer credit, changes in the level of HMA-sponsored financing programs, increased competition, changes in pricing of imported units due to currency fluctuations, governmental action or other events could impact the level of our operations. KMA is the primary distributor of Kia vehicles in the United States. KMA also provides us with funding through subsidizing special rate retail financing and lease programs that we offer in the United States on certain new Kia vehicles. See "Certain Relationships and Related Transactions—Relationships with Affiliates" and "Business" for further discussion regarding our relationship with HMA and KMA.

Our earnings depend on many factors, most of which are outside of our control.

Our earnings are subject to many factors, including changes in the overall market for retail financing, leasing or wholesale dealer financing, changes in the level of sales of Hyundai and Kia vehicles in the United States, rates of growth in the number and average balance of customer accounts, the U.S. regulatory environment, competition, rates of default by our customers, changes in the United States and international funding markets, the used vehicle market, levels of operating and administrative expenses, including, but not limited to, personnel and technology costs, general economic conditions in the United States and other factors. Frequently, HMA and KMA elect to sponsor incentive programs (on both retail loans and leases) by supporting financing rates below our standard rates, a practice known as rate support or subvention. For the year ended December 31, 2019, 76% of retail financing contracts and approximately 99% of lease contracts purchased by HCA received rate support from HMA or KMA. Changes in the levels of subvention payments from HMA and KMA affect our revenues and net income by causing some of our products to be priced less competitively in the market and thus reducing the number of loans and leases that we may finance. We have no ability to influence most of the factors described above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Rate Subsidy Payments."

Our profitability is directly affected by changes in interest rates.

An increase in interest rates could increase our costs of financing loan and lease originations and could adversely affect our loan and lease origination volumes because financing can be less attractive to consumers and qualifying for financing may be more difficult. These same factors may also negatively affect our profitability. A substantial portion of our liabilities are short-term and/or tied to floating interest rates. As rates increase, these liabilities reprice and our interest expense increases. A rising interest rate environment, which can result from a variety of factors, including a decrease in liquidity and Federal Reserve actions, could have a material adverse effect on our results of operations, financial condition and business if our net interest margins are adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations— Overview—Interest Rates and Credit Spreads" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk."

Economic conditions, trade policies and other market events may affect our results.

Our business and results of operations are tied to general economic conditions. A downturn in economic conditions in the United States resulting in increased unemployment rates, slow job growth, increased consumer and commercial bankruptcy filings, and other factors that negatively impact household incomes could decrease demand for our financing products, and increase delinquencies and losses. Automobiles are durable items, and consumers could choose to defer their acquisition or replacement.

Our liquidity strategy is to maintain the capacity to fund assets and repay liabilities in a timely and cost-effective manner even in the event of adverse market conditions. A downturn in economic conditions could also negatively impact our ability to access capital. In particular, our cost and availability of funding could be adversely affected by illiquid credit markets and wider credit spreads.

If there is a prolonged disruption of the debt and securitization markets, we would consider reducing the amount of receivables we purchase or originate. A significant reduction in the amount of receivables we purchase or originate would significantly reduce our ongoing profits, and could adversely affect our ability to support the sale of Hyundai and Kia vehicles. To the extent our ability to provide wholesale financing to dealers or retail financing to those dealers' customers is limited, Hyundai's and Kia's ability to sell vehicles could be adversely affected.

Restrictive trade policies could adversely affect our results of operations and financial condition. Recent initiatives by the U.S. government to consider applying tariffs on automobiles, parts, and other products and materials have the potential to disrupt existing supply chains and impose additional costs on Hyundai and Kia's U.S. business.

Our inability to access the debt, securitization or derivative markets at competitive rates may affect our results.

Our ability to obtain funding under our committed asset-backed liquidity programs and certain other ABS transactions is subject to having a sufficient amount of assets eligible for these programs, as well as our ability to obtain appropriate credit ratings and, for certain committed programs, derivatives to manage interest rate risk. Over time, and particularly in the event of any credit rating downgrades, market volatility, interest rate volatility, market disruption, or other factors, we may reduce the amount of receivables we purchase or originate because of funding constraints. In addition, we may reduce the amount of receivables we purchase or originate if there is a significant decline in the demand for the types of securities we offer or if we are unable to obtain derivatives to manage the interest rate risk associated with our securitization transactions. A significant reduction in the amount of receivables we purchase or originate would significantly reduce our ongoing profits, and could materially adversely affect our ability to support the sale of Hyundai and Kia vehicles. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk."

Our results and financial condition are dependent, in large part, on significant transactions with our affiliates, including affiliate borrowings.

We have significant transactions with HMA, KMA, HMC and certain other affiliates. The credit ratings of our securities depend, in large part, on the existence of the support agreement with HMC. See "—Our credit ratings depend, in large part, on the existence of the support agreement with HMC."

HMA pays us under its vehicle incentive financing programs, which include yield and residual value and other end of term incentives. The amounts we billed to HMA for various yield incentive programs were $370.1 million, $311.4 million and $315.0 million for the years ended December 31, 2019, 2018, and 2017, respectively. These amounts are recognized in financing revenues over the terms of the related contracts. The amounts we billed to HMA for residual value and other end of term incentive programs were $35.9 million, $66.4 million and $68.2 million for the years ended December 31, 2019, 2018, and 2017, respectively. The effect of the residual value incentive program is a reduction of depreciation expense over the life of the lease. Other end of term incentive programs consist of disposition fees paid on behalf of loyal customers and are recorded in financing revenue. The outstanding receivable balance for HMA yield incentive programs were $173.8 million, $137.8 million and $145.0 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The outstanding receivable balance for HMA residual value and other end of term incentive programs were $243.2 million, $274.1 million and $299.1 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component

of due from affiliates, net. The residual value and other end of term incentive receivable balance due from HMA for each period presented consists primarily of an estimated future billing amount for units covered under the incentive program but not billable until end of lease term. The estimated future billing corresponding amounts are included as a reduction of the investment in operating leases, net.

KMA also pays us amounts under its vehicle incentive financing programs, which include yield and residual value and other end of term incentives. The amounts we billed to KMA for various yield incentive programs were $203.0 million, $227.2 million and $291.1 million for the years ended December 31, 2019, 2018, and 2017, respectively. These amounts are recognized in financing revenues over the terms of the related contracts. The amounts we billed to KMA for residual value and other end of term incentive programs were $56.2 million, $56.2 million and $62.3 million for the years ended December 31, 2019, 2018, and 2017, respectively. The effect of the residual value incentive program is a reduction of depreciation expense over the life of the lease. Other end of term incentive programs consist of disposition fees paid on behalf of loyal customers and are recorded in financing revenue. The outstanding receivable balance for KMA yield incentive programs were $72.7 million, $69.5 million and $98.4 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The outstanding receivable balance for KMA residual value and other end of term incentive programs were $256.1 million, $245.9 million and $259.6 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The residual value incentive and other end of term receivable balance due from KMA for each period presented consists primarily of an estimated future billing amount for units covered under the incentive program but not billable until end of lease term. The estimated future billing corresponding amounts are included as a reduction of the investment in operating leases, net.

Affiliate borrowings are another source of funding. We had $1.1 billion, $1.0 billion and $1.4 billion at December 31, 2019, 2018, and 2017, respectively, of outstanding affiliate borrowings owed to HMA and other affiliates. Therefore, a portion of our interest expense is paid to HMA and other affiliates.

HMA charges us a negotiated fee for various personnel, administrative and operating expenses related to shared services that were provided by HMA. HMA charged us fees of $1.4 million, $1.2 million and $1.2 million during the years ended December 31, 2019, 2018, and 2017, respectively.

See "Certain Relationships and Related Transactions—Relationships with Affiliates" for further discussion of these transactions, as well as additional transactions between us and HMA and other affiliates. These transactions and arrangements may be discontinued at any time. We would need to find other funding sources and replace the finance and other services now provided by affiliates, either through third parties or hiring additional personnel. There can be no assurance that we could do so on the same or better terms. Moreover, certain transactions such as HMA's vehicle incentive financing programs, subvention payments and affiliate borrowings would be irreplaceable if discontinued. Our financial position, results of operations and cash flows would be adversely affected if our relationships with HMA and other affiliates did not exist or these transactions were discontinued.

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

Residual value risk is the risk that the estimated residual value at lease origination 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. A higher rate of vehicle returns exposes us to greater risk of loss at lease termination. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk—Residual Risk."

We are exposed to credit risk on all of our loans and leases.

Credit risk is the risk of loss if a customer or dealer fails to meet the terms of any contract with us or otherwise fails to perform as agreed (i.e., defaults). Our level of credit risk is influenced primarily by two factors: the total number of contracts that default and the loss per occurrence, which in turn are influenced by various economic factors, the used vehicle market, contract term length and purchase quality mix. Our credit losses could exceed our expectations and adversely affect our financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Allowance for Credit Losses."

If we are unable to compete successfully or if competition increases in the businesses in which we operate, our operating results could be negatively affected.

We operate in a highly competitive environment. We compete with other financial institutions including national and regional commercial banks, credit unions, savings and loan associations and finance companies, and, to a lesser extent, we compete with other automobile manufacturers' affiliated finance companies. Increases in competitive pressures could have an adverse impact on our contract volume, market share, revenues and margins. Further, the financial condition and viability of our competitors and peers may have an impact on the financial services industry in which we operate, resulting in changes in the demand for our products and services. This could have an adverse impact on our operating results and the volume of our business.

Our customers are concentrated in a few states, which increases our exposure to an economic downturn in those states.

A large percentage of our earning assets are located in the states of California, Florida, New York and Texas. Factors adversely affecting the economy in these states or dealer receivables could have an adverse effect on our consolidated financial position or results of operations. See "Business—Retail Loan & Lease Concentration" for further discussion regarding our exposure to this risk.

Our credit ratings depend, in large part, on the existence of the support agreement with HMC.

While our securities are rated, the rating of our securities depends, in large part, on the existence of the support agreement between us and HMC. Under certain circumstances, the support agreement may be terminated, modified or amended by HMC or us. See "Certain Relationships and Related Transactions—Support Agreement" for a description of the circumstances in which the support agreement may be terminated, modified or amended. Should we for any reason not have the benefit of the support agreement, we would expect that the credit ratings for our securities could be substantially lower than our current ratings, leading to higher borrowing costs. The support agreement is not, and nothing done pursuant to the support agreement by HMC shall be deemed to constitute, a guarantee by HMC of any of the notes offered hereby, or other obligation, indebtedness or liability of any kind or character of ours whatsoever. See "Certain Relationships and Related Transactions—Support Agreement" for a description of the support agreement.

Outsourcing of certain functions could impact our operations.

We currently outsource a portion of our information technology functions to an affiliated third-party service provider, Hyundai Autoever America, LLC. A portion of our early stage collections functions are outsourced to third party service providers. In the future, we may look for other opportunities to outsource additional functions in order to reduce costs and increase efficiencies. We have no direct control over the quality of services provided by such third party service providers. Unless managed effectively, reliance on third-party service providers could negatively impact our operations.

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

We are subject to various regulatory, financial and other requirements of the jurisdictions in which we operate. In light of current conditions in the global financial markets, regulators have increased their focus on the regulation of the financial services industry, including the segment in which we operate. 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, financial condition and results of operations 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 actions which are currently available to us.

Financial regulatory reform could have a significant impact on our business, financial condition and results of operations.

As a finance company, we are highly regulated by governmental authorities, which can impose significant additional costs and/or restrictions on our business. Our operations are subject to regulation, supervision and licensing

under various federal, state, and local laws and regulations, including the federal Truth-in-Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act. Efforts to comply with these laws and regulations impose significant costs on us, and affect the conduct of our business. Additional regulation could add significant cost or operational constraints that might impair the profitability of our business.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") to reform practices in the financial services industries, including automotive financing and securitizations. Although the Dodd-Frank Act generally took effect on July 22, 2010, many provisions are taking effect as implementing regulations are issued and finalized. The Dodd-Frank Act is extensive and significant legislation that, among other things:

- created a liquidation framework for the resolution of certain bank holding companies and other nonbank financial companies, defined as "covered financial companies," in the event 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, and also for the resolution of certain of their respective subsidiaries, defined as "covered subsidiaries," in the event such a subsidiary is in default or in danger of default and the liquidation of such subsidiary would avoid or mitigate serious adverse effects on financial stability or economic conditions of the United States;

- created a new framework for the regulation of over-the-counter derivatives activities;

- strengthened the regulatory oversight of securities and capital markets activities by the SEC; and

- created the Consumer Financial Protection Bureau ("CFPB"), an agency with broad rule-making authority responsible for administering and enforcing the laws and regulations for consumer financial products and services, such as our retail automotive financing business.

The Dodd-Frank Act impacts the offering, marketing and regulation of consumer financial products and services offered by financial institutions, including indirect automobile loans and retail automobile leases. For example, 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. The CFPB issued a final rule that became effective August 31, 2015 defining which non-depository institutions would be considered larger participants of a market for automobile financing. Under the definitions included in the final rule, we are considered a larger participant and therefore are subject to the supervisory and examination authority of the CFPB. CFPB jurisdiction over our business may continue to increase compliance costs and regulatory risks. We cannot assure you that CFPB jurisdiction will not have a material adverse effect on our business, results of operations and financial condition.

Recently, state regulators are taking a more stringent approach to supervising and regulating providers of financial products and services subject to their jurisdiction. HCA expects to continue to face greater supervisory scrutiny and enhanced supervisory requirements in the foreseeable future. The New York State Department of Financial Services ("NYSDFS") has contacted HCA requesting information relating to our fair lending laws. We are cooperating with this request for information. Although the NYSDFS has not currently alleged any wrongdoing on our part, we cannot predict the outcome of this inquiry.

The Dodd-Frank Act also increases the regulation of the securitization markets. For example, effective December 24, 2016, implementing regulations require securitizers or originators to retain an economic interest in a portion of the credit risk for any asset that they securitize or originate. It gives broader powers to the SEC to regulate credit rating agencies and adopt regulations governing these organizations and their activities.

Compliance with the implementing regulations under the Dodd-Frank Act or the oversight of the SEC, CFPB or other government entities, as applicable, may impose costs on, create operational constraints for, or place limits on pricing with respect to finance companies such as us. Some regulations required by the Dodd-Frank Act have not been finalized. Until all of the implementing regulations are issued, interpreted and tested in the market, no assurance can be given that these new requirements imposed by the Dodd-Frank Act will not have a significant impact on

marketability of securities such as the Notes, the secondary market for such securities, and on operating results, the regulation and supervision of the Company.

A failure or interruption of the information systems on which we rely, or a security breach or a cyber-attack could adversely affect our business, results of operations and financial condition.

We rely upon information and technological systems to conduct our business and manage our operations, some of which are managed by third parties. Any failure or interruption of our information systems or the third party information systems on which we rely as a result of inadequate or failed processes or systems, human errors, employee misconduct, catastrophic events, external or internal security breaches, acts of vandalism, computer viruses, malware, misplaced or lost data, or other events could disrupt our normal operations and have an adverse effect on our business, results of operations and financial condition.

In the ordinary course of our business, we collect, store and transmit certain personal and financial information from employees, customers and other third parties. The secure processing, storage, maintenance, and transmission of this information is critical to our operations and reputation, and if any of this information were mishandled, misused, improperly accessed, lost, or stolen or if our operations were disabled or otherwise disrupted, we could suffer significant business, reputational, financial, regulatory, or other damage.

We rely on information security technologies licensed from third parties to provide security controls necessary to help in securing storage and transmission of confidential information. We may not be able to successfully prevent all security breaches and our failure to prevent any such security breaches and cyber-attacks could subject us to liability, regulatory actions, decrease our profitability and damage our reputation. Even when a failure of or interruption in our communications or other information systems is timely resolved or an attempted cyber incident or other security breach is successfully avoided or thwarted, we may need to expend substantial resources in doing so, may be required to take actions that could adversely affect customer satisfaction or behavior, and may be exposed to reputational damage.

Recent changes to U.S. tax law could adversely affect our business, financial condition and results of operations or those of our affiliates.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduces federal corporate tax rates as well as modifies policies, credits and deductions. The corporate federal tax rate was reduced from a rate of 35% to a rate of 21%, creating a blended rate of 31.55% for the year ended December 31, 2018. We recognized the tax effects of the Tax Act during the fiscal year ended December 31, 2018. Any revisions to amounts recognized related to the Tax Act were completed during the current year in accordance with the measurement period guidance outlined in Staff Accounting Bulletin No. 118 (SAB 118) dated January 2018. In connection with our initial analysis of the impact of the Tax Act, we recorded a provisional net tax benefit of $979,632,000 for the year ended December 31, 2017 related entirely to the re-measurement of deferred tax liabilities. During the SAB 118 measurement period prior to December 31, 2018, we did not record an additional net tax expense associated with the one-time effects of the Tax Act.

The recent global coronavirus outbreak could harm our business and results of operations.

The outbreak of the novel coronavirus, or COVID-19, in many countries continues to adversely impact global commercial activity, particularly in China, Italy and South Korea, and has contributed to significant volatility in financial markets. The global impact of the outbreak has been rapidly evolving, and as cases of the virus have continued to be identified in additional countries, many countries have reacted by instituting quarantines and restrictions on travel. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries, such as transportation, including automotive, hospitality and entertainment. For example, in February 2020, HMC temporarily suspended production in South Korea due to supply chain disruptions and local coronavirus outbreaks. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of the novel coronavirus. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to our performance and financial results.

In addition, unfavorable economic and political conditions resulting from the coronavirus outbreak could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. Accordingly, we may in the future have difficulty accessing debt and capital on attractive terms, or at all, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks Relating to the Notes

A significant percentage of our assets are used as collateral for asset-backed securities and, therefore, are not available to our creditors generally, including the holders of the Notes.

One of our primary funding sources is the sale of finance receivables and lease assets in connection with ABS transactions and asset-backed conduits. While the sold assets often remain on our balance sheet, they are pledged to support payments on the asset-backed securities and conduits and are generally not available to our general unsecured creditors. At December 31, 2019, we had approximately $17.0 billion, or 44.0%, of our total gross finance receivables and investment in operating leases pledged to secure $11.1 billion of indebtedness incurred in connection with ABS transactions and asset-backed loans and conduits. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet, Liquidity and Capital Resources—Funding Sources and Liquidity," "Index to Financial Statements Hyundai Capital America—Notes to the Consolidated Financial Statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017—Note 4—Finance Receivables" and "Index to Financial Statements Hyundai Capital America—Notes to the Consolidated Financial Statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017—Note 5—Investment in Operating Leases."

Although the indenture governing the Notes will contain a covenant restricting our ability to pledge assets, the covenant will not limit our ability to pledge assets in connection with ABS and asset-backed conduit transactions that we execute in the ordinary course of business. In addition, we will be able to pledge assets to secure other indebtedness in an aggregate principal amount not exceeding 10% of our Consolidated Net Tangible Assets. See "Description of the Notes—Certain Covenants—Limitation on Liens." As a result of these exceptions, we could create indebtedness secured by all or substantially all of our assets without equally and ratably securing the Notes offered hereby and any such secured indebtedness would effectively rank senior to the Notes to the extent of the value of such assets.

The Notes are subject to transfer restrictions.

The Notes have not been registered under the Securities Act. Accordingly, the Notes may only be offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or pursuant to an effective registration statement. Prior to this offering, there was no public market for the Notes and we cannot assure you that an active trading market will develop for the Notes. If no active trading market develops, you may not be able to resell your Notes at their fair market value or at all. Future trading prices of the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. We do not intend to register the Notes under the Securities Act or apply for listing the Notes on any securities exchange.

No previous market for the Notes exists and the holders of such Notes may experience limited liquidity.

No previous market exists for the Notes and no assurances can be given that any market for the Notes will develop. The Agents are under no obligation to make a market in the Notes and to the extent that such market-making is commenced, it may be discontinued at any time. There is no assurance that a secondary market will develop or, if it does develop, that it will provide holders with liquidity of investment or that it will continue for any period of time. Therefore, a holder of Notes may not be able to liquidate its investment readily, and the Notes may not be readily accepted as collateral for loans. Investors should proceed on the assumption that they may have to hold any Notes until the end of their scheduled term. See "Transfer Restrictions."

Fluctuations in applicable indices may adversely affect the value of index-linked Notes.

With respect to an investment in Notes indexed to one or more interest rates, currencies or other indices or formulas, significant risks exist that are not associated with a conventional fixed rate or floating rate debt security. These risks include fluctuation of the particular indices or formulas and the possibility that an investor will receive a

lower amount of principal, premium or interest and at different times than expected. We have no control over a number of matters, including economic, financial and political events that are important in determining the existence, magnitude and longevity of such risks and their results. In addition, if an index or formula used to determine any amounts payable in respect of Notes contains a multiplier or leverage factor, the effect of any change in such index or formula will be magnified. In recent years, values of certain indices and formulas have been volatile, and volatility in those and other indices and formulas may be expected in the future.

Changes in our credit ratings may affect the value of the Notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due, including our obligations under the Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the Notes, additional factors discussed above and other factors that may affect the value of the Notes. Any downgrades or other changes in our credit ratings could affect our financial results and reduce the market value of the Notes. In addition, any ratings downgrade could increase our cost of borrowing or require certain actions to be performed to rectify such a situation. The reduction, suspension or withdrawal of the ratings of the Notes will not, in and of itself, constitute an event of default under the indenture governing the Notes.

Changes in exchange rates and exchange controls could result in a substantial loss to you.

An investment in foreign currency Notes, which are Notes denominated in a specified currency other than U.S. dollars, entails significant risks that are not associated with a similar investment in a security denominated in U.S. dollars. Similarly, an investment in an indexed Note, on which all or a part of any payment due is based on one or more currencies other than U.S. dollars, or on one or more securities denominated or traded in a currency other than U.S. dollars, has significant risks that are not associated with a similar investment in non-indexed Notes. The risks include, but are not limited to:

- the possibility of significant market changes in rates of exchange between U.S. dollars and the specified currency;
- the possibility of significant changes in rates of exchange between U.S. dollars and the specified currency resulting from official redenomination relating to the specified currency; and
- the possibility of the imposition or modification of foreign exchange controls by either the United States or foreign governments.

The existence, magnitude and longevity of these risks generally depend on factors over which we have no control and that cannot be readily foreseen, such as:

- economic events;
- political and regulatory events; and
- financial events, such as the supply of, and demand for, the relevant currencies.

Rates of exchange between the U.S. dollar and some foreign currencies in which Notes may be denominated and between these foreign currencies and other foreign currencies may be volatile. Depreciation of the specified currency of a foreign currency Note against U.S. dollars would result in a decrease in the effective yield of the foreign currency Note below its coupon rate and could result in a substantial loss to the investor on a U.S. dollar basis.

Governments have imposed from time to time, and may in the future impose, exchange controls that could affect exchange rates as well as the availability of a specified currency other than U.S. dollars at the time of payment of principal of or any premium or interest on a foreign currency Note. Governments may use a variety of techniques, such as intervention by a country's central bank, the imposition of regulatory controls or taxes or changes in interest rates to influence the exchange rates of their currencies. Governments may also alter the exchange rate or relative exchange characteristics by a devaluation or revaluation of a currency. There can be no assurance that exchange

controls will not restrict or prohibit payments of principal, any premium, or interest denominated in any such specified currency.

Even if there are no actual exchange controls, it is possible that the specified currency would not be available to us when payments on the Note are due because of circumstances beyond our control. In this event, we will make required payments in U.S. dollars on the basis described in this Offering Memorandum. See "— The unavailability of currencies could result in a substantial loss to you" and "Description of the Notes — Payments on the Notes" below. You should consult your own financial and legal advisors as to the risks of an investment in Notes denominated in or linked to a currency other than U.S. dollars.

The unavailability of currencies could result in a substantial loss to you.

Except as set forth below, if payment on a Note is required to be made in a specified currency other than U.S. dollars and the currency is:

- unavailable due to the imposition of exchange controls or other circumstances beyond our control;
- no longer used by the government of the country issuing the currency; or
- no longer used for the settlement of transactions by public institutions of the international banking community,

then all payments on the Note will be made in U.S. dollars until the currency is again available or so used. The amounts so payable on any date in the currency will be converted into U.S. dollars on the basis of the most recently available market exchange rate for the currency or as otherwise specified in the applicable Pricing Supplement. Any payment on the Note made under such circumstances in U.S. dollars will not constitute an Event of Default under the indenture under which the Note will have been issued.

If the specified currency of a Note is officially redenominated, such as by an official redenomination of the specified currency that is a composite currency, then our payment obligations on the Note will be the amount of redenominated currency that represents the amount of our obligations immediately before the redenomination. The Notes will not provide for any adjustment to any amount payable as a result of:

- any change in the value of the specified currency of the Notes relative to any other currency due solely to fluctuations in exchange rates; or
- any redenomination of any component currency of any composite currency, unless the composite currency is itself officially redenominated.

Currently, there are limited facilities in the United States for conversion of U.S. dollars into foreign currencies, and vice versa. In addition, banks do not generally offer non-U.S. dollar-denominated checking or savings account facilities in the United States. Accordingly, payments on Notes made in a currency other than U.S. dollars will be made to an account at a bank located outside the United States, unless otherwise specified in the applicable Pricing Supplement.

Judgments in a foreign currency could result in a substantial loss to you.

The Notes will be governed by, and construed in accordance with, the laws of New York State. Courts in the United States customarily have not rendered judgments for money damages denominated in any currency other than the U.S. dollar. The law of New York State provides, however, that an action brought under New York law and based upon an obligation denominated in a currency other than U.S. dollars will be rendered in the foreign currency of the underlying obligation. Any judgment awarded in such an action will be converted into U.S. dollars at the rate of exchange prevailing on the date of the entry of the judgment or decree. In the event an action based on an obligation

denominated in a foreign currency were commenced in a court in the United States outside New York, the currency of judgment and/or applicable exchange rate may differ.

Changes in banks' inter-bank lending rate reporting practices or the method pursuant to which LIBOR is determined may adversely affect the yield and/or the liquidity of the Euro LIBOR Notes or LIBOR Notes.

LIBOR and other indices which are deemed "benchmarks" are the subject of recent national, international, and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others have not yet been implemented. These reforms may cause such benchmarks to perform differently than in the past, or have other consequences which cannot be predicted. In particular, regulators and law enforcement agencies in the U.K. and elsewhere are conducting criminal and civil investigations into whether the banks that contribute information to the British Bankers' Association (the "BBA") in connection with the daily calculation of LIBOR may have been under-reporting or otherwise manipulating or attempting to manipulate LIBOR. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to this alleged manipulation of LIBOR. Actions by the regulators or law enforcement agencies, as well as ICE Benchmark Administration (the current administrator of LIBOR), may result in changes to the manner in which LIBOR is determined or the establishment of alternative reference rates. For example, on July 27, 2017, the U.K. Financial Conduct Authority (the "FCA") announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. The U.K. Financial Conduct Authority has indicated that it expects that the current panel banks will voluntarily sustain LIBOR until the end of 2021, but they may cease to do so sooner. In addition, in April 2018, the Federal Reserve Bank of New York, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, announced replacement of U.S. LIBOR with a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities, called the Secured Overnight Financing Rate ("SOFR"). The first publication of SOFR was released in April 2018. Whether or not SOFR attains market acceptance as a LIBOR replacement remains in question and the future of LIBOR at this time is uncertain. The selection of SOFR as the alternative reference rate currently presents certain market concerns, because a term structure for SOFR has not yet developed, and there is not yet a generally accepted methodology for adjusting SOFR, which represents an overnight, risk-free rate, so that it will be comparable to LIBOR, which has various tenors and reflects a risk component.

At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented in the U.K. or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for the yield and/or the liquidity of Euro LIBOR Notes or LIBOR Notes. In addition, any changes in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments on Euro LIBOR Notes or LIBOR Notes would be affected and the value of Euro LIBOR Notes or LIBOR Notes may be affected. If a published LIBOR rate is unavailable after 2021, the rate of interest on any Euro LIBOR Notes or LIBOR Notes will be determined using the alternative methods set forth in this Offering Memorandum under "Description of the Notes-Floating Rate Notes." Any of these alternative methods may result in interest payments that are lower than or that do not otherwise correlate over time with the payments that would have been made on such notes if a LIBOR rate was available in its current form. Further, the same costs and risks that may lead to the discontinuation or unavailability of a LIBOR rate may make one or more of the alternative methods impossible or impracticable to determine. If, as set forth in this Offering Memorandum under "Description of the Notes-Floating Rate Notes," a published LIBOR rate is unavailable and the alternative methods are impossible or impracticable to determine, the interest rate for an interest period for any Euro LIBOR Notes or LIBOR Notes will be the same rate as the immediately preceding interest period, which could remain in effect for the remaining term of such notes, and the value of such notes may be adversely affected.

USE OF PROCEEDS

We intend to use the net proceeds from the sales of the Notes for general corporate purposes. Pending application of the proceeds of the sale of the Notes, we intend to invest such proceeds in short-term investments. The use of proceeds of any individual issuance of Notes, if other than for general corporate purposes, will be described in the applicable Pricing Supplement. The amount and timing of any issuance of Notes will depend on, among other things, market conditions.

CAPITALIZATION

The following table presents our cash and cash equivalents, short-term debt and capitalization (the sum of long-term debt and shareholders' equity) as of December 31, 2019. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes included elsewhere in this Offering Memorandum.

	As of December 31, 2019 (dollars in thousands)
Cash and cash equivalents	$ 129,209
Short-term debt:	
Short-term borrowings	3,912,446
Current portion of long-term debt	4,917,251
Less: debt issuance cost	19,586
Total short-term debt	8,810,111
Long-term debt:	
Long-term borrowings	19,677,047
Less: debt issuance cost	25,380
Total long-term debt, less current portion	19,651,667
Shareholders' equity	
Common stock, no par value	1,525,000
Accumulated other comprehensive income	7,752
Retained earnings	2,657,755
Total stockholders' equity	4,190,507
Total capitalization	$ 23,842,174

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our selected consolidated financial and other information for the periods indicated. The information as of December 31, 2019, 2018 and for the years ended December 31, 2019, 2018, and 2017 has been derived from our audited consolidated financial statements included elsewhere in this Offering Memorandum. The information as of December 31, 2017 has been derived from our audited consolidated financial statements that are not included in this Offering Memorandum. These summary consolidated financial and other data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included elsewhere in this Offering Memorandum.

	Years Ended December 31,		
	2019	**2018**	**2017**
	(dollars in thousands)		
Income Statement Data:			
Financing revenue			
Operating leases	$ 3,641,058	$ 3,772,333	$ 3,629,599
Retail	830,651	714,343	689,122
Wholesale	107,856	90,906	78,918
Total financing revenue	4,579,565	4,577,582	4,397,639
Depreciation on operating leases	2,781,163	3,016,532	2,932,095
Interest expense	822,256	713,388	599,192
Total depreciation and interest expense	3,603,419	3,729,920	3,531,287
Net financing revenue	976,146	847,662	866,352
Other revenue	146,262	142,748	89,641
Total net financing margin and other revenue	1,122,408	990,410	955,993
Expenses			
Operating expenses	571,852	502,326	477,527
Provision for credit losses	307,753	346,912	376,118
Total expenses	879,605	849,238	853,645
Income before provision for income taxes	242,803	141,172	102,348
Provision for income taxes	26,411	20,437	(969,009)
Net income	$ 216,392	$ 120,735	$ 1,071,357

	December 31,		
	2019	2018	2017
	(dollars in thousands)		
Balance Sheet Data:			
Finance receivables, net			
Retail	$ 16,025,942	$ 13,173,203	$ 13,400,548
Wholesale	2,459,620	2,195,387	2,023,282
Total finance receivables	18,485,562	15,368,590	15,423,830
Allowance for credit losses	(237,908)	(231,142)	(246,250)
Total finance receivables, net	$ 18,247,654	$ 15,137,448	$ 15,177,580
Investments in operating leases, net			
Vehicles and initial direct costs	$ 19,689,143	$ 20,545,654	$ 21,256,904
Accumulated depreciation	(4,403,932)	(4,752,366)	(4,454,420)
Allowance for credit losses	(102,714)	(111,375)	(85,963)
Total investment in operating leases, net	$ 15,182,497	$ 15,681,913	$ 16,716,521
Total assets	$ 35,886,145	$ 33,386,306	$ 36,465,396
Total debt, net	$ 28,461,778	$ 26,219,284	$ 29,289,878
Total liabilities	$ 31,695,638	$ 29,424,079	$ 32,619,384
Total shareholders' equity	$ 4,190,507	$ 3,962,227	$ 3,846,012
Total liabilities and shareholders' equity	$ 35,886,145	$ 33,386,306	$ 36,465,396

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

HCA is a majority-owned subsidiary of HMA, the primary distributor of Hyundai vehicles in the United States. HMA is a wholly owned subsidiary of HMC, which is a worldwide manufacturer and distributor of motor vehicles headquartered in South Korea. HMA owns 80% of the outstanding common stock of HCA. KMA, a wholly owned subsidiary of KMC, owns 20% of the outstanding common stock of HCA. KMA is the primary distributor of Kia vehicles in the United States. KMC is an affiliate of HMC and both companies have outstanding common stock listed on the KRX, but are not registered with the SEC in the United States of America. HCA offers indirect automotive consumer loan and lease financing and direct dealer financing through its retail dealer agreements with HMA, KMA and Genesis Motor America LLC, a subsidiary of HMA ("GMA"), and a small number of other dealerships, all of which are located within the United States. In August 2016, Genesis, as a division of HMA, began distributing a new line of vehicles under the Genesis brand. GMA began distributing Genesis brand vehicles beginning with the 2019 model year.

For the purposes of this offering memorandum, references to HMA include GMA, and references to Hyundai include the Genesis brand, unless otherwise noted.

HCA's financial results are impacted by several factors, the most important of which are financing revenue, market penetration of Hyundai and Kia new vehicle sales, market penetration of wholesale dealer financing provided to Hyundai and Kia automobile dealers, borrowing costs, portfolio credit performance, and residual value performance on our lease portfolio. These factors are affected by certain trends, including rising interest rates and changes in the overall credit quality of our finance receivables.

HCA makes certain critical accounting estimates with respect to residual values in our lease portfolio and in the allowance for credit losses for our finance receivable and lease portfolios. The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Financing Revenue from Finance Receivables and Operating Leases

HCA's portfolio has three major types of income producing assets: retail loans, operating leases and wholesale loans to dealers. The retail loans are installment contracts using market-based pricing tiered for customer credit risk. The operating leases provide for fixed monthly rental payments from customers with a guaranteed purchase option price at lease termination. HCA maintains residual exposure on vehicles subject to operating leases. Lease rental payments are priced based upon a market based rate of return and tiered for consumer credit risk. Wholesale loans to dealers are predominantly comprised of borrowings by dealers to finance new and used automobile inventory and are due from the dealers shortly after the related vehicles are sold to customers. Wholesale loans also include real estate and working capital loans, which are utilized, generally, for the acquisition, construction or improvement of the dealer's facilities.

Rate Subsidy Payments

As an accommodation to HMA and KMA, HCA frequently provides incentive programs to customers. Generally, under these programs, HCA finances or leases vehicles on favorable terms and receives subsidy amounts from HMA and KMA. Subsidy amounts are generally received for lower than market interest rates, lower than market lease rentals, greater than market estimated lease residual values and greater than normal expected credit losses. The subsidies are also known as rate support or subvention. HMA and KMA provide incentives on retail loan contracts by paying the present value difference between the customer rate (the subvened rate) and HCA's settlement rate. The settlement rate is determined primarily based upon current market rates. Similarly, for lease contracts, HCA establishes a standard money factor and HMA and KMA pay the present value difference between the customer rate and HCA's standard rate. HMA and KMA also may elect to support residual values (established at lease inception) in excess of HCA's standard residual values which reduce the customer's payment. HCA utilizes residual values published by a

third-party industry guide and HMA and KMA guarantee any amount in excess of the standard residual values. In some cases, HCA shares residual support programs with HMA and KMA. The portion allocable to HCA is amortized, straight-line, as a reduction to lease revenue.

HMA and KMA pay HCA under its vehicle incentive financing programs, which include yield and residual value and other end of term incentives. The amounts billed to HMA for various yield incentive programs amounted to $370.1 million, $311.4 million and $315.0 million for the years ended December 31, 2019, 2018, and 2017, respectively. The amounts billed to KMA for various yield incentive programs were $203.0 million, $227.2 million and $291.1 million for the years ended December 31, 2019, 2018, and 2017, respectively. These amounts are recognized in financing revenue over the terms of the related contracts.

The amounts billed to HMA for residual value and other end of term incentive programs were $35.9 million, $66.4 million and $68.2 million for the years ended December 31, 2019, 2018, and 2017, respectively. The amounts billed to KMA for residual value and other end of term incentive programs were $56.2 million, $56.2 million and $62.3 million for the years ended December 31, 2019, 2018, and 2017, respectively. The effect of the residual value incentive program is a reduction of depreciation over the life of the lease. Other end of term incentive programs consist of disposition fees paid on behalf of loyal customers and are recorded in financing revenue.

The outstanding receivable balance for HMA yield incentive programs were $173.8 million, $137.8 million and $145.0 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The outstanding receivable balance for KMA yield incentive programs were $72.7 million, $69.5 million and $98.4 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net.

The outstanding receivable balance for HMA residual value and other end of term incentive programs were $243.2 million, $274.1 million and $299.1 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The outstanding receivable balance for KMA residual value and other end of term incentive programs were $256.1 million, $245.9 million and $259.6 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net.

The residual value and other end of term incentive receivable balance due from HMA and KMA for each period presented consists primarily of an estimated future billing amount for units covered under the incentive program but not billable until end of lease term. The estimated future billing corresponding amounts are included as a reduction of the investment in operating leases, net.

The following table reflects the number and percentage of total contracts purchased during the period that received rate subsidies from HMA or KMA:

	December 31,[1]		
	2019	**2018**	**2017**
Retail Loan:			
Number of vehicle retail contracts purchased by HCA:			
Hyundai	159,082	94,395	133,703
Kia	170,938	115,213	114,505
Total	330,020	209,608	248,208
Subvened retail loan			
Number of vehicle subvened retail contracts purchased by HCA:			
Hyundai	88,569	54,979	22,204
Kia	161,039	97,927	94,759
Total	249,608	152,906	116,963
Subvened retail loan percent			
Hyundai	56%	58%	17%
Kia	94%	85%	83%
Total	76%	73%	47%
Lease:			
Number of vehicle lease contracts purchased by HCA:			
Hyundai	144,194	141,659	156,844
Kia	136,241	120,078	150,156
Total	280,435	261,737	307,000
Subvened lease			
Number of vehicle subvened lease contracts purchased by HCA:			
Hyundai	141,707	141,264	156,468
Kia	136,222	120,064	150,132
Total	277,929	261,328	306,600
Subvened lease percent			
Hyundai	98%	100%	100%
Kia	100%	100%	100%
Total	99%	100%	100%

(1) Genesis included in Hyundai. Subvened percent calculated based on the number of subvened retail loan or lease contracts divided by the combined total number of contracts purchased by HCA in the United States.

Market Penetration of Hyundai and Kia Vehicle Sales and Leases

The following chart provides market penetration information regarding Hyundai and Kia vehicles in the United States for the years ended December 31, 2019, 2018 and 2017:

	Years Ended December 31,[1][2]		
	2019	**2018**	**2017**
Number of vehicles sold or leased in U.S.			
Hyundai	579,789	545,303	546,181
Kia	528,606	491,942	489,666
Total	1,108,395	1,037,245	1,035,847
Retail Loan:			
Number of vehicle retail contracts purchased by HCA:			
Hyundai	159,082	94,395	133,703
Kia	170,938	115,213	114,505
Total	330,020	209,608	248,208
Retail loan penetration rate:			
Hyundai	27%	17%	24%
Kia	32%	23%	23%
Total	30%	20%	24%
Lease:			
Number of vehicle lease contracts purchased by HCA:			
Hyundai	144,194	141,659	156,844
Kia	136,241	120,078	150,156
Total	280,435	261,737	307,000
Lease penetration rate:			
Hyundai	25%	26%	29%
Kia	26%	24%	31%
Total	25%	25%	30%
Retail Loan and Lease:			
Number of vehicle retail and lease contracts purchased by HCA:			
Hyundai	303,276	236,054	290,547
Kia	307,179	235,291	264,661
Total	610,455	471,345	555,208
Retail loan and lease penetration rate			
Hyundai	52%	43%	53%
Kia	58%	48%	54%
Total	55%	45%	54%

(1) Genesis included in Hyundai. Number of vehicles sold or leased in the United States excludes fleet units.

(2) Genesis included in Hyundai. Penetration rate calculated based on the number of new retail loan and/or lease contracts that were purchased divided by the combined total number of Hyundai or Kia vehicles sold or leased in the United States.

The combined market penetration for Hyundai and Kia vehicles increased for the year ended December 31, 2019 as compared to the year ended December 31, 2018, driven by increases in Hyundai's and Kia's penetration rates. These penetration rate increases are primarily due to enhanced marketing programs to support new vehicle introductions by Hyundai and Kia.

Market Penetration of Wholesale Financing

HCA attempts to strengthen the overall relationship with Hyundai and Kia dealers by providing floorplan lines of credit, real estate loans and working capital loans. The following chart provides information regarding our wholesale dealer financing relationship with Hyundai, Kia and other dealers in the United States:

	Years Ended December 31,		
	2019	**2018**	**2017**
Number of dealers in the U.S.[1]			
Hyundai	843	846	839
Kia	760	768	775
Total	1,603	1,614	1,614
Number of dealers with floorplan loans			
Hyundai	168	169	165
Kia	150	140	145
Total	318	309	310
Number of other dealers with floorplan loans (non-Hyundai and non-Kia)	32	17	9
Wholesale finance receivables outstanding, net - (dollars in thousands)[2]	$ 2,459,620	$ 2,195,387	$ 2,023,282

[1]Does not include Genesis dealers
[2]Includes non-Hyundai and non-Kia dealers

From 2018 to 2019, HCA's floorplan penetration and wholesale receivables outstanding increased due mainly to our enhanced go-to-market strategy, which resulted in the addition of new dealers.

Interest Rates and Credit Spreads

HCA's results of operations depend on both the levels of finance and lease revenues and levels of borrowing costs (interest expense). Changes in market interest rates and credit spreads can impact HCA's revenues and expenses differently depending upon whether our assets and liabilities are tied to fixed or floating rates of interest and the term of the asset or liability. Compared to the year ended December 31, 2018, higher average short-term market rates negatively impacted HCA's interest expense for the year ended December 31, 2019. While recent rate cuts by the Federal Reserve and other market indicators suggest that rates may decrease or remain relatively stable, there can be no assurances that interest rates and spreads will not rise or that HCA will be able to price its assets to appropriately reflect an increase in borrowing costs.

Portfolio Credit Performance

The following table shows our net credit losses (credit losses, net of recoveries), average receivables outstanding and loss-to-receivables ratio (net credit losses divided by the average amount of receivables outstanding, excluding the allowance for credit losses, unearned interest supplements and other deferred items related to finance receivables).

	Years Ended December 31,		
	2019	**2018**	**2017**
	(dollars in thousands)		
Net credit losses	$ 217,488	$ 225,123	$ 272,959
Average receivables	16,472,957	15,345,825	16,117,943
Loss-to-Receivables ratio	1.32%	1.47%	1.69%

During the year ended December 31, 2019, the retail portfolio experienced lower net credit losses compared to 2018 largely due to improving portfolio credit quality. In mid-2016, HCA implemented a number of initiatives designed to improve retail origination quality and asset performance. Better portfolio quality and higher asset growth drove a 15bps reduction in the loss-to receivables ratio in 2019, which followed a 22bps decrease in 2018.

HCA monitors delinquency ratios on a daily and monthly basis. Risk/behavioral-based collection models and segmentation are used to identify high-risk accounts and HCA's collections efforts target those accounts earlier in the delinquency cycle. As accounts fall further past due, collection efforts are increased in order to mitigate potential losses. An account is charged off due to credit losses at the earlier of when it is deemed to be uncollectable or when it becomes 120 days past due. Collection efforts continue after the account has been charged off both internally and through outside agencies.

Losses on wholesale finance receivables are charged to the allowance for credit losses upon loss of specific assets or when the fair value of the collateral supporting the impaired wholesale finance receivables is estimated to be below the carrying value of the receivables. Interest ceases to be earned on wholesale finance receivables generally when the dealer is in default on a loan for greater than 120 days.

Residual Performance

HCA underwrites lease residuals using a published third-party valuation of residuals. HMA and KMA generally limit their subvention (or guaranties) on lease contracts to 6% over these published residual amounts. Residual subvention is recorded as a reduction to net investment in operating leases so that the carrying value of the leased vehicle at contract maturity reflects the residual value as published by the third-party valuation guide. The residual subvention receivable from HMA and KMA is recorded in due from affiliates on the financial statements.

HCA periodically evaluates and updates the residual value established at lease inception. To the extent the new estimate of residual value has declined, net investment in operating leases is reduced over the remaining life of the lease through depreciation expense. We also periodically review the operating lease portfolio for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Generally an impairment condition is determined to exist if the estimated undiscounted cash flows from the use and eventual disposition of the asset are lower than the carrying value. No impairment charges were recorded for the years ended December 31, 2019, 2018, and 2017.

At lease maturity, the customer has the option to purchase the vehicle at the contract residual or to return the vehicle to an authorized Hyundai or Kia dealership. In the event the vehicle is returned, the dealer can purchase the vehicle at the same contract residual price. All leased vehicles not purchased by customers or dealers at the contract residual are returned to HCA.

Our remarketing department offers the vehicles for sale on a branded internet website supported by a third-party vendor at a fixed price and/or at an auction with an open bidding environment. We use a network of auto auctions throughout the United States, which allows us to efficiently manage our inventory by controlling the flow and placement of vehicles to the auction locations that we believe will yield the highest net recovery value. We are exposed to risk of loss upon disposition of end of term leased vehicles when auction proceeds are less than the net book value of the terminated lease except where covered by HMA or KMA residual subvention support payments.

Critical Accounting Policies

The following is a summary of accounting policies that we believe are most critical to understanding our results of operations and financial condition. We believe our interpretation and application related to these accounting policies are appropriate. Our other significant accounting policies are discussed in the "Notes to the Consolidated Financial Statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017—Note 2—Summary of Significant Accounting Policies."

Finance Receivables

Finance receivables include retail finance receivables and wholesale finance receivables. Retail finance receivables consist of retail installment contracts with consumers (retail portfolio). Wholesale finance receivables consist of floor plan, real estate, and working capital loans made to dealers (wholesale products portfolio).

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 December 31, 2019, 2018 and 2017, all finance receivables were classified as held-for-investment and there were no receivables classified as held-for-sale.

Retail finance receivables are generally due in installments from customers over a period of two to six years and are collateralized by liens on the related vehicles. The Company retains purchase money security interests in all automobiles financed until full payment is received. Retail finance receivables also include a retail balloon product offered where customers may finance their vehicles with a series of installment payments followed by a single balloon payment. At the end of the contract, the customer may keep the vehicle by making the final balloon payment or return it to HCA and pay charges for excess mileage and use, if any. The recorded investment of retail balloon products may contain an allowance for residual exposure as well as residual guarantees received from HMA and KMA.

Finance receivables are reported at the principal amount outstanding, net of allowance for credit losses, unearned origination fees, and deferred origination costs. A portion of the retail finance receivables include origination fees in the form of rate subsidies (subvention) received from HMA or KMA at the inception of the receivable and are accreted into revenue over the receivable's term using the effective-interest-rate method. Origination costs include flat commissions paid to the dealers for originating the loan and payments made for rate participation.

Revenue on finance receivables includes contractual interest income, accretion of origination fees, and amortization of origination costs. Interest income on finance receivables is accrued as earned using the simple-interest method. The recognition of finance revenue on retail finance receivables is discontinued when the underlying collateral is repossessed or accounts are charged off, generally no later than 120 days.

Investment in Operating Leases

The Company leases vehicles to customers under operating leases typically for a term of two to four years. The investment in operating leases is reported at cost, less accumulated depreciation and net of origination fees and costs. 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 as earned. Rental subsidies received from HMA or KMA at the inception of the lease are accounted for as deferred origination fees to accounts payable and other liabilities and are accreted into revenue over the lease term in proportion to the recognition of operating lease income. Initial direct costs of originating operating leases are deferred and allocated over the lease term in proportion to the recognition of operating lease income. Occasionally, HMA or KMA guarantees a portion of the vehicle's residual value as part of a marketing program to reduce the customer's monthly payment. The guaranty amount is a fixed percentage of the vehicle's value

established at origination and is accounted for as a reduction to investment in operating leases. At lease termination, the realized portion of the guaranty is recognized as income and presented net with the gain or loss on disposition of the vehicle in disposal of investment in operating leases.

A review for impairment of the Company's operating leases 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 are 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. No impairment charges were recorded for the years ended December 31, 2019, 2018 and 2017.

Determination of Residual Values for Vehicles Subject to Operating Leases

The Company is exposed to residual risk for vehicles subject to operating leases to the extent the actual amount received upon the sale of vehicles at disposition is lower than the residual value, net of guaranty, estimated at lease inception. The Company initially estimates the residual values at lease inception using external industry guides, which take into account expected economic conditions for the used vehicle market. Periodically, residual values are reviewed to assess the appropriateness of the carrying value of the vehicles. To the extent the estimated fair value at lease termination is lower than the residual value established at lease inception, the residual value of the vehicle is adjusted downward so that the carrying value at lease-end will approximate the estimated end of term market value. Adjustments are made on a straight-line basis over the remaining terms of the leases and are included in depreciation expense on operating leases.

Allowance for Credit Losses

The allowance for credit losses is the Company's estimate of probable credit losses inherent in finance receivables and investment in operating leases as of the balance sheet date. Because credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain.

The allowance for credit losses is estimated using a combination of models and management judgment and is based on factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of the present portfolio (including vehicle brand, term, and internal risk evaluation), trends in historical and projected used vehicle values, and economic conditions.

Retail finance receivables are categorized as a homogeneous portfolio for disclosure purposes. The retail finance receivables portfolio is primarily comprised of pools of homogenous loans that are evaluated collectively for purposes of calculating the allowance. The allowance is calculated initially utilizing historic net loss data from the portfolio and applying it to the outstanding principal balance. In cases where historic loss data is not representative of the current environment, qualitative adjustments are used to supplement the allowance to the levels management estimates to be adequate.

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 retail finance receivables. Operating leases are collectively evaluated to determine the estimated losses incurred.

Losses on retail finance receivables and investment in operating leases are charged to the allowance for credit losses at the earlier of when an account is deemed uncollectible or over 120 days contractually past due, taking into consideration the value of the collateral. Interest ceases to be earned on accounts that have been charged to the allowance. Subsequent recoveries on finance receivables and investments in operating leases previously charged off are credited to the allowance. Related collateral, if recoverable, is repossessed and sold. For leased assets, proceeds resulting in a gain will be retained by HCA and in the case of a shortfall between proceeds received from the sale of repossessed collateral and the amounts due from customers are charged off and trigger collection efforts. For retail contracts, the collateral is recorded at fair market value less selling costs upon repossession. Any shortfalls are charged

to the allowance. After sale, excess amounts are resolved as recoveries and any remaining shortfalls trigger collection efforts.

Wholesale finance receivables where the dealer is currently in default, including loans modified in a TDR, are evaluated for impairment on an individual dealer basis. Wholesale finance receivable account balances are considered impaired when, based on current information and events, it is probable the borrower will be unable to make all of their contractual principal and interest payments or if the loan was modified in a TDR. Factors such as payment history, compliance with terms and conditions of the underlying loan agreement, and other subjective factors related to the financial stability of the borrower are considered when determining if a loan is impaired. The amount of the impairment on wholesale loans individually evaluated equals the difference between the outstanding loan amount and the estimated amount that could be recovered from the underlying collateral. The remaining wholesale finance receivables (not individually evaluated for impairment) are evaluated at the dealer and product level based upon the Company's internal risk assessment, which contemplates historic loss experience and current economic indicators.

Losses on wholesale finance receivables are charged to the allowance for credit losses upon loss of specific assets or when the fair value of the collateral supporting the impaired wholesale finance receivables is estimated to be below the carrying value of the receivables. Interest ceases to be earned on wholesale finance receivables generally when the dealer is in default on a loan for greater than 120 days.

Nonaccrual Policy

Retail Portfolio— Retail finance receivables are not placed on nonaccrual status when principal or interest is 120 days or more past due. Rather, these receivables are charged off against the allowance for credit losses when payments due are no longer expected to be received or the account is 120 days contractually delinquent, whichever occurs first.

Wholesale Products Portfolio— Impaired wholesale finance receivables are placed on nonaccrual status if full payment of principal or interest is in doubt, or when principal or interest is 120 days or more past due. Impaired collateral dependent loans are placed on nonaccrual status if collateral is insufficient to cover principal and interest. Interest accrued, but not collected at the date a receivable is placed on nonaccrual status, is reversed against interest income. Interest income on nonaccrual receivables is recognized only to the extent it is received in cash. Accounts are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Derivatives— The Company enters into interest rate and foreign exchange derivative agreements to reduce the exposure to market risks from changing interest rates and foreign currency exchange rates. The interest rate instruments are used to economically hedge interest rate exposure on floating rate debt, and the currency exchange agreements are used to manage the currency exposure on foreign denominated debt. The Company has elected not to apply hedge accounting. The fair value change in the interest rate and currency exchange agreements is included in other revenue.

Variable Interest Entities— A variable interest entity ("VIE") is an entity that either (i) has insufficient equity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The Company is the primary beneficiary when it is determined that the Company has both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses or the right to receive residual returns that could potentially be significant to the VIE.

(i) On-Balance-Sheet Securitization Trusts

HCA uses several special-purpose entities that are considered VIEs to issue asset-backed securities (ABS) to third party, bank sponsored asset-backed securitization vehicles and to investors in securitization transactions. The securities issued by these VIEs are backed by the cash flows from finance receivables and investment in operating leases (the assets) that have been transferred to the VIEs. Although the transferred assets have been legally sold to the VIEs, HCA holds variable interests in the VIEs that are expected to absorb expected losses, receive the expected residual returns, or both. The Company determined that HCA is the primary beneficiary of the securitization entities

because (i) HCA's servicing responsibilities for the transferred receivables give them the power to direct the activities that most significantly impact the performance of the VIEs and (ii) HCA's variable interests in the VIEs give them the obligation to absorb losses and the right to receive residual returns that could potentially be significant.

The cash held by the Company on behalf of the VIE is classified as restricted cash on the consolidated balance sheets. The assets of the VIEs and the restricted cash held by HCA serve as the sole source of repayment for the asset-backed securities issued by these entities. Investors in the notes issued by the VIEs do not have recourse to HCA's general credit, with the exception of customary representation and warranty repurchase provisions and indemnities.

As the primary beneficiary of these entities, HCA is exposed to credit, interest rate, and prepayment risk from the receivables transferred to the VIEs. However, HCA's exposure to these risks did not change as a result of the transfer of the assets to the VIEs. HCA may also be exposed to interest rate risk arising from the secured notes issued by some of the VIEs.

The transfers of the receivables to the special-purpose entities in HCA's securitizations are considered to be sales for legal purposes. However, the securitized assets and the related debt remain on HCA's consolidated balance sheets. The Company recognizes financing revenue on the pledged receivables and interest expense on the secured debt issued by the entities. The Company also maintains an allowance for credit losses on the pledged receivables to cover probable credit losses estimated using a methodology consistent with that used for the nonsecuritized loan portfolio. The interest rate instruments are consolidated within HCA's consolidated financial statements.

(ii) Off-Balance-Sheet Securitization Trusts

The Company has one active off-balance-sheet securitization trust as of the balance sheet date. The trust was created for an ABS transaction that occurred in March 2016, and the sale of the residual interest certificates in such trust occurred in October 2017. The Company still services the assets held by the VIE.

Use of Estimates— The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management of the Company to make several estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The accounting estimates that are most significant to the Company's business are the allowance for credit losses and the determination of residual value of vehicles subject to operating leases as well as estimates related to the fair value of investment securities.

Results of Operations

Comparison of Years Ended December 31, 2019, 2018, and 2017

The following table shows summarized changes in financing revenue, expense and other income statement data for the years ended December 31, 2019, 2018, and 2017:

	Years Ended December 31,			% Change	
	2019	2018	2017	2018 to 2019	2017 to 2018
	(dollar in thousand)				
Income Statement Data:					
Financing revenue					
Operating leases	$ 3,641,058	$ 3,772,333	$ 3,629,599	(3.5) %	3.9 %
Retail	830,651	714,343	689,122	16.3	3.7
Wholesale	107,856	90,906	78,918	18.6	15.2
Total financing revenue	4,579,565	4,577,582	4,397,639	0.0	4.1
Depreciation on operating leases	2,781,163	3,016,532	2,932,095	(7.8)	2.9
Interest expense	822,256	713,388	599,192	15.3	19.1
Total depreciation and interest expense	3,603,419	3,729,920	3,531,287	(3.4)	5.6
Net financing revenue	976,146	847,662	866,352	15.2	(2.2)
Other revenue	146,262	142,748	89,641	2.5	59.2
Total net financing margin and other revenue	1,122,408	990,410	955,993	13.3	3.6
Expenses					
Operating expenses	571,852	502,326	477,527	13.8	5.2
Provision for credit losses	307,753	346,912	376,118	(11.3)	(7.8)
Total expenses	879,605	849,238	853,645	3.6	(0.5)
Income before provision for income taxes	242,803	141,172	102,348	72.0	37.9
Provision for income taxes	26,411	20,437	(969,009)	29.2	(102.1)
Net income	$ 216,392	$ 120,735	1,071,357	79.2	(88.7)

Total Financing Revenue

- Operating leases revenue decreased $131.3 million, or 3.5%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The decrease primarily resulted from a 4.2% year-over-year decline in investment in operating leases in the portfolio. Investment in operating leases net of depreciation and allowance for credit losses, decreased to $15.2 billion at December 31, 2019 from $15.7 billion at December 31, 2018.

- Operating leases revenue increased $142.7 million, or 3.9%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase primarily resulted from higher yields as HCA passed on increased market interest rates to consumers and HMA and KMA. Investment in operating leases net of depreciation and allowance for credit losses, decreased to $15.7 billion at December 31, 2018 from $16.7 billion at December 31, 2017.

- Retail finance revenue increased $116.3 million, or 16.3%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase was due to a 21.7% year-over-year growth in retail receivables and higher asset yields. Retail receivables increased to $16.0 billion at December 31, 2019 from $13.2 billion at December 31, 2018.

- Retail finance revenue increased $25.2 million, or 3.7%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase primarily resulted from higher yields as HCA passed on increased market interest rates to consumers and HMA and KMA. Retail receivables decreased slightly to $13.2 billion at December 31, 2018 from $13.4 billion at December 31, 2017.

- Wholesale finance revenue increased $17.0 million, or 18.6%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase primarily resulted from an increase in the

wholesale receivables balance and higher market interest rates during most of the period. From December 31, 2018 to December 31, 2019, HCA's wholesale receivables outstanding increased from $2.2 billion to $2.5 billion.

- Wholesale finance revenue increased $12.0 million, or 15.2%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase primarily resulted from higher market interest rates and an increase in the wholesale receivables balance. From December 31, 2017 to December 31, 2018, HCA's wholesale receivables outstanding increased by $172.1 million to $2.2 billion due to our enhanced go-to market strategy which resulted in the addition of new dealers.

Interest Expense— Interest expense increased $108.9 million, or 15.3%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase resulted from 8.6% year-over-year growth in debt obligations to support asset growth and higher overall borrowing rates on outstanding debt driven by interest rate hikes during previous years. Outstanding debt increased to $28.5 billion at December 31, 2019 from $26.2 billion at December 31, 2018.

Interest expense increased $114.2 million, or 19.1%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase resulted primarily from higher market rates in the U.S., driven by interest rate increases and market expectations for faster economic growth.

Depreciation on Leased Vehicles— Depreciation on leased vehicles decreased $235.4 million, or 7.8%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The decrease was attributable to a decline in the number of active operating lease vehicles in the portfolio and lower depreciation for newer lease vintages. The number of operating lease vehicles in the portfolio at December 31, 2019 was 816,709 compared to 844,498 at December 31, 2018.

Other Revenue— Other revenue increased $3.5 million, or 2.5%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase in other revenue was primarily due to higher gains on disposal of investment in operating leases and higher vehicle service contracts revenue, partially offset by higher mark-to-market losses on derivative instruments.

Other revenue increased $53.1 million, or 59.2%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase was primarily due to higher lease terminations and larger gains from the disposal of investment in operating leases in 2018 versus 2017.

HCA enters into interest rate swaps to hedge interest rate risks that result from the different characteristics of its assets and liabilities to ensure that the exposure remains within established risk tolerances. The change reported in other revenue primarily reflects the mark to fair value of these derivatives currently being reported through earnings.

Operating Expenses— Operating expenses increased $69.5 million, or 13.8%, for the year ended December 31, 2019 compared to the year ended December 31, 2018 primarily due to higher sales and marketing expenses.

Operating expenses increased $24.8 million, or 5.2%, for the year ended December 31, 2018 compared to the year ended December 31, 2017 due mainly to higher sales and marketing expenses

Provision for Credit Losses— Provision for credit losses, which covers finance receivables and investments in operating leases, decreased $39.2 million, or 11.3%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The decline was largely due to a decrease in lease reserves from a higher used vehicle price market that lowered charge-off severity. Improving credit quality of newer originations and expectations for better performance in coming quarters also contributed to lower provisions.

Provision for credit losses, which covers finance receivables and investments in operating leases, decreased $29.2 million, or 7.8%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. The decrease was largely due to the improving credit quality of newer originations, a modest decline in portfolio outstandings, and expectations for better performance in coming quarters.

Provision for Income Taxes— Provision for income taxes increased $6.0 million, or 29.2%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The effective tax rate was 10.9% in 2019 and 14.5% in 2018. The effective tax rate differed from the federal statutory rate of 21% for 2019 and 2018 primarily as a result of income tax credits and state income tax.

Provision for income taxes increased $989.4 million, or 102.1%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. The effective tax rate was 14.5% in 2018 and (946.8%) in 2017. The effective tax rate differed from the federal statutory rate of 21% for 2018, primarily as a result of income tax credits and state income tax. The effective tax rate differed from the federal statutory rate of 35% for 2017, primarily as a result of income tax credits, state income tax, and the remeasurement of federal deferred tax assets (liabilities) as a result of the Tax Cuts and Jobs Act (HR1).

HCA remeasured its federal deferred tax assets and liabilities in the December 31, 2017 financial statements, reflecting the corporate tax rate applicable starting January 1, 2018 under the Tax Cuts and Jobs Act (HR1) which was signed into law on December 22, 2017. A cumulative adjustment of $979.6 million from the remeasurement of deferred tax assets (liabilities) was recognized as an income tax benefit from continuing operations.

Balance Sheet, Liquidity and Capital Resources

The following table presents summarized balance sheet data as of December 31, 2019, 2018, and 2017:

	December 31,			% Change	
	2019	2018	2017	2018 to 2019	2017 to 2018
	(dollar in thousand)				
Balance Sheet Data:					
Finance receivables, net					
Retail	$ 16,025,942	$ 13,173,203	$ 13,400,548	21.7 %	(1.7)
Wholesale	2,459,620	2,195,387	2,023,282	12.0	8.5
Total finance receivables	18,485,562	15,368,590	15,423,830	20.3	(0.4)
Allowance for credit losses	(237,908)	(231,142)	(246,250)	2.9	(6.1)
Total finance receivables, net	$ 18,247,654	$ 15,137,448	$ 15,177,580	20.5	(0.3)
Investments in operating leases, net					
Vehicles and initial direct costs	$ 19,689,143	$ 20,545,654	$ 21,256,904	(4.2)	(3.3)
Accumulated depreciation	(4,403,932)	(4,752,366)	(4,454,420)	(7.3)	6.7
Allowance for credit losses	(102,714)	(111,375)	(85,963)	(7.8)	29.6
Total investment in operating leases, net	15,182,497	15,681,913	16,716,521	(3.2)	(6.2)
Total assets	$ 35,886,145	$ 33,386,306	$ 36,465,396	7.5	(8.4)
Total debt, net	$ 28,461,778	$ 26,219,284	$ 29,289,878	8.6	(10.5)
Total liabilities	$ 31,695,638	$ 29,424,079	$ 32,619,384	7.7	(9.8)
Total shareholders' equity	$ 4,190,507	$ 3,962,227	$ 3,846,012	5.8	3.0
Total liabilities and shareholders' equity	$ 35,886,145	$ 33,386,306	$ 36,465,396	7.5 %	(8.4)
Other Financial Data:					
Net Income to Total Assets ratio	0.6%	0.4%	2.9%		
Net Income to Equity ratio	5.2%	3.0%	27.9%		
Loss to Receivables ratio **(1)**	1.3%	1.5%	1.7%		
Allowance for Credit Losses to Finance Receivables ratio **(2)**	1.3%	1.5%	1.6%		
Allowance for Credit Losses to Investment in Operating Leases ratio **(3)**	0.7%	0.7%	0.5%		

(1) Calculated based on net charge-offs divided by the average amount of receivables outstanding, excluding the allowance for loan losses, unearned interest supplements and other deferred items related to finance receivables.

Finance Receivables, net— Finance receivables, net, increased $3.1 billion, or 20.5%, at December 31, 2019 compared to December 31, 2018. The increase was attributable to an increase in retail and wholesale assets. The number of retail loans active in the portfolio at December 31, 2019 was 943,805 compared to 847,817 at December 31, 2018. The ratio of allowance for credit losses to total finance receivables was 1.3% at December 31, 2019 and 1.5% at December 31, 2018.

Finance receivables, net, decreased $40.1 million, or 0.3%, at December 31, 2018 compared to December 31, 2017. The decrease was primarily attributable to a lower number of retail loans active in the portfolio. The number of retail loans active in the portfolio at December 31, 2018 was 847,817 compared to 875,919 at December 31, 2017. The ratio of allowance for credit losses to total finance receivables was 1.5% at December 31, 2018 and 1.6% at December 31, 2017.

Investment in Operating Leases, net— Investment in operating leases, net, decreased $0.5 billion, or 3.2%, at December 31, 2019 compared to December 31, 2018. The decrease was primarily attributable to a decrease in the number of active operating lease vehicles in the portfolio. The number of operating lease vehicles active in the portfolio at December 31, 2019 was 816,709 compared to 844,498 at December 31, 2018. The ratio of allowance for credit losses to total investment in operating leases was 0.7% at both December 31, 2019 and 2018.

Investment in operating leases, net, decreased $1.0 billion, or 6.2%, at December 31, 2018 compared to December 31, 2017. The decrease was primarily attributable to a lower number of active operating lease vehicles in the portfolio. The number of operating lease vehicles active in the portfolio at December 31, 2018 was 844,498 compared to 856,315 at December 31, 2017. The ratio of allowance for credit losses to total investment in operating leases was 0.7% at December 31, 2018 and 0.5% at December 31, 2017.

Funding Sources and Liquidity

Liquidity risk is the risk relating to our ability to meet our financial obligations when they come due. Our liquidity strategy is to fund current and future obligations through expanding our ability to access capital in a cost-effective manner. HCA's funding strategy incorporates investor diversification and the utilization of multiple funding sources including raising funds via global capital markets, affiliate loans, credit facilities and from our balance sheet.

Commercial Paper—HCA has a $3.0 billion commercial paper program to support the overall growth of our business and also to meet short term working capital requirements. The commercial paper program is rated A-2 by S&P Global Ratings, a division of S&P Global, Inc., and P-2 by Moody's Investors Service, Inc. At December 31, 2019, approximately $3.0 billion was outstanding under this program with a weighted average interest rate of 2.0%. The notes issued under this program are backed by the support agreement. See "Certain Relationships and Related Transactions—Support Agreement."

Revolving Lines of Credit and Term Loans—HCA utilizes committed revolving lines of credit and term loans to meet working capital requirements. We maintain relationships with a variety of global banking partners to ensure liquidity. Interest on our revolving lines of credit and term loans is generally based upon a floating benchmark rate (typically LIBOR) plus a fixed spread. As of December 31 2019, HCA had drawn $1.7 billion against our total revolving lines of credit capacity of $4.9 billion and had $1.0 billion outstanding in term loans.

Asset-Backed Conduits—HCA's financing transactions with bank-sponsored asset-backed commercial paper conduits and other financial institutions consist of bankruptcy-remote, special purpose entities (warehouse facilities) to which we transfer finance receivables and lease assets that are pledged as collateral for debt issued by the special purpose entities. Interest rates on the debt are generally based upon a floating benchmark rate (such as the Commercial Paper index rate or LIBOR) plus a fixed spread. HCA generally engages in interest rate swap transactions to manage the risk related to floating interest rates. See "Index to Financial Statements Hyundai Capital America—Notes to the Consolidated Financial Statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017—Note 13—Derivatives" for more information on our derivatives transactions. As of December 31, 2019, we had outstanding debt of $5.1 billion through asset-backed conduits against total borrowing capacity of $8.1 billion.

Asset-Backed Securitizations—HCA regularly securitizes and sells pools of its receivable and lease assets through ABS transactions, including securities that it retains. Pursuant to these transactions, assets are sold to a special purpose entity ("SPE") which has been established for the limited purpose of buying and reselling the Company's receivables. The SPE then transfers the same receivables to a trust that issues notes to investors. The notes are predominantly fixed rate and are structured to amortize on a monthly basis according to the cash collections on the underlying receivables. Our securitizations are structured to provide credit enhancements to reduce the risk of loss to security holders and other interest holders in the ABS. The aforementioned credit enhancements include overcollateralization (when the principal amount of the securitized assets exceeds the principal amount of related ABS), segregated cash reserve funds, subordinated securities and excess spread (when interest collections on the securitized assets exceed the related fees and expenses, including interest payments on the related ABS). We service the securitized receivables in accordance with our customary servicing practices and procedures, and servicing duties include collecting payments on receivables and submitting them to a trustee for distribution to security and other interest holders. We prepare monthly servicer certificates on the performance of the receivables, including collections, investor distributions, delinquencies and credit losses. These securitizations are structured legally as sales; however, the finance receivables remain on the balance sheet. HCA recognizes financing revenue on the pledged receivables and interest expense on the secured debt issued by the securitization trusts. During 2019, HCA executed five ABS transactions, which securitized $4.9 billion of finance receivables and leases. During 2018, HCA executed four ABS transactions, which securitized $3.6 billion of finance receivables and leases. As of December 31, 2019, HCA had $6.0 billion in outstanding obligations related to ABS transactions. HCA generally retains ownership of the asset-backed trust's residual interest certificates and the assets and debt held by the trust are included in our financial results. Investors in ABS do not have recourse to our other assets, and HCA does not guarantee the obligations issued by any securitization trust. We are not required to repurchase receivables from the trusts that become delinquent or default after securitization. As seller and servicer of the receivables, we are required to repurchase receivables that are subsequently discovered not to have met specified eligibility requirements.

Senior Unsecured Notes—As of December 31, 2019, HCA had $10.6 billion in obligations related to outstanding bond issuances. All bonds outstanding as of December 31, 2019, are backed by the support agreement. See "Certain Relationships and Related Transactions—Support Agreement." On March 13, 2015, we established a private U.S. medium term note program (the "MTN program"), through which notes may be offered and sold pursuant to Rule 144A or Regulation S under the Securities Act. Under the original MTN program, we were able to issue up to $4.0 billion aggregate principal amount of notes with original maturities of one year or more. In June 2016, we increased the size of the program from $4.0 billion to $12.0 billion and in May 2019, we increased the size of the program to $40.0 billion. During the year ended December 31, 2019, the Company issued $3.3 billion aggregate principal amount of senior unsecured notes.

Affiliate Borrowings—HCA administers the North America Cash Management fund ("NACM") for HMC's affiliates in the United States. Affiliate companies may deposit cash into the fund or borrow from it. Excess cash held by the fund is used to fund short term borrowing needs of the affiliate companies that participate. Deposits to the fund from affiliate companies are classified as affiliate borrowings and are included in the debt section of the balance sheet. Loans from the fund to affiliate companies are classified as due from affiliates, net. As of December 31, 2019 and December 31, 2018, deposits from affiliate companies included in debt were $198.0 million and $48.3 million, respectively. HCA also enters into separate intercompany borrowing agreements with affiliated companies. The interest rates of these loans are generally fixed. As of December 31, 2019 and December 31, 2018, the principal balance outstanding for the agreements separate from NACM was $900.0 million for both periods.

Support Agreement—Pursuant to a support agreement with HMC, dated as of August 22, 2012 (the "support agreement"), HMC has agreed to: (1) directly or indirectly through its controlled subsidiaries and entities subject to joint control, own one hundred percent (100%) of the issued and outstanding shares of our stock; (2) cause us to have a positive consolidated tangible net worth, as determined in accordance with U.S. GAAP and as shown on our most recent audited annual consolidated balance sheet; and (3) take all action necessary, including making cash contributions to us, required to maintain our fixed-charge coverage ratio at not less than 1.10-to-1 on a four-quarter rolling basis. The support agreement may be terminated by either us or HMC and may be modified or amended by written agreement between HCA and HMC, in each case, with 30 days prior written notice. However, so long as any loan agreement, bonds, debentures, notes and other debt securities ("Debt") is outstanding, no such action will be effective with respect to such Debt if it would constitute a default unless (i) each holder of any of the Debt (or the requisite holders specified in the document governing such Debt) consents or (ii) with respect to Debt that is rated by one or more rating agencies, each such rating agency confirms in writing it will not withdraw or reduce its rating of such Debt.

The support agreement is not, and nothing done pursuant to the support agreement by HMC shall be deemed to constitute, a guarantee by HMC of any of the notes offered hereby, or other obligation, indebtedness or liability of any kind or character of HCA whatsoever. See "Certain Relationships and Related Transaction—Support Agreement."

Maturity of Borrowings—The expected maturity of our borrowings as of December 31, 2019 was:

Maturity Schedule	Within 1 year	1 ~ 2 year	2 ~ 3 year	3+ years	Total
			(dollars in thousands)		
Commercial Paper	$ 2,992,458	-	-	-	2,992,458
Revolving Lines of Credit and Term Loans	2,147,000	350,000	250,000	-	2,747,000
Asset Backed Loans and Conduits	526,104	1,438,212	1,226,711	1,892,440	5,083,467
Asset Backed Securitization	266,403	1,889,393	2,305,464	1,577,057	6,038,317
Senior Unsecured Notes	2,699,744	2,799,260	2,799,262	2,249,248	10,547,514
Affiliate Borrowings	197,988	900,000	-	-	1,097,988
Less: unamortized debt issuance cost	19,586	9,631	6,666	9,083	44,966
Total	$ 8,810,111	7,367,234	6,574,771	5,709,662	28,461,778

For the years ended December 31, 2019, 2018 and 2017, gross proceeds from the issuance of debt and affiliate borrowings (excluding net changes in NACM) were $77.1 billion, $69.3 billion and $69.9 billion, respectively. For the years ended December 31, 2019, 2018, and 2017, gross repayments on debts and affiliate borrowings (excluding net changes in NACM) were $75.1 billion, $72.3 billion and $69.2 billion, respectively. See "Index to Financial

Statements Hyundai Capital America—Notes to the Consolidated Financial Statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017—Note 7—Debt," for further details of our borrowings.

Lease Commitments—The Company is party to lease agreements ranging from four to twelve years for the headquarters facility in Irvine, California, as well as regional offices in Georgia, Texas and California. In January 2019, the Company executed an amendment to the lease agreement for the headquarters facility in Irvine, California which was effective January 1, 2019 and extended the lease through April 30, 2030.

At December 31, 2019, including the lease amendment noted above, future minimum lease payments required under operating leases that have initial or remaining noncancelable terms of more than one year with unexercised options to renew are as follows (dollars in thousands):

Twelve months ending December 31:	
2020	15,874
2021	16,325
2022	15,377
2023	15,871
2024	17,020
2025 and thereafter	38,714
Total	$119,181

Line of Credit Commitments— At December 31, 2019, we had commitments to make available an additional $989.3 million of wholesale inventory financing to dealers.

Recently Adopted Accounting Pronouncements

In February 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for standard tax effects resulting from the tax bill issued by the U.S. federal government on December 22, 2017, also known as Tax Cuts and Jobs Act (HR1). The Company adopted the guidance on January 1, 2018. In adopting this guidance, the Company elects to reclassify the standard tax effect related to the changes in the fair market value of its available-for-sale debt and equity securities within accumulated other comprehensive income to retained earnings. The effect of adopting this pronouncement is a decrease in retained earnings of $0.3 million and an increase in accumulated other comprehensive income of $0.3 million.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The Company adopted the guidance on January 1, 2019. The adoption of the guidance did not have a material impact on the consolidated statements of cash flows. Additionally, the FASB issued ASU No. 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted the guidance on January 1, 2019. The adoption of the guidance did not have a material impact on the consolidated financial statements.

In January 2016, FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. This new guidance also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The Company adopted the guidance on January 1, 2019. In adopting the guidance, the Company reclassified the cumulative unrealized gains and losses on its equity securities in accumulated other comprehensive income to retained earnings. The adoption of the guidance is an increase to retained earnings of $1.2 million and a decrease to accumulated other comprehensive income of $1.2 million.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* Additionally, the FASB issued amendments ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12, ASU No. 2016-20, and ASU No. 2017-14. The new guidance requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company adopted this guidance on January 1, 2019. The adoption of the guidance did not have an impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The update seeks to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. In order to achieve this, the new guidance requires nonpublic entities to disclose transfers into and out of Level 3 of the fair value hierarchy, as well as purchases and issues of Level 3 assets and liabilities. The amendments are effective for the Company for the fiscal years beginning after December 15, 2019 and permit early adoption. The Company adopted this guidance on January 1, 2020. The adoption of the guidance did not have an impact on the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-09, *Codification Improvements*. The new guidance contains 30 provisions which seek to address minor suggestions and clarifications from stakeholders. The provision applicable to the Company requires entities to take into consideration the effect of the sale restriction of a liability and / or an equity instrument held by another party as an asset when measuring the fair value of such instrument. The amendments are effective for the Company beginning January 1, 2020. The Company adopted this guidance on January 1, 2020. The adoption of the guidance did not have an impact on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Premium Amortization on Purchased Callable Debt Securities*. The new guidance requires entities to amortize premiums associated with certain callable debt securities up to their earliest call date. The amendments are effective for the Company beginning January 1, 2020. The Company adopted this guidance on January 1, 2020. The adoption of the guidance did not have an impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in A Cloud Computing Arrangement That Is A Service Contract (A Consensus of the FASB Emerging Issues Task Force)*. The new guidance seeks to clarify the accounting treatment for fees paid by a customer in a cloud computing arrangement that does not include a software license, also termed a service contract. This update aligns the accounting treatment of implementation costs related to service contracts to that of the cloud computing arrangements that include a software license. The amendments under this update are effective for the Company for the fiscal years beginning after December 15, 2020 and permit early adoption. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements and financial statement disclosures.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new guidance simplifies the application of hedge accounting and increases transparency as to the scope and results of hedging programs by making more hedging strategies eligible for hedge accounting as well as amending the presentation and disclosure requirements and changes how companies assess the effectiveness of hedges. The FASB issued ASU No. 2019-10—*Financial Instruments—Derivatives and Hedging (Topic 815): Effective Dates* to defer the effective date from January 1, 2020 to January 1, 2021. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements and financial statement disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Additionally, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, ASU No. 2019-04, *Codification improvements to Topic 326, Financial Instruments – Credit Losses* and ASU No. 2019-05, *Financial Instruments – Credit Loss (Topic 326): Targeted Transition Relief*. The new guidance replace the incurred loss impairment methodology in current U.S. 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 FASB issued ASU

No. 2019-10—*Financial Instruments—Credit Losses (Topic 326): Effective Dates* to defer the effective date from January 1, 2022 to January 1, 2023. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements and financial statement disclosures.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance requires lessees to recognize the assets and liabilities on their balance sheets for the rights and obligations created by leases. It will also require disclosures designed to give users of financial statements the ability to assess the amount, timing, and uncertainty of cash flows arising from leases. Additionally, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors,* and ASU No. 2019-01*, Codification Improvements.* The FASB issued ASU No. 2019-10— *Leases (Topic 842): Effective Dates* to defer the original effective date from January 1, 2020 to January 1, 2021. The Company will adopt the guidance on January 1, 2021 and is currently evaluating the impact of this standard on its consolidated financial statements and financial statement disclosures.

Market Risk

Credit Risk

We are exposed to credit risk on our retail, lease and wholesale portfolios. Credit risk is the risk of loss arising from the failure of a customer or dealer to meet the terms of any contract with us or otherwise failing to perform as agreed. Credit risk is concentrated in our retail and lease portfolios as our wholesale portfolio constitutes 6.9% of our overall assets as of December 31, 2019 and 6.6% of our overall assets as of December 31, 2018. The level of credit risk is influenced primarily by two factors: the total number of contracts that experience default and the amount of loss per occurrence, which in turn are influenced by various economic factors, underwriting standards and the obligors' characteristics.

Among the economic factors that affect credit risk are unemployment, consumer debt service burden, personal income growth, dealer profitability and used vehicle prices. We analyze these trends and make adjustments to the overall level of our credit loss reserves in an attempt to protect us from future losses. Changes in used vehicle prices directly affect the amount of proceeds we receive from sales of repossessed vehicles and, thus, the level of loss severity we experience. The supply of and demand for used vehicles, interest rates, inflation, the level of manufacturer incentives on new vehicles, and general economic outlook are some of the factors affecting the used vehicle market.

Underwriting standards have a major impact on credit risk. In purchasing retail and lease contracts, we use a proprietary credit scoring algorithm that classifies contracts using several factors such as credit bureau data, customer credit characteristics and proposed terms of the retail installment sale contract. In addition to our proprietary scoring system, we consider other factors, such as employment history, financial stability and capacity to pay.

As of December 31, 2019, 4.1% of our retail finance and 1.2% of the lease contracts outstanding in our owned portfolio had FICO® scores below 620 at contract inception. This includes contracts made pursuant to special programs, such as college graduate programs, repeat customer programs, cosigner programs and loans with a strong equity position. A change in the mix of contracts purchased at various credit tiers may potentially impact the amount of credit risk we assume. An increase in the number of contracts purchased with lower FICO® scores can increase the amount of credit risk, and an increase in the number of contracts purchased with higher FICO® scores can lower credit risk. An increase in the mix of contracts with lower FICO® scores can potentially increase credit and operating risk; therefore, appropriate controls and procedures have been established. We manage our collection and servicing efforts based on purchase and portfolio quality and strive to maintain a consistent mix of contracts in the various FICO® ranges and to price contracts based on the risk to achieve a reasonable return on investment.

FICO® Band	Retail: Average FICO®[(1)(2)]	Retail: % of Portfolio[(1)(2)]	Lease: Average FICO®[(1)(2)]	Lease % of Portfolio
>=680	769	75.46%	774	84.87%
620-679	650	20.44%	655	13.95%
<=619	585	4.10%	593	1.18%

(1) Active accounts in HCA's owned portfolio at December 31, 2019.
(2) The information in this table is based upon the actual FICO® score of the customer at time of origination. FICO® scores are calculated excluding accounts for which no FICO® score is available and/or valid.

When customers purchase vehicles in the name of a business, the credit process differs from the procedures described above. Eligible businesses include corporations, partnerships, sole proprietorships, limited liability companies, trusts, nonprofit organizations and state and local government agencies. In addition to financial statements and tax returns, a consumer credit report or commercial credit report from credit bureaus is used depending on the credit structure selected during underwriting of a credit request. A personal guarantee is often obtained for credit enhancement. As of December 31, 2019, the principal amount outstanding on retail and lease contracts with businesses was $391.1 million.

The level of credit risk in our wholesale portfolio is influenced primarily by the financial strength of dealers within our portfolio, dealer concentration, collateral quality and other economic factors. The financial strength of dealers within our portfolio is influenced by general macroeconomic conditions, the overall demand for new and used vehicles, and the financial condition of automotive manufacturers, among other factors. An increase in credit risk would increase our provision for credit losses, which would have a negative impact on our operating results and financial condition.

HCA relies on stringent underwriting guidelines as well as sophisticated credit scoring models to assess and measure risk prior to extending credit. Additionally, HCA's commercial risk team conducts monthly portfolio reviews on a deal-by-deal basis to proactively identify and mitigate credit risk in the portfolio.

Residual Risk

We are exposed to residual risk, which is the risk that the value of a vehicle returned to us at the end of lease term will be below the contract residual value. Residual risk is affected by several factors, including among others the used vehicle market, new vehicle sales and incentives, fuel prices, our initial residual value estimates and our remarketing strategies. Residual value losses on matured leased vehicles may be partially offset by residual value support from HMA and KMA.

We establish initial residual values at lease inception based on values supplied to us by a third party. Used vehicle prices may decline unexpectedly, whether because of general economic conditions, an increased supply of used vehicles, a decrease in new vehicle transaction prices, or changes in consumer behavior and preferences. These declines are difficult to predict, but can impact our exposure to residual risk. Residual values are reviewed to assess the appropriateness of the carrying value of the vehicles. To the extent the estimated fair value at lease termination is lower than the residual value established at lease inception, the residual value of the vehicle is adjusted downward so that the carrying value at lease-end will approximate the estimated end of term market value.

In addition, our ability to efficiently process and effectively remarket off-lease vehicles affects our disposal costs and the proceeds we are able to realize from off-lease vehicle sales. HMA and KMA may influence the market for off-lease Hyundai and Kia vehicles by offering incentives on new vehicles and programs designed to encourage lessees to terminate their leases early in conjunction with the acquisition of new Hyundai and Kia vehicles (referred to as "pull ahead" programs) or by making increased fleet sales to rental car companies. Hyundai and Kia also indirectly affect our residual values by influencing brand image and consumer preference for Hyundai and Kia vehicles ultimately impacting values in the used car market.

Operational Risk

Operational risk is the risk of loss resulting from, among other things, inadequate or failed processes or systems, theft, fraud or natural disaster. These events can potentially result in financial losses or other damages to us. We rely on internal and external information and technological systems to manage our operations and, therefore, are exposed to risk of loss resulting from potential failures of these systems. In order to monitor and manage operational risk, we maintain a framework of internal controls designed to provide a sound operational environment. We strive to maintain appropriate levels of operational risk relative to our business strategies, competitive and regulatory environment and markets in which we operate. Notwithstanding these control measures, we remain exposed to

operational risk, but our approach to operational risk management is intended to mitigate losses arising from operational risk.

Foreign Currency Risk

From time to time, we may have a limited amount of short-term trade payables denominated in foreign currency. As of December 31, 2019, substantially all of our assets and obligations were denominated in U.S. dollars, and we did not have any foreign currency exposure.

Financing Operations

Retail Financing

We purchase retail installment sale contracts from dealers in the ordinary course of business in accordance with our underwriting standards. Contracts originated by a dealer are acquired by us under an agreement with each dealer.

Our underwriting procedures are intended to assess an applicant's willingness and ability to repay the amounts when due on the contract as well as the value of the vehicle to be financed. The creditworthiness of any co-purchaser or guarantor is also considered. Each applicant for a retail installment sale contract completes a credit application that includes the applicant's name, income, expenses, residential status, bank account information, credit and employment history and other personal and financial information. Dealers submit applications together with information about the proposed terms of the retail installment sale contract to HCA primarily through website based systems.

HCA generally obtains a credit bureau report on the applicant, including the "credit bureau score," or a FICO® score, which is generated using statistical models created by Fair Isaac Corporation. The FICO® score measures the likelihood an applicant will repay an obligation as expected. HCA also evaluates credit applications using proprietary credit scoring algorithms developed internally by HCA and referred to as scorecards. The scorecards are used to assess the creditworthiness of each applicant using the information provided on the credit application, the proposed terms of the retail installment sale contract and the applicant's credit bureau data to assign the applicant a proprietary credit score. HCA improves and modifies the scorecards from time to time based on actual historical portfolio experience.

Credit applications are evaluated when received and are either automatically approved, automatically rejected or forwarded for review by a HCA credit analyst based on HCA's electronic decisioning model. The model uses the FICO® score, the HCA derived credit score and a set of business rules designed to identify certain credit-related items such as loan-to-value ratio, affordability measures (e.g., payment-to-income ratio) and collateral type and quality. The model also identifies incomplete or inconsistent data such as an address or social security number mismatch, which is often caused by incorrect data entry but could possibly be a sign of fraud. In some cases, an application is not automatically rejected but does not meet the criteria for automatic approval, either because of incomplete or inconsistent information or because one or more credit-related items is not within prescribed automatic approval levels. In such cases, a credit analyst evaluates the credit application to make an approval decision using the company's written underwriting guidelines. The credit analyst considers the same information included in the electronic decisioning model and weighs other factors, such as the prospective purchaser's prior experience with HCA. If data entry or inconsistent information is the reason an application did not receive automatic approval, the credit analyst will contact the dealer if necessary to verify the data in question and to make corrections if necessary or to obtain proof of the inconsistent data. Based on the credit analyst's assessment of the strengths and weaknesses of each application, the analyst will then either approve the application, reject the application or forward the application for review by a HCA credit analyst with higher approval authority.

The amount of a retail installment sales contract secured by a new or used Hyundai or Kia motor vehicle generally approximates 100% of the dealer invoice costs of the related vehicle plus selected accessories at the dealer cost, sales tax, title and registration fees, insurance premiums for credit life and credit disability insurance and certain fees for extended services contract. The terms of the majority of the installment sales contracts range from 24 to 75 months.

We have responsibility for contract administration and collection. We use a risk/behavioral-based collection strategy to minimize risk of loss and employ various collection methods. The retail installment sales contracts we acquire from dealers generally name us as assignee and as the secured party. We also take steps under the relevant laws of the state in which the related financed vehicle is located to perfect our security interest, including, where applicable, having a notation of our lien recorded on the related certificate of title and obtaining possession of that certificate of title. As a result, we have the right to repossess the assets if customers fail to meet contractual obligations,

as well as the right to enforce collection actions against the obligors under the contracts. Upon default, we sell the vehicles in a commercially reasonable manner. Repossessed vehicles are sold through a variety of distribution channels. We use a branded internet website for sale of vehicles as well as a system of physical auto auctions located throughout the United States. Remarketing decisions related to auction assignment and logistics are primarily electronic. This allows HCA to control inventory management, flow of vehicles to the auction and placement of the vehicles to auction locations that it believes will yield the highest net recovery value. We have regular sales at major auction locations throughout the United States. From time to time, auction capacity and demand for pre-owned vehicles in certain markets may be insufficient to absorb the volume. Therefore, we may transport vehicles to different regions where we perceive a greater demand in order to maximize the vehicles' recovery values.

Lease Financing

Our retail leasing activity consists of purchasing closed-end vehicle leases from Hyundai and Kia dealers. Lease contracts to be purchased are evaluated against our credit standards and, if approved, we purchase the lease contracts and concurrently assume ownership of the leased vehicles. The terms of the majority of lease contracts range from 24 to 48 months.

We have entered into agreements with dealers under which they have assigned and will assign lease contracts to one of our subsidiaries, Hyundai Lease Titling Trust ("HLTT"). HLTT was created in October 2005 to avoid the administrative difficulty and expense associated with retitling leased vehicles for the securitization of vehicle leases. We view our lease arrangements as financing transactions because we do not seek to re-lease the vehicles or equipment either upon default or at lease termination. We are responsible for contract administration and collection during the lease period. HCA generally obtains a credit report on the applicant from a national credit bureau. HCA also evaluates credit applications using proprietary credit scoring algorithms developed internally by HCA and referred to as scorecards. The scorecards are used to assess the creditworthiness of each applicant using the information provided on the credit application, the proposed terms of the lease contract and the applicant's credit bureau data to assign the applicant a proprietary credit score. We make our final credit decision based upon the degree of credit risk perceived and the amount of credit requested. We are permitted to take possession of vehicles upon default and have the right to enforce collection actions against the lessee. Upon default, we sell the vehicles at auctions.

HCA's vehicle remarketing department handles the disposition of all motor vehicles for HCA including repossessions, early terminations and end of term leases. Each lease currently provides that upon maturity, the lessee has the option to purchase the related motor vehicle for an amount equal to the stated purchase option price. If the lessee does not exercise this option, the vehicle is returned to a dealer and the vehicle is offered for sale to the returning dealer first for stated residual value and subsequently at a market based price adjusted for mileage and excessive damage. If the dealer to which the vehicle is returned does not exercise its option to purchase the vehicle, then the vehicle is offered for sale on a branded internet website supported by a third party vendor at a fixed price and/or at an auction, bidding environment. Vehicles that are not purchased by the lessee or a dealer are offered for sale through auction.

Occasionally, HCA may offer incentives to lease new vehicles to lessees whose lease contracts are nearing expiration. These incentives may include waiver of one or more monthly payments otherwise payable under the related lease. HCA will pay to the issuing entity the amount of any monthly payments so waived. These programs are employed to promote customer loyalty by offering attractive early termination options and to provide lessees with an incentive to purchase or lease new Hyundai or Kia vehicles. These programs can also be used to shift vehicles out of peak terminating months and to increase the number of off-lease vehicles that are sold or auctioned during those months in which the purchase price for off-lease vehicles tends to be higher. In an effort to minimize losses incurred at lease maturity on vehicles returned to us, we have developed remarketing strategies to maximize proceeds and minimize disposition costs on used vehicles sold at lease termination.

We are responsible for the residual value of the leased asset if the lessee or dealer does not purchase the asset at lease maturity. We determine residual values based on calculations produced by an independent third party source. However, no assurance can be given that future residual value losses will meet our expectations or be similar to past experience.

We service lease contracts purchased by HLTT from Hyundai and Kia vehicle dealers in the same manner as if the contracts were owned directly by us. We hold an undivided trust interest in HLTT, and the lease contracts held by HLTT are included in our lease assets.

Wholesale and Other Dealer Financing

We support vehicle dealers by offering wholesale and other dealer financing for a variety of dealers' business needs.

Wholesale Financing—We provide direct wholesale financing to vehicle dealers for their purchase of inventories of new and used Hyundai, Kia and other vehicles in the normal course of business for their sale to retail and commercial buyers and lessees.

We acquire a security interest in vehicles financed under wholesale loans, which we perfect through Uniform Commercial Code filings. In some cases, these financings may be backed by a subordinated security interest in parts inventory, machinery, tools, equipment, fixtures and service accounts of dealers or real estate owned by a dealer and/or may be guaranteed by a dealer's parent holding company or affiliate, or personally by the dealer's principal.

We extend credit lines to Hyundai and Kia dealers that operate exclusive Hyundai and Kia dealerships, as well as those that operate non-Hyundai and non-Kia dealerships. Dealers who have non-Hyundai and non-Kia dealerships may obtain financing of vehicles from such other manufacturers or may use part of our financing, pursuant to their related wholesale financing agreement to finance vehicles purchased from such other manufacturers. In the case of certain Hyundai-authorized or Kia-authorized dealers who also are authorized by other manufacturers, we provide wholesale financing for new Hyundai and Kia vehicles and new vehicles of other manufacturers.

As of December 31, 2019, we provided floorplan financing to approximately 20% of the dealers in the managed portfolio authorized by HMA and KMA. As of December 31, 2019, approximately 9% of our floorplan dealers are non-Hyundai and non-Kia dealerships.

We generally finance 100% of the invoice price of new vehicles. The amount that we will lend on used vehicles varies. In general, we will lend 100% of the wholesale value of the used vehicle as published in industry-standard third-party reference books. For vehicles purchased by the dealer at an auction and financed by us via payment directly to the auction, we typically finance 100% of the auction price plus the buyer's fees paid to the auction. In some circumstances, the vehicle we finance is one that was sold by us to the dealer. Most of these vehicles were leased by us to a consumer and returned to us at the end of the lease. If the used vehicle being financed under our floorplan is one that was sold by us to the dealer, we will lend 100% of the price the dealer paid to us for the vehicle.

Once a dealer has commenced the financing of the purchase, or floorplanning, of a manufacturer's vehicles through us, we will finance all purchases of vehicles by the dealer from Hyundai or Kia or any other manufacturer covered by our financing arrangement. We will cancel or suspend this arrangement, however, if we consider a dealer's inventory to be heavily overstocked, if a dealer is experiencing financial difficulties, or in certain circumstances at the dealer's request. We extend credit to newly authorized dealers from time to time based on established credit criteria. Our credit decisions for newly authorized dealers requesting a new credit line are based on our investigation and review of the dealer's financial status, marketing capabilities, financial resources and credit requirements. When an existing dealer requests the establishment of a wholesale new vehicle credit line, we typically review the dealer's historical performance, current state of operations and management, financial status and market. In the event of a dealer default under a wholesale loan arrangement, we have the right to liquidate assets in which we have a perfected security interest and seek legal remedies pursuant to the wholesale loan agreement and any applicable guarantees.

Under a dealer agreement between HMA and each HMA-authorized dealer, HMA commits to repurchase unsold new vehicles distributed by HMA and in inventory upon termination of the dealer agreement, at the price at which the new vehicles were sold by HMA, less prior refunds or allowances made by HMA, if any. HMA only repurchases current year models that are new, undamaged, unused and unmodified.

Under a dealer agreement between KMA and each KMA authorized dealer, KMA commits to repurchase unsold new vehicles distributed by KMA and in inventory upon termination of the dealer agreement, at the price at which the new vehicles were sold by KMA, less prior refunds or allowances made by KMA, if any. KMA only repurchases current year models that are new, undamaged, unused and unmodified.

This assistance provided by HMA and KMA is for the benefit of the dealers and does not relieve them of any of their obligations to us.

Other Dealer Financing—We extend term loans and revolving lines of credit to dealers for business acquisitions, facilities refurbishment, real estate purchases, construction and working capital requirements. These loans are typically secured with liens on real estate, vehicle inventory and/or other dealership assets, as appropriate, and usually are guaranteed by the personal or corporate guarantees of the dealer principals or dealerships. We also provide financing to various multi-brand dealer organizations, referred to as dealer groups, for wholesale, working capital, real estate and business acquisitions. These loans are typically collateralized with liens on real estate, vehicle inventory and/or other dealership assets, as appropriate. We obtain a personal guarantee from the dealer or corporate guarantee from the dealership when deemed prudent. 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.

Vehicle Protection Products

Operating as wholly owned subsidiaries of HCA, Hyundai Protection Plan, Inc., Hyundai Protection Plan Florida, Inc., and Hyundai Capital Insurance Company Inc., commenced operations in January 2013 as part of our vehicle protection product business in the U.S. We provide marketing, underwriting, claims administration, and customer service related to vehicle service contracts, guaranteed asset protection coverage, and other related vehicle protection products. Vehicle service contracts offer vehicle owners and lessees mechanical breakdown protection for new and used vehicles secondary to the manufacturer's new vehicle warranty. Guaranteed asset protection coverage pays the difference between the vehicle's cash value (as determined by the primary insurer) and the balance of the contract holder's outstanding loan balance when a vehicle is deemed to be a total loss. We collect premiums for the products sold and are obligated to pay qualifying claims made by the contract holders. Power Protect Extended Services, Inc. ("PPES") and Power Protect Extended Services Florida, Inc. ("PPES FL") were subsequently established to expand our vehicle service contract business on other vehicle brands sold through Kia dealerships. PPES and PPES FL commenced operations in January 2019. Our insurance affiliates will primarily market products through HMA's network of authorized Hyundai dealers and KMA's network of authorized Kia dealers in the U.S.

Retail Loan & Lease Concentration

As of December 31, 2019, the states of California, Florida and Texas accounted for 14.0%, 11.5%, and 10.4%, respectively, of our managed retail assets and the states of New York, Florida and California accounted for 14.2%, 14.2%, and 13.9%, respectively, of our managed lease assets as determined by dollar value. Any material adverse changes to the California, New York, Florida, and Texas economies could have an adverse effect on our financial condition and results of operations.

Seasonality

The revenues generated by receivables we own are generally not subject to seasonal variations. Although contract volume is subject to a certain degree of seasonality, this seasonality does not have a significant impact on revenues because collections, generally in the form of fixed payments, occur over the course of several years. The automotive finance industry, including HCA, is subject to seasonal variations in credit losses, which are typically higher in the first and fourth calendar quarters of the year.

Competition

We operate in a highly competitive environment and compete with other financial institutions including national and regional commercial banks, savings and loan associations, credit unions, finance companies and, to a lesser extent, other automobile manufacturers' affiliated finance companies, for retail financing and leasing. We

compete with national and regional commercial banks and other automobile manufacturers' affiliated finance companies for wholesale financing and other dealer financing. No single competitor is dominant in the industry. We compete primarily through service quality, our relationship with HMA and KMA and our financing rates. We seek to provide exceptional customer service and competitive financing programs to our dealers and their customers. Our relationships with HMA and KMA are an advantage in providing Hyundai and Kia financing for purchases or leases of Hyundai and Kia vehicles.

Regulation

Our operations are regulated under both federal and state law. We are governed by, among other federal laws, the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Consumer Leasing Act, the Fair Credit Reporting Act and the consumer data privacy and security provisions of the Gramm-Leach-Bliley Act. These laws require us to provide certain disclosures to prospective purchasers and lessees in consumer retail and lease financing transactions and prohibit discriminatory credit practices. The principal disclosures required under the Truth-in-Lending Act for retail finance transactions include the terms of repayment, the amount financed, the total finance charge and the annual percentage rate. For retail lease transactions, we are required to disclose the amount due at lease inception, the terms for payment, and information about lease charges, insurance, excess mileage, wear and use charges, and liability on early termination. The Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants and customers on a variety of factors, including race, color, sex, age, or marital status. Pursuant to the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for being denied. In addition, any of the credit scoring systems we use during the application process or other processes must comply with the requirements for such systems under the Equal Credit Opportunity Act. The Fair Credit Reporting Act requires us to provide certain information to consumers whose credit applications are not approved on the basis of a consumer credit report obtained from a national credit bureau and sets forth requirements related to identity theft, privacy and enhanced accuracy in credit reporting content. We are also subject to the Servicemember's Civil Relief Act that prohibits us from charging interest in excess of 6% on transactions with customers who subsequently enter into full-time service with the military and request such interest rate modification, and limits our ability to collect future payments from lease customers who terminate their lease early. Many states have enacted laws offering similar protections for servicemembers. In addition, we are subject to other federal regulation, including the Gramm-Leach-Bliley Act, which requires us to maintain confidentiality and safeguard certain consumer data in our possession and to communicate periodically with consumers on privacy matters.

A majority of states have enacted legislation establishing licensing requirements to conduct retail and other finance activities. Most states also impose limits on the maximum rate of finance charges. In certain states, the margin between the present statutory maximum interest rates and borrowing costs is sufficiently narrow that, in periods of rapidly increasing or high interest rates, there could be an adverse effect on our operations in these states if we were unable to pass on increased interest costs to our customers. State laws also impose requirements and restrictions on us with respect to, among other matters, required credit application and finance and lease disclosures, late and other fees and charges, the right to repossess a vehicle for failure to pay or other defaults under the finance or lease contract, other rights and remedies we may exercise in the event of a default under the finance or lease contract, privacy matters and other consumer protection matters.

On July 21, 2010, the Dodd-Frank Act became law. Although the Dodd-Frank Act generally took effect on July 22, 2010, some provisions still require implementing regulations to be issued before they are effective. Compliance with the implementing regulations under the Dodd-Frank Act or the oversight of the SEC, CFPB or other government entities, as applicable, may impose costs on, create operational constraints for, or place limits on pricing with respect to finance companies such as us. Many provisions of the Dodd- Frank Act are required to be implemented through rulemaking by the appropriate federal regulatory agencies. As such, in many respects, the ultimate impact of the Dodd-Frank Act and its effects on the financial markets and their participants will not be fully known for an extended period of time. In particular, no assurance can be given that these new requirements imposed, or to be imposed after implementing regulations are issued, by the Dodd-Frank Act will not have a significant impact on our business or the business of our subsidiaries. See "Risk Factors—Risks Relating to Our Business—Financial regulatory reform could have a significant impact on our business, financial condition and results of operations."

The CFPB is responsible for implementing and enforcing various federal consumer protection laws and supervising certain depository institutions and non-depository institutions offering financial products and services to consumers. The CFPB issued a final rule that became effective August 31, 2015 defining which non-depository institutions would be considered larger participants of a market for automobile financing. Under the definitions included in the final rule, we are considered a larger participant in a market for automobile financing. As a larger participant under the final rule, we are subject to supervision and examination by the CFPB. In addition to its supervision and examination authority, the CFPB has broad authority to conduct investigations to determine whether any person is engaging in, or has engaged in, conduct that violates federal consumer financial laws, and to initiate enforcement actions for such violations, regardless of its direct supervisory authority. The CFPB can obtain cease and desist orders, which may include orders for restitution or rescission of contracts as well as other kinds of affirmative relief, and civil money penalties. Also, where a company has violated the Dodd-Frank Act or CFPB regulations, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the type of cease and desist orders available to the CFPB. Expanded CFPB jurisdiction over our business will likely increase our compliance costs and regulatory risks. We cannot assure you that expanded CFPB jurisdiction will not have a material adverse effect on our business, results of operations and financial condition.

The CFPB has issued public guidance regarding compliance with the fair lending requirements of the Equal Credit Opportunity Act, and its implementing regulation, for automobile lenders that permit automobile dealers to charge the consumer an interest rate that is higher than the rate the lender provides the dealer for a consumer. This increased rate is typically called a "dealer markup." The CFPB, the New York State Department of Financial Services ("NYSDFS") and the Department of Justice ("DOJ") have contacted us and other auto finance providers to request information about discretionary pricing practices, including allowing dealer markups. In January 2018, the CFPB and the DOJ sent letters to HCA indicating that they were closing their fair lending investigations and not recommending any enforcement action at this time. We are cooperating with the request for information from NYSDFS. Although the NYSDFS has not alleged any wrongdoing on our part, we cannot predict the outcome of this inquiry.

We continually review our operations for compliance with applicable laws. We are subject to various regulatory, financial and other requirements of the jurisdictions in which we operate. In light of current conditions in the global financial markets, regulators have increased their focus on the regulation of the financial services industry, including the segment in which we operate. 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.

Employees

At December 31, 2019, we had approximately 1,570 full time employees. We consider our employee relations to be satisfactory. We are not subject to any collective bargaining agreements with our employees.

Legal Proceedings

We are involved in periodic litigation in the ordinary course of our business, including contract claims brought by those to whom we extend financing. We do not believe that there are any material pending or threatened legal proceedings, including ordinary litigation incidental to the conduct of our business that, if determined against us, would have a material adverse effect on our business, financial condition, results of operations or liquidity. However, we cannot assure you that future litigation will not adversely affect us.

Properties

HCA's headquarters are located at 3161 Michelson Drive, Irvine, California 92612. We lease spaces for our regional service centers in California, Georgia, and Texas.

MANAGEMENT

Our executive officers and directors are as follows:

Name	Position
Ross C. Williams	President and Chief Executive Officer
Keun Bae Hong	Chief Financial Officer
Eun Joo (Jennifer) Kim	Chief Risk Officer
Eckart Klumpp	Senior Vice President, Sales and Marketing Division
Carol J. Moore	Secretary
Charley C. Yoon	Treasurer
Ross C. Williams	Director
Byungkag Yoo	Director
Nam Kyu Kim	Director

Ross C. Williams was appointed President and Chief Executive Officer and a Director of HCA in July 2015. Prior to joining HCA, Mr. Williams was the President and Chief Executive Officer at Hyundai Capital Canada Inc., a majority owned subsidiary of HMC. Mr. Williams previously held various management positions at HCA and served as head of various departments.

Keun Bae Hong was appointed Chief Financial Officer of HCA in June 2019. His over 20 years of experience at Hyundai has included roles within Hyundai Capital Services, Hyundai Card, and HCA, where he was the Department Head of Corporate Planning from 2011 through 2013. Most recently, he served as the Department Head of Business Planning at HCS. Mr. Hong has previously held leadership positions in Corporate Management, Treasury, FP&A, and Business Strategy.

Eun Joo (Jennifer) Kim was appointed Chief Risk Officer of HCA in May 2019. Ms. Kim was formerly the Deputy Chief Risk Officer at HCA. Prior to joining HCA in 2017, Ms. Kim served in risk management roles at HCA affiliate Hyundai Card. Previously, Ms. Kim spent over 13 years in risk management at GE Capital, the majority of which time was with the GE Capital and Hyundai joint venture.

Eckart Klumpp was appointed Senior Vice President, Dealer Services in April 2017. Prior to joining HCA, Mr. Klumpp was the President and Chief Executive Officer at Hyundai Capital Canada Inc., a majority owned subsidiary of HMC. Mr. Klumpp previously held various management positions at HCA and served as head of various departments.

Carol J. Moore was appointed Secretary in February 2017. Ms. Moore is Vice President and General Counsel of Hyundai Capital America where she leads the Legal and Compliance department. Prior to joining HCA in 2010, Ms. Moore served as Senior Vice President and Assistant General Counsel at Resurgent Capital Services and held other leadership positions at auto finance captives including American Honda Finance Corporation, Nissan Motor Acceptance Corporation and Mitsubishi Motors Credit of America.

Charley C. Yoon was appointed Treasurer in July 2016. Mr. Yoon leads the Treasury department, including managing treasury funding and operational risks and communicating our financial performance and corporate strategy to the investment community. Prior to joining HCA in 2005, Mr. Yoon worked in various finance roles at Hyundai Motor America, Bank of Tokyo and Pacific Life Insurance.

Byungkag Yoo was appointed Vice President, Finance of Hyundai Motor North America in January 2019 and was elected to HCA's board of directors in January 2019. Prior to joining Hyundai Motor North America, Mr. Yoo held various management positions at HMC.

Nam Kyu Kim is the Vice President, Chief Financial Officer of Kia Motors North America and was elected to HCA's board of directors in January 2020. Mr. Kim formerly served as Chief Financial Officer of KMA and was on HCA's board of directors from May 2010 to January 2012. Prior to joining Kia Motors North America, Mr. Kim held various management positions at KMC.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Support Agreement

Pursuant to the support agreement with HMC dated as of August 22, 2012, HMC has agreed to: (1) directly or indirectly through its controlled subsidiaries and entities subject to joint control, own one hundred percent (100%) of the issued and outstanding shares of our stock; (2) cause us to have a positive consolidated tangible net worth, as determined in accordance with U.S. generally accepted accounting principles and as shown on our most recent audited annual consolidated balance sheet; and (3) take all action necessary, including making cash contributions to us, required to maintain our fixed-charge coverage ratio at not less than 1.10-to-1 on a four-quarter rolling basis. The support agreement is governed by the laws of the State of California.

The support agreement may be terminated by either us or HMC and may be modified or amended by written agreement between us and HMC, in each case, with 30 days prior written notice. However, so long as any loan agreement, bonds, debentures, notes and other debt securities ("Debt") is outstanding, no such action will be effective with respect to such Debt if it would constitute a default unless (i) each holder of any of the Debt (or the requisite holders specified in the document governing such Debt) consents or (ii) with respect to Debt that is rated by one or more rating agencies, each such rating agency confirms in writing it will not withdraw or reduce its rating of such Debt.

The support agreement is not, and nothing done pursuant to the support agreement by HMC shall be deemed to constitute, a guarantee by HMC of any of the Notes offered hereby, or other obligation, indebtedness or liability of any kind or character of HCA whatsoever.

All holders of the Notes offered hereby are third-party beneficiaries of the support agreement, provided that the third-party beneficiary rights of the holders of the Notes offered hereby under the support agreement are limited to the right to proceed against HMC directly to enforce HMC's stock ownership requirement, the net worth requirement and the fixed charge coverage requirement under the support agreement. HMC has agreed to submit to the non-exclusive jurisdiction of the competent courts in California in relation to any legal action or proceeding arising out of the support agreement. An "event of default" with respect to the Notes offered hereby will have occurred if (1) the support agreement is not (or is claimed by either party to the agreement not to be) in full force and effect; (2) is modified, amended or terminated in circumstances where such modification, amendment or termination would have a material adverse effect upon any holder of the Notes offered hereby; or (3) HMC fails to perform or observe any obligation on its part under the support agreement so as to affect materially and adversely the interests of any holder of the Notes offered hereby. For more information relating to events of default with respect to the Notes, see "Description of the Notes—Events of Default, Notice and Waiver."

Financial and other information concerning HMC is provided in Appendix A to this Offering Memorandum for background purposes only in view of the existence of the support agreement. Inclusion of the financial and other information regarding HMC should not be treated as implying that the support agreement can be viewed as a guarantee.

Relationships with Affiliates

Our business is substantially dependent upon the sale of Hyundai and Kia vehicles. Our ability to offer competitive financing in the United States also depends on HMA and KMA. HMA is the primary distributor of Hyundai vehicles in the United States. For the years ended December 31, 2019, 2018, and 2017, Hyundai vehicles accounted for approximately 4.4%, 3.9% and 4.0%, respectively, of all retail automobile and light truck unit sales volume in the United States. HMA and its affiliates utilize excess cash by providing intercompany loans to HMA affiliates which require cash. Currently, excess cash from operations of HMA and other affiliates is lent to us in the form of an intercompany loan at market rates. We had $1.1 billion, $0.9 billion and $1.4 billion at December 31, 2019, 2018, and 2017, respectively, of outstanding affiliate borrowings owed to HMA and other affiliates. These affiliate borrowings comprise a source of funds for us. The borrowings come due generally within three months to three years and we expect to refinance them. For a discussion of intercompany loans, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet, Liquidity and Capital Resources—Funding Sources and Liquidity."

KMA is the primary distributor of Kia vehicles in the United States. For the years ended December 31, 2019, 2018, and 2017, Kia vehicles accounted for approximately 3.3%, 3.4% and 3.4%, respectively, of all retail automobile and light truck unit sales volume in the United States.

HMA sponsors vehicle incentive financing programs, which include yield and residual value and other end of term incentives. Under the yield incentive program, we purchase the retail and lease contracts and charge HMA an amount such that an acceptable return is realized. Under the residual value and other end of term incentive program, we charge HMA an amount equal to a maximum of 6% of the published residual amounts. The amounts we billed to HMA for various yield incentive programs were $370.1 million, $311.4 million and $315.0 million for the years ended December 31, 2019, 2018, and 2017, respectively. These amounts are recognized in financing revenues over the terms of the related contracts. The amounts we billed to HMA for residual value and other end of term incentive programs were $35.9 million, $66.4 million and $68.2 million for the years ended December 31, 2019, 2018, and 2017, respectively. The effect of the residual value incentive program is a reduction of depreciation expense over the life of the lease. Other end of term incentive programs consist of disposition fees paid on behalf of loyal customers and are recorded in financing revenue. The outstanding receivable balance for HMA yield incentive programs were $173.8 million, $137.8 million and $145.0 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The outstanding receivable balance for HMA residual value and other end of term incentive programs were $243.2 million, $274.1 million and $299.1 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The residual value and other end of term incentive receivable balance due from HMA for each period presented consists primarily of an estimated future billing amount for units covered under the incentive program but not billable until end of lease term. The estimated future billing corresponding amounts are included as a reduction of the investment in operating leases, net.

KMA sponsors vehicle incentive financing programs, which include yield and residual value and other end of term incentives. Under the yield incentive program, we purchase the retail and lease contracts and charge KMA an amount such that an acceptable return is realized. Under the residual value and other end of term incentive program, we charge KMA an amount equal to a maximum of 6% of the published residual amounts. The amounts we billed to KMA for various yield incentive programs were $203.0 million, $227.2 million and $291.1 million for the years ended December 31, 2019, 2018, and 2017, respectively. These amounts are recognized in financing revenues over the terms of the related contracts. The amounts we billed to KMA for residual value and other end of term incentive programs were $56.2 million, $56.2 million and $62.3 million for the years ended December 31, 2019, 2018, and 2017, respectively. The effect of the residual value incentive program is a reduction of depreciation expense over the life of the lease. Other end of term incentive programs consist of disposition fees paid on behalf of loyal customers and are recorded in financing revenue. The outstanding receivable balance for KMA yield incentive programs were $72.7 million, $69.5 million and $98.4 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The outstanding receivable balance for KMA residual value and other end of term incentive programs were $256.1 million, $245.9 million and $259.6 million for the years ended December 31, 2019, 2018, and 2017, respectively, and are a component of due from affiliates, net. The residual value and other end of term incentive receivable balance due from KMA for each period presented consists primarily of an estimated future billing amount for units covered under the incentive program but not billable until end of lease term. The estimated future billing corresponding amounts are included as a reduction of the investment in operating leases, net.

HMA charges us a negotiated fee for various personnel, administrative and operating expenses related to shared services that were provided by HMA. HMA charged us fees of $1.4 million, $1.2 million and $1.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

HCA pays a royalty to HCS for the provision of business expertise and related services. For the years ended December 31, 2019, 2018 and 2017, HCA recorded $27.1 million, $27.0 million and $25.4 million, respectively, in royalty expense.

Our financial position, results of operations and cash flows would have been different if the relationships with HMC, HMA, KMA and HCS did not exist. These transactions and arrangements may be discontinued at any time. See “Risk Factors—Risks Relating to Our Business—Our results and financial condition are dependent, in large part, on significant transactions with our affiliates, including affiliate borrowings.”

DESCRIPTION OF THE NOTES

This section summarizes the material provisions of the indenture and the Notes. This summary is subject to and qualified in its entirety by reference to all the provisions of the Indenture and the Notes. In this description, the words "Company," "we," "us" and "our" refer only to Hyundai Capital America and its subsidiaries and not to HMC, HMA or their subsidiaries.

The Notes will be obligations solely of HCA and will not be obligations of, or directly or indirectly guaranteed by, HMC, HMA or any of their affiliates.

General

Unless otherwise specified in the applicable Pricing Supplement, the following description of the Notes will apply. The Notes will be issued as a separate series of debt securities pursuant to an indenture, dated as of October 1, 2012 (as supplemented, the "Indenture"), between us and U.S. Bank National Association, as trustee (the "Trustee"). The following summary of certain provisions of the Indenture and the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture, including the definitions therein of certain terms, the Notes and the applicable Pricing Supplement. You may obtain a copy of the Indenture from the Company or the Agents upon request.

Calculation of the interest rates and the amount of interest payable from time to time with respect to Floating Rate Notes will be made pursuant to a Calculation Agency Agreement between the Company and the calculation agent specified in the applicable Pricing Supplement (the "Calculation Agency Agreement").

The Indenture does not limit the amount of indebtedness that may be incurred by the Company from time to time. As of the date of this Offering Memorandum, the Company has authorized the offer and sale from time to time of Notes in an aggregate principal amount of up to $40,000,000,000 or the equivalent in one or more foreign currencies. The Company may from time to time, without the consent of or notice to the holders of the outstanding Notes, provide for the issuance of Notes under the Indenture in addition to the aggregate principal amount of Notes authorized as of the date of this Offering Memorandum.

The Notes and all the obligations of the Company under the Notes will be direct, unsecured and unsubordinated indebtedness of the Company. The Notes will rank *pari passu* in priority of payment among themselves and with other unsecured and unsubordinated existing and future indebtedness of the Company.

We may from time to time, without giving notice to or seeking the consent of the holders of the Notes, issue debt securities having the same terms (except for the issue date and, in some cases, the offering price and the first interest payment date) as, and ranking equally and ratably with, the Notes of a particular tranche. Such additional debt securities will be consolidated and form a single tranche with, have the same CUSIP number as and trade interchangeably with such previously issued Notes, so long as such additional debt securities are fungible for U.S. federal income tax purposes with the previously issued Notes.

Except as described in this Offering Memorandum and unless otherwise specified in the applicable Pricing Supplement, the Notes (i) will be issued in fully registered form without coupons in minimum denominations of U.S. $2,000 and in integral multiples of U.S. $1,000 in excess thereof (or the equivalent amount in one or more foreign currencies as set forth in the applicable Pricing Supplement); (ii) will be denominated and payable in U.S. dollars (or one or more foreign currencies as set forth in the applicable Pricing Supplement); and (iii) will be represented initially by a Global Note registered in the name of a nominee of DTC, as depository, or another depository named in the applicable Pricing Supplement. Except as provided under "— Reset Notes" and "— Extension of Maturity Date," the Notes will not be repayable at the option of the holder prior to their stated maturity. The Notes will not be subject to any sinking fund.

The Notes will be offered on a continuous basis and will mature on any day one year or more from the date of issue as agreed upon by the purchaser and the Company and specified in the applicable Pricing Supplement, subject to the right of the Company to extend the stated maturity date, if so provided in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, the Notes will either be Fixed Rate Notes that bear interest at fixed rates, which may be zero in the case of certain Notes issued at a discount from the principal amount payable at maturity (as described under "— Original Issue Discount; Zero Coupon Notes"), or Floating Rate Notes that bear interest at floating rates determined by reference to one or more of the Base Rates described below, which may be adjusted by a Spread and/or a Spread Multiplier and which may be subject to a Maximum Interest Rate and/or Minimum Interest Rate, until the principal thereof is paid or made available for payment.

Interest rates, the interest rate formula and other terms of the Notes described herein are subject to change by the Company from time to time, but no such change will affect any Note already issued or as to which an offer to purchase has been accepted by the Company.

Notes may from time to time be issued with terms and provisions that differ from those described in this Offering Memorandum. In such event, the terms of such Notes will be set forth in the applicable Pricing Supplement, which terms and description will supersede the description of the Notes contained herein to the extent inconsistent therewith.

"Business Day" means, unless otherwise specified in the applicable Pricing Supplement, any day, other than a Saturday or Sunday, that is not a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York (or London, England, in the case of LIBOR Notes); *provided*, *however*, that, with respect to non-United States dollar-denominated Notes, the day is also not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center, as defined below, of the country issuing the specified currency or, if the specified currency is euro, the day is also a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer ("TARGET") System is open (a "TARGET Settlement Day").

"Principal Financial Center" means, unless otherwise specified in the applicable Pricing Supplement, the capital city of the country issuing the specified currency, except that with respect to U.S. dollars, Australian dollars, Canadian dollars, South African rand and Swiss francs, the "Principal Financial Center" will be The City of New York, Sydney, Toronto, Johannesburg and Zurich, respectively.

"London Banking Day" means a day that is not a Saturday or Sunday and on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

Payments on the Notes

Interest payable with respect to a Note on any Interest Payment Date (as defined below) will be paid to the person in whose name such Note (or one or more predecessor Notes) is registered at the close of business on the record date immediately preceding such Interest Payment Date, *provided* that interest payable at stated maturity or upon any earlier date of redemption (each such stated maturity date or date of redemption being hereinafter referred to as a "Maturity Date" with respect to the principal amount due on such date) will be payable to the person to whom principal shall be payable. Unless otherwise specified in the applicable Pricing Supplement, the first payment of interest on any Note will be made on the first Interest Payment Date succeeding the date of original issue thereof (the "Original Issue Date") to the person in whose name such Note (or one or more predecessor Notes) is registered at the close of business on the record date with respect to such Interest Payment Date; provided that if a Note is originally issued between a regular record date and an Interest Payment Date, then the first payment of interest will be made on the Interest Payment Date following the next succeeding regular record date to the registered owner on such regular record date. Any such interest not so punctually paid or duly provided for on any Interest Payment Date will forthwith cease to be payable to the person in whose name such Note (or one or more predecessor Notes) is registered at the close of business on the relevant record date (or, if relevant, the person entitled to payment on an applicable Maturity Date) and may either (1) be paid to the person in whose name such Note (or one or more predecessor Notes) is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to the holders of Notes by mail sent to their registered addresses not less than ten days prior to such special record date or (2) be paid at any time in any other lawful manner.

For information with respect to payments on Notes denominated in or payable in a currency other than U.S. dollars, see "—Foreign Currency Notes" below.

In the limited circumstances in which certificated notes ("Certificated Notes") are issued, payments of interest on Certificated Notes, other than interest payable with respect to the principal amount due on any Maturity Date with respect to a Certificated Note, will be made by check mailed to the registered holder entitled to that interest as described above. Notwithstanding the foregoing, a registered holder of not less than U.S. $10,000,000 aggregate principal amount of Certificated Notes that are denominated and pay interest in U.S. dollars and have the same Interest Payment Dates may, by written notice to the Trustee on or before the record date preceding an Interest Payment Date, arrange to have the interest payable on all such Notes, held by such holder on such Interest Payment Date, and all subsequent Interest Payment Dates until written notice to the contrary is given to the Trustee as aforesaid, made by wire transfer of immediately available funds to an account at a bank in the United States (or other bank consented to by the Company and the Trustee) as the holder of such Notes shall have designated, *provided* that such bank has appropriate facilities therefor.

The principal, premium, if any, and interest on any Certificated Note that is due at a Maturity Date will be paid in immediately available funds against presentation and surrender (by overnight delivery) of such Note at the office of the Trustee maintained for such purpose at U.S. Bank National Association, 100 Wall Street, 16th Floor, New York, New York 10005, Attention: Corporate Trust Operations, or such other office or agency of which the registered holders receive notice from the Trustee; *provided*, *however*, that if such payment is to be made by wire transfer, the Trustee shall have received, not less than 15 Business Days prior to such Maturity Date, appropriate wire transfer instructions therefor. Payment of the principal amount of each Note and interest thereon that is due at maturity will be made on such Maturity Date (see "— Fixed Rate Notes" and "— Floating Rate Notes") *provided* that the Note is surrendered to the Trustee prior to 3:00 P.M., New York City time, on such Maturity Date and the Trustee has confirmation of receipt of funds from the Company.

The Company and the Trustee and any agent of the Company or the Trustee may treat the person in whose name a Note is registered at the relevant time specified above or in the Note as the owner of such Note for the purpose of receiving payments of principal, premium, if any, and interest on such Note and for all other purposes whatsoever.

Any money deposited with the Trustee and remaining unclaimed for two years after the date upon which the last payment of principal, premium, if any, and interest on any Note to which such deposit relates shall have become due and payable, shall be repaid to the Company by the Trustee on demand, and the holder of any Note to which such deposit related entitled to receive payment shall thereafter look only to the Company for the payment thereof and all liability of the Trustee with respect to such money shall thereupon cease.

In the absence of a written request from the Company to return unclaimed funds to the Company, the Trustee shall from time to time deliver all unclaimed funds to or as directed by applicable escheat authorities, as determined by the Trustee in its sole discretion, in accordance with the customary practices and procedures of the Trustee. Any unclaimed funds held by the Trustee pursuant to this and the preceding paragraph shall be held uninvested and without any liability for interest.

For a description of procedures for payment of principal, premium, if any, and interest on Notes represented by a Global Note, see "— Form, Denomination, Transfer and Exchange; Book-Entry Registration."

Foreign Currency Notes

Unless otherwise specified in the applicable Pricing Supplement, the Notes will be denominated in U.S. dollars, the Company will make payments of principal, premium, if any and interest on the Notes in U.S. dollars and you must pay the purchase price of the Notes in U.S. dollars in immediately available funds. If any of the Notes ("Foreign Currency Notes") are to be denominated or payable in a currency other than U.S. dollars (a "Specified Currency"), the following provisions will apply, unless otherwise specified in the applicable Pricing Supplement.

The applicable Pricing Supplement will set forth information about the Specified Currency in which a particular Foreign Currency Note is denominated and/or payable, including historical exchange rates and a description

of the currency and any exchange controls. Any information the Company provides you concerning exchange rates is provided as a matter of information only and you should not regard it as indicative of the range of or trends in fluctuations in currency exchange rates that may occur in the future.

Unless otherwise specified in the applicable Pricing Supplement, Foreign Currency Notes will not be sold in, or to residents of, the country issuing the Specified Currency in which such Notes are denominated. The information described in this Offering Memorandum is directed to prospective purchasers who are United States residents, and the Company disclaims any responsibility to advise prospective purchasers who are residents of countries other than the United States with respect to any matters that may affect the purchase, holding or receipt of payments of principal of and interest on Foreign Currency Notes. Such persons should consult their own counsel with regard to such matters.

Unless otherwise specified in the applicable Pricing Supplement, you are required to pay for Foreign Currency Notes in the Specified Currency. At the present time, there are limited facilities in the United States for conversion of U.S. dollars into Specified Currencies and vice versa, and banks may elect not to offer non-U.S. dollar checking or savings account facilities in the United States. However, at your request on or prior to the third Business Day preceding the date of delivery of the Foreign Currency Notes, or by such other day as determined by the relevant Agent, that Agent may be prepared to arrange for the conversion of U.S. dollars into the applicable Specified Currency specified in the applicable Pricing Supplement to enable the purchasers to pay for the Foreign Currency Notes. Each such conversion will be made by the Agent or Agents on the terms and subject to the conditions, limitations and charges as the Agent may from time to time establish in accordance with their regular foreign exchange practices. If you purchase Foreign Currency Notes you will pay all costs of exchange.

Unless otherwise specified in the applicable Pricing Supplement, payments of principal of (and premium, if any) and interest, if any, on, a Foreign Currency Note will be converted by the exchange rate agent named in the applicable Pricing Supplement (the "Exchange Rate Agent") into U.S. dollars based on the highest firm bid quotation expressed in U.S. dollars received by the Exchange Rate Agent at approximately 11:00 A.M., New York City time, on the second Business Day preceding the applicable payment date (or if no such rate is quoted on that date, the last date on which the rate was quoted) from three, or if three are not available, then two, recognized foreign exchange dealers in New York City, one or more of which may be an Agent, and another of which may be the Exchange Rate Agent, that are selected by the Exchange Rate Agent and approved by the Company. If the above quotations cannot be obtained, payment will be made in the Specified Currency unless the Specified Currency is unavailable due to the imposition of exchange controls or due to other circumstances beyond the Company's control. In that case, the payments will be made as described in the next succeeding paragraph.

The holder of a Foreign Currency Note may, if provided in the applicable Pricing Supplement, elect to receive all payments on the Note in the Specified Currency by delivering a written notice to the Trustee not later than ten calendar days prior to the applicable payment date. The election will remain in effect until revoked by a written notice to the Trustee that is received not later than ten calendar days prior to the applicable payment date. If an Event of Default has occurred or the Company has exercised any discharge or defeasance options or given notice of redemption of a Note, no such change of election may be made. Any such payments will be made by wire transfer of immediately available funds to such account as is maintained in such Specified Currency at a bank or other financial institution acceptable to the Company and the Trustee and as shall have been designated at least ten calendar days prior to the applicable payment date by the holder entitled to receive such payment. Unless revoked, any such account designation with respect to a Note by the holder thereof will remain in effect with respect to any further payments with respect to the Note payable to such holder. If an Event of Default has occurred or the Company has exercised any discharge or defeasance options or given notice of redemption of this Note, no such revocation may be made. If a payment in a Specified Currency other than U.S. dollars with respect to a Note cannot be made by wire transfer because the required account designation has not been received by the Trustee on or before the requisite date or for any other reason, the Company will cause a notice to be given to the holder of the Note at its registered address requesting an account designation pursuant to which such wire transfer can be made and such payment will be made within five Business Days after the Trustee's receipt of such a designation meeting the requirements specified above, with the same force and effect as if made on the due date. The Company will pay any administrative costs imposed by banks in connection with making payments by wire transfer with respect to the Notes, but any tax, assessment or other governmental charge imposed upon any payment will be borne by the holder and may be deducted from the payment by the Company or the paying agent. If payment on any Note is required to be made in a Specified Currency other than U.S. Dollars and that Specified Currency is unavailable to the Company for making payments on the Note due to the imposition of

exchange controls or other circumstances beyond the Company's control, or is no longer used by the government of the country which issued that Specified Currency or for the settlement of transactions by public institutions of or within the international banking community, then the Company will give written notice to the Trustee as soon as it is aware of such circumstance and shall instead make payments with respect to the Note in U.S. dollars until the Specified Currency is again available or so used. The amount so payable on any date in the Specified Currency will be converted into U.S. dollars at a rate determined by the Exchange Rate Agent on the basis of the most recently available market exchange rate for the specified currency or as otherwise specified in the applicable Pricing Supplement. The market exchange rate means the noon (New York City time) dollar buying rate for cable transfers for such Specified Currency quoted in New York City as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York, as determined by the Exchange Rate Agent. Any payment in respect of a Note made under such circumstances in U.S. dollars will not constitute an Event of Default under the Indenture.

With respect to Book-Entry Notes, DTC or its nominee will be the holder of the Note and will be entitled to all payments on the Note. Although DTC can hold Notes denominated in foreign currencies, all payments to DTC will be made in U.S. dollars. Accordingly, a beneficial owner of a Book-Entry Note that elects to receive payments of principal, premium, if any, and/or interest in the Specified Currency must notify the participant through which it owns its interest on or prior to the applicable regular record date, in the case of a payment of interest, or prior to the Maturity Date, in the case of a payment of principal and/or premium, of that beneficial owner's election. The participant must notify DTC of that election on or prior to the third Business Day after the regular record date or on or prior to the fifteenth Business Day prior to the Maturity Date, as the case may be. DTC will notify the Trustee of the election on or prior to the fifth Business Day after the regular record date or on or prior to the tenth Business Day prior to the Maturity Date, as the case may be. If the participant receives complete instructions from the beneficial owner and those instructions are forwarded by the participant to DTC, and by DTC to the Trustee, on or prior to such dates, then the beneficial owner will receive payments in the Specified Currency. For more information about Global Notes, see "—Form, Denomination, Transfer and Exchange; Book-Entry Registration."

The Exchange Rate Agent will also determine prior to settlement the aggregate amount of the specified currency payable on a payment date for all Notes denominated in the specified currency. All currency exchange costs will be deducted from payments to the holders of the Notes.

Redemption

The Notes will not be subject to any sinking fund and, unless otherwise specified in the applicable Pricing Supplement, the Notes will not be subject to redemption at the option of the Company prior to their respective stated maturities. However, if specified in the applicable Pricing Supplement, a Note will be subject to redemption at the option of the Company on and after the initial redemption date (the "Initial Redemption Date") set forth in such Note, in whole, or in part, in increments of U.S. $1,000 (*provided* that any remaining principal amount of such Note shall be at least U.S. $2,000) (or the equivalent amount in one or more foreign currencies specified in the applicable Pricing Supplement), at a redemption price (the "Redemption Price") determined in accordance with the following paragraph, together with interest accrued on the principal amount to be redeemed to the date of redemption, upon notice mailed to the holder of such Note at its registered address not more than 60 nor less than 30 days prior to the date fixed for redemption.

Unless otherwise specified in the applicable Pricing Supplement, the Redemption Price for any Note subject to redemption at the option of the Company will initially be equal to a certain percentage (the "Initial Redemption Percentage") of the principal amount of such Note to be redeemed and, if the Initial Redemption Percentage is greater than 100%, will decline at each anniversary of the Initial Redemption Date with respect to such Note by a percentage (the "Annual Redemption Percentage Reduction") of the principal amount to be redeemed until the Redemption Price is 100% of such principal amount. The Initial Redemption Date, Initial Redemption Percentage and any Annual Redemption Percentage Reduction, if any, with respect to a Note will be as specified in the applicable Pricing Supplement.

Fixed Rate Notes

Each Fixed Rate Note will bear interest from and including its Original Issue Date or the most recent Interest Payment Date to, but excluding, the relevant Interest Payment Date or Maturity Date as to the principal amount due

at such Maturity Date, as the case may be, at the rate per annum specified in the applicable Pricing Supplement until the principal amount thereof is paid or made available for payment. However, as described below under "— Extension of Maturity Date," or if specified in the applicable Pricing Supplement, the rate of interest payable on Fixed Rate Notes may be adjusted from time to time. Unless otherwise specified in the applicable Pricing Supplement, interest on Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months, and interest will be paid semi-annually as specified in the applicable Pricing Supplement and at stated maturity or upon earlier redemption (if any).

Unless otherwise specified in the applicable Pricing Supplement, interest on Fixed Rate Notes will be payable on the Interest Payment Dates specified in the applicable Pricing Supplement (each, an "Interest Payment Date") and at the Maturity Date as to the principal amount due at such Maturity Date. Unless otherwise specified in the applicable Pricing Supplement, the "record date" for Fixed Rate Notes with respect to any Interest Payment Date will be the fifteenth calendar day immediately preceding such Interest Payment Date, whether or not such date shall be a Business Day.

If any Interest Payment Date or Maturity Date of a Fixed Rate Note falls on a day that is not a Business Day, the Interest Payment Date or Maturity Date, as applicable, shall be adjusted to the next succeeding Business Day, and the related payment of principal, premium, if any, and interest shall be made on such next succeeding

Business Day as if it were made on the date such payment was due. No interest shall accrue on the amount so payable for the period from and after such Interest Payment Date or Maturity Date, as the case may be.

Floating Rate Notes

Interest on each Floating Rate Note will be determined by reference to a "Base Rate," which shall be one or more of (a) the "CMT Rate" ("CMT Rate Notes"), (b) the "Commercial Paper Rate" ("Commercial Paper Rate Notes"), (c) "EURIBOR" ("EURIBOR Notes"), (d) "Euro LIBOR" ("Euro LIBOR Notes"), (e) the "Federal Funds (Effective) Rate" ("Federal Funds (Effective) Rate Notes"), (f) the "Federal Funds (Open) Rate" (**"**Federal Funds (Open) Rate Notes**"** and, together with Federal Funds (Effective) Rate Notes, **"**Federal Funds Rate Notes**"**), (g) "LIBOR" ("LIBOR Notes"), (h) the "Prime Rate" ("Prime Rate Notes"), (i) the "Treasury Rate" ("Treasury Rate Notes"), or (j) such other base rate or interest rate formula as may be specified in the applicable Pricing Supplement. In addition, a Floating Rate Note may bear interest at a rate determined by reference to the lowest or highest of two or more Base Rates. The Base Rate for any Floating Rate Note will in turn be determined, if applicable, by reference to the Index Maturity specified in the applicable Pricing Supplement. The interest rate on each Floating Rate Note will be calculated by reference to such Base Rate, plus or minus the Spread, if any, and/or multiplied by the Spread Multiplier, if any, in each case, as specified in the applicable Pricing Supplement. The "Index Maturity" will be the period to maturity of the instrument or obligation from which the Base Rate is calculated. The "Spread" will be the number of basis points to be added to or subtracted from the Base Rate for such Floating Rate Note, and the "Spread Multiplier" will be the percentage of the Base Rate applicable to such Floating Rate Note. As described below under "— Extension of Maturity Date," or if specified in the applicable Pricing Supplement, the Spread and/or Spread Multiplier on Floating Rate Notes may be adjusted from time to time.

A Floating Rate Note may also have either or both of the following: (i) a maximum numerical limit, or ceiling (the "Maximum Interest Rate"), on the per annum interest rate in effect with respect to such Note from time to time, and (ii) a minimum numerical limit, or floor (the "Minimum Interest Rate"), on the per annum interest rate in effect with respect to such Note from time to time, provided that the Minimum Interest Rate will not be less than zero, unless specified in the applicable Pricing Supplement. In addition to any Maximum Interest Rate that may apply to any Floating Rate Note pursuant to the foregoing, the interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application. Under present New York law, the maximum rate of interest, with certain exceptions, is 16% per annum on a simple interest basis for securities in which less than $250,000 has been invested and 25% per annum on a simple interest basis for securities in which $250,000 or more has been invested. This limit does not apply to Floating Rate Notes in which U.S. $2,500,000 or more has been invested.

The rate of interest on each Floating Rate Note will be reset daily, weekly, monthly, quarterly, semi-annually or annually, as specified in the applicable Pricing Supplement. The dates on which such rate of interest will be reset

(each, an "Interest Reset Date") will be, in the case of Floating Rate Notes that reset (a) daily, each day; and (b) otherwise (that is, weekly, monthly, quarterly, semi-annually or annually), as agreed to by the purchaser and the Company and specified in the applicable Pricing Supplement.

If an Interest Reset Date for any Floating Rate Note (other than a LIBOR Note or a EURIBOR Note) would fall on a day that is not a Business Day, the Interest Reset Date will be postponed to the next Business Day. If an Interest Reset Date for a LIBOR Note would fall on a day that is not a London Banking Day, the Interest Reset Date will be postponed to the next London Banking Day. If an Interest Reset Date for a EURIBOR Note would fall on a day that is not a TARGET Settlement Day, the Interest Reset Date will be postponed to the next TARGET Settlement Day. If postponement to the next London Banking Day, in the case of a LIBOR Note, or TARGET Settlement Day, in the case of a EURIBOR Note, would cause the Interest Reset Date to be in the next calendar month, the Interest Reset Date will instead be the immediately preceding London Banking Day, in the case of a LIBOR Note, or TARGET Settlement Day, in the case of a EURIBOR Note. If the Interest Reset Date for Treasury Rate Notes falls on a day on which an auction of United States Treasury bills is held, the Interest Reset Date will be the succeeding Business Day.

The interest rate that will take effect with respect to a Floating Rate Note on an Interest Reset Date will be the rate determined as of the applicable "Interest Determination Date." Unless otherwise specified in the applicable Pricing Supplement: the Interest Determination Date with respect to an Interest Reset Date for CMT Rate Notes and Commercial Paper Rate Notes will be the second Business Day prior to such Interest Reset Date; the Interest Determination Date with respect to an Interest Reset Date for Federal Funds Rate Notes and Prime Rate Notes will be the first Business Day prior to such Interest Reset Date; the Interest Determination Date with respect to an Interest Reset Date for LIBOR Notes will be the second London Banking Day preceding such Interest Reset Date; the Interest Determination Date with respect to an Interest Reset Date for EURIBOR and Euro LIBOR Notes will be the second TARGET Settlement Day before such Interest Reset Date; the Interest Determination Date with respect to an Interest Reset Date for Treasury Rate Notes will be the day of the week on which Treasury bills normally would be auctioned (Treasury bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that such auction may be held on the preceding Friday); *provided*, *however*, that if, as a result of a legal holiday, an auction is held on the Friday of the week preceding an Interest Reset Date, the related Interest Determination Date shall be such preceding Friday; and *provided further*, that if an auction shall fall on any Interest Reset Date, then the Interest Reset Date shall instead be the first Business Day following such auction.

The Base Rate in effect with respect to a Floating Rate Note on each day that is not an Interest Reset Date will be the interest rate determined as of the Interest Determination Date pertaining to the immediately preceding Interest Reset Date, and the Base Rate in effect on any day that is an Interest Reset Date will be the interest rate determined as of the Interest Determination Date pertaining to the applicable Interest Reset Date, subject in either case to adjustment by any Spread and/or Spread Multiplier and to any Maximum Interest Rate and/or Minimum Interest Rate referred to above; *provided*, *however*, that (i) the interest rate in effect with respect to a Floating Rate Note for the period from the Original Issue Date to the first Interest Reset Date (the "Initial Interest Rate") will be as agreed upon by the purchaser and the Company and, except where the Initial Interest Rate is set after the Original Issue Date, as specified in the applicable Pricing Supplement and (ii) with respect to Floating Rate Notes with daily or weekly Interest Reset Dates, the interest rate in effect for the two Business Days ending on a Maturity Date or any other Interest Payment Date shall (as to the principal amount due or, as applicable, outstanding on such date) be the interest rate in effect on the second Business Day preceding such Maturity Date or other Interest Payment Date.

Each Floating Rate Note will bear interest from the Original Issue Date to the first Interest Reset Date at the Initial Interest Rate and thereafter upon the basis of the applicable rate determined as described below until the principal thereof is paid or otherwise made available for payment. Interest will be payable in arrears on the dates (each, an "Interest Payment Date") specified in the applicable Pricing Supplement and, in each case, at any Maturity Date as to the principal amount due at such Maturity Date.

If an Interest Payment Date of a Floating Rate Note falls on a day that is not a Business Day, the Interest Payment Date shall be adjusted to the next succeeding Business Day, and the related payment of interest shall be made on such next succeeding Business Day as if it were made on the date such payment was due, except, with respect to a Floating Rate Note that is a LIBOR Note or EURIBOR Note, that if such Business Day is in the next succeeding calendar month, such Interest Payment Date shall be adjusted to the preceding Business Day, and such payment shall

be made on such preceding Business Day. Interest shall accrue on the amount so payable for the period from and after such Interest Payment Date. If a Maturity Date of a Floating Rate Note falls on a day that is not a Business Day, principal, premium, if any, and interest payable with respect to such Maturity Date will be paid on the next succeeding Business Day. Such payment will be made with the same force and effect as if made on such Maturity Date. No interest shall accrue on the amount so payable for the period from and after such Maturity Date.

Unless otherwise specified in the applicable Pricing Supplement, the "record date" for Floating Rate Notes with respect to any Interest Payment Date shall be the fifteenth calendar day, whether or not such date shall be a Business Day, prior to such Interest Payment Date.

Unless otherwise specified in the applicable Pricing Supplement, interest payable on any Interest Payment Date or Maturity Date with respect to a Floating Rate Note shall be the amount of interest accrued from and including the Original Issue Date or the most recent Interest Payment Date to, but excluding, such Interest Payment Date or such Maturity Date as to the principal amount due at such Maturity Date.

Unless otherwise specified in the applicable Pricing Supplement, interest will be paid monthly, quarterly, semi-annually or annually, as agreed to by the purchaser and the Company and as specified in the applicable Pricing Supplement, and at stated maturity or upon earlier redemption (if any).

Accrued interest on a Floating Rate Note will be calculated by multiplying the principal amount of such Floating Rate Note by the actual number of days in the interest period, by the interest rate inclusive of Spread, and dividing by 360, or in the case of Treasury Rate Notes, by the actual number of days in the year or, in the case of EURIBOR Notes, by 365.

The calculation agent (the "Calculation Agent") will be specified in the applicable Pricing Supplement. The Calculation Agent will calculate the interest rate on or before any applicable Calculation Date pursuant to the Calculation Agency Agreement. Upon the request of the registered holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect and the interest rate that will become effective as a result of a determination already made and confirmed as provided in the Calculation Agency Agreement with respect to such Floating Rate Note. Unless otherwise specified in the applicable Pricing Supplement, the "Calculation Date," where applicable, pertaining to any Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day and (ii) the Business Day preceding the applicable Interest Payment Date or Maturity Date, as the case may be. All determinations by the Calculation Agent, in the absence of manifest error, will be conclusive for all purposes and binding on the holders of Floating Rate Notes.

All percentages resulting from any calculation on Floating Rate Notes will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (1/100,000), with five one-millionths of a percentage point rounded upward (*e.g.*, 9.876545% (or 0.09876545) will be rounded upward to 9.87655% (or 0.0987655)), and all U.S. dollar amounts used in or resulting from such calculation on Floating Rate Notes will be rounded to the nearest cent (with one-half cent or greater being rounded upward). All amounts in currencies other than U.S. dollars used in or resulting from calculations relating to Floating Rate Notes denominated in such other currencies will be rounded to the nearest 1/100 of a full unit of the relevant currency (with 0.005 of the relevant subunit rounded upward) unless otherwise agreed to by the purchaser and the Company and specified in the applicable Pricing Supplement.

As previously described, the Initial Interest Rate in effect with respect to a Floating Rate Note from the Original Issue Date to the first Interest Reset Date will be specified in the applicable Pricing Supplement, unless the Interest Determination Date does not occur until after the Original Issue Date. The interest rate for each subsequent Interest Reset Date will be determined by the Calculation Agent by reference to the applicable Base Rate or Base Rates determined as set forth below, plus or minus any Spread and/or multiplied by any Spread Multiplier and subject to any Maximum Interest Rate and/or Minimum Interest Rate, as specified in the applicable Pricing Supplement.

The Base Rate definitions that may be applicable for purposes of calculating interest on the Floating Rate Notes denominated in U.S. dollars include the following:

CMT Rate: Unless otherwise specified in the applicable Pricing Supplement, "CMT Rate" will mean, with respect to any Interest Determination Date relating to a CMT Rate Note or any Interest Determination Date for a Floating Rate Note for which the interest rate is determined with reference to the CMT Rate (a "CMT Rate Interest Determination Date"):

(1) the rate on the applicable CMT Rate Interest Determination Date displayed on the Designated CMT Reuters Page, as defined below, for

- the rate on that CMT Rate Interest Determination Date displayed on Reuters Page FRBCMT, or
- the weekly or monthly average on Reuters Page FEDCMT, for the week that ends immediately preceding the week in which the related CMT Rate Interest Determination Date falls, or the month that ends immediately before the month in which the relevant CMT Rate Interest Determination Date falls, as applicable, or

(2) if the above rate is no longer displayed on the relevant page, or if not displayed by 3:00 P.M., New York City time, on the applicable Calculation Date, then the CMT Rate will be the applicable Treasury Constant Maturity rate for the Designated CMT Maturity Index and for either the relevant CMT Rate Interest Determination Date or the weekly or monthly average, as applicable, as published in H.15Daily Update,

(3) if the rate referred to in clause (2) is no longer published, or if not published by 3:00 P.M., New York City time, on the applicable Calculation Date, then the CMT Rate will be the Treasury Constant Maturity rate for the Designated CMT Maturity Index or other U.S. Treasury rate for the Designated CMT Maturity Index on the CMT Rate Interest Determination Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate formerly displayed on the Designated CMT Reuters Page and published in the relevant H.15Daily Update, or

(4) if the information described in clause (3) is not provided by 3:00 P.M., New York City time, on the applicable Calculation Date, then the Calculation Agent will determine the CMT Rate to be a yield to maturity, based on the arithmetic mean of the secondary market closing offer side prices as of approximately 3:30 P.M., New York City time, on the CMT Rate Interest Determination Date, reported, according to their written records, by three leading primary U.S. government securities dealers in The City of New York, selected by the Calculation Agent as described in the following sentence. The Calculation Agent will select five securities dealers, after consultation with the Company, and will eliminate the highest quotation or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for the most recently issued direct noncallable fixed rate obligations of the United States, which are commonly referred to as "Treasury notes," with an original maturity of approximately the Designated CMT Maturity Index, a remaining term to maturity of no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time. If two Treasury notes with an original maturity as described above have remaining terms to maturity equally close to the Designated CMT Maturity Index, the quotes for the Treasury note with the shorter remaining term to maturity will be used,

(5) if the Calculation Agent cannot obtain three Treasury notes quotations as described in clause (4), the Calculation Agent will determine the CMT Rate to be a yield to maturity based on the arithmetic mean of the secondary market offer side prices as of approximately 3:30 P.M., New York City time, on the CMT Rate Interest Determination Date of three securities dealers in The City of New York, selected using the same method described in clause (4), for Treasury notes with an original maturity equal to the number of years closest to, but not less than the Designated CMT Maturity Index and a remaining term to maturity closest to the Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time,

(6) if three or four (and not five) of the reference dealers are quoting offered rates as described above, then the CMT rate will be based on the arithmetic mean of the offer prices obtained and neither the highest nor the lowest of those quotes will be eliminated, or

(7) if less than three dealers selected by the Calculation Agent are quoting offered rates as mentioned in clause (6), the rate with respect to such CMT Rate Interest Determination Date will be the rate in effect on the applicable CMT Rate Interest Determination Date.

"**Designated CMT Maturity Index**" means the original period to maturity of the U.S. Treasury securities, which is either 1, 2, 3, 5, 7, 10, 20 or 30 years, specified in the applicable Pricing Supplement for which the CMT rate will be calculated. If no maturity is specified in the applicable Pricing Supplement, the Designated CMT Maturity Index will be two years.

"**Designated CMT Reuters Page**" means the display on the Reuters 3,000 Xtra Service ("Reuters"), or any successor service, on the page designated in the applicable Pricing Supplement or any other page as may replace that page on that service for the purpose of displaying Treasury Constant Maturities as reported in H.15 Daily Update. If no page is specified in the applicable Pricing Supplement, the Designated CMT Reuters Page will be FEDCMT for the most recent week.

"**H.15 Daily Update**" means the daily statistical release designated as such published by the Federal Reserve System Board of Governors, or its successor, available through the web site of the Board of Governors of the Federal Reserve System at http://www.federalreserve.gov/releases/h15, or any successor site or publication.

Commercial Paper Rate: Unless otherwise specified in the applicable Pricing Supplement, "Commercial Paper Rate" will mean, with respect to any Interest Determination Date relating to a Commercial Paper Rate Note or any Interest Determination Date for a Floating Rate Note for which the interest rate is determined with reference to the Commercial Paper Rate (a "Commercial Paper Rate Interest Determination Date"),

(1) the Money Market Yield on the applicable Interest Determination Date of the rate for commercial paper having the Index Maturity specified in the applicable Pricing Supplement published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Commercial Paper — Nonfinancial" or "Commercial Paper — Financial," as specified in the applicable Pricing Supplement,

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the applicable Calculation Date, the rate on the applicable Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on the applicable Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York, which may include the agent and its affiliates, selected by the Calculation Agent (after consultation with the Company) for commercial paper having the Index Maturity specified in the applicable Pricing Supplement placed for financial issuers whose bond rating is "AAA," or the equivalent, from a nationally recognized statistical rating organization, or

(3) if less than three dealers selected by the Calculation Agent are quoting offered rates as mentioned in clause (2), the rate with respect to such Commercial Paper Rate Interest Determination Date will be the rate in effect on the applicable Interest Determination Date.

"**Money Market Yield**" means a yield calculated in accordance with the following formula and expressed as a percentage:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days for which interest is being calculated (from and including the last preceding Interest Payment Date for which interest on the relevant Floating Rate Note has been paid or provided for, or from such Note's Original Issue Date, if applicable, and to but excluding the next following Interest Payment Date for such Note).

EURIBOR: Unless otherwise specified in the applicable Pricing Supplement, EURIBOR will be determined by the Calculation Agent in accordance with the following provisions:

(1) With respect to an Interest Determination Date relating to a EURIBOR Note or any Interest Determination Date for a Floating Rate Note for which the interest rate is determined with reference to EURIBOR (a "EURIBOR Interest Determination Date"), EURIBOR will be as specified in the applicable Pricing Supplement and will be determined as the offered rate for deposits in euro having the Index Maturity specified in such Pricing Supplement, commencing on the second TARGET Settlement Day immediately following such EURIBOR Interest Determination Date, which appears on the Reuters Page EURIBOR01 as of 11:00 A.M., Brussels time, on that EURIBOR Interest Determination Date. If no such rate appears on the Reuters Page EURIBOR01, as applicable, EURIBOR in respect of that EURIBOR Interest Determination Date will be determined as if the parties had specified the rate described in (2) below. Unless otherwise specified in the applicable Pricing Supplement, "Reuters Page EURIBOR01" will mean the display designated as page "EURIBOR01" on Reuters (or such other page as may replace the EURIBOR01 page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying Euro-zone interbank offered rates for euro deposits). "Euro-zone" means the region comprised of Member States of the European economic and monetary union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

(2) If no rate appears on Reuters Page EURIBOR01 as specified in (1) above on a EURIBOR Interest Determination Date, EURIBOR will be determined at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date on the basis of the rates at which deposits in euro having the Index Maturity specified in the applicable Pricing Supplement are offered to prime banks in the Euro-zone interbank market by four major banks in the Euro-zone interbank market selected by the Calculation Agent (after consultation with the Company) commencing on the second TARGET Settlement Day immediately following such EURIBOR Interest Determination Date and in a principal amount equal to an amount that is representative for a single transaction in such market at such time. The Calculation Agent will request the principal Euro-zone office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, EURIBOR for such EURIBOR Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, EURIBOR for such EURIBOR Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date by three leading banks in the Euro-zone selected by the Calculation Agent (after consultation with the Company) for loans in euro to European banks, having the specified Index Maturity, commencing on the second TARGET Settlement Day immediately following such EURIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in such market at such time. Notwithstanding the foregoing, if the banks selected as aforesaid by the Calculation Agent are not quoting as described above, EURIBOR in effect for the applicable period will be EURIBOR in effect on such EURIBOR Interest Determination Date.

Euro LIBOR: Unless otherwise specified in the applicable Pricing Supplement, Euro LIBOR will be determined by the Calculation Agent in accordance with the following provisions:

(1) With respect to an Interest Determination Date relating to a Euro LIBOR Note or any Interest Determination Date for a Floating Rate Note for which the interest rate is determined with reference to Euro LIBOR (a "Euro LIBOR Interest Determination Date"), Euro LIBOR will be as specified in the applicable Pricing Supplement and will be determined as the offered rate for deposits in euro having the Index Maturity specified in such Pricing Supplement, commencing on the second TARGET Settlement Day immediately following such Euro LIBOR Interest Determination Date, which appears on the Reuters Page LIBOR01 as of 11:00 A.M., London time, on that Euro LIBOR Interest Determination Date. If no such rate appears on the Reuters Page LIBOR01, as applicable, Euro LIBOR in respect of that Euro LIBOR Interest Determination Date will be determined as if the parties had specified the rate described in (2) below.

(2) If no rate appears on Reuters Page LIBOR01 as specified in (1) above on a Euro LIBOR Interest Determination Date, Euro LIBOR will be determined at approximately 11:00 A.M., London time, on such Euro LIBOR Interest Determination Date on the basis of the rates at which deposits in euro having the Index

Maturity specified in the applicable Pricing Supplement are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent (after consultation with the Company) commencing on the second TARGET Settlement Day immediately following such Euro LIBOR Interest Determination Date and in a principal amount equal to an amount that is representative for a single transaction in such market at such time. The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, Euro LIBOR for such Euro LIBOR Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, Euro LIBOR for such Euro LIBOR Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., London time, on such Euro LIBOR Interest Determination Date by three leading European banks in the London interbank market selected by the Calculation Agent (after consultation with the Company) for loans in euro to European banks, having the specified Index Maturity, commencing on the second TARGET Settlement Day immediately following such Euro LIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in such market at such time. Notwithstanding the foregoing, if the banks selected as aforesaid by the Calculation Agent are not quoting as described above, Euro LIBOR in effect for the applicable period will be Euro LIBOR in effect on such Euro LIBOR Interest Determination Date.

(3) Notwithstanding paragraph (2) above, if the Company, in its sole discretion, determines on or prior to the relevant Euro LIBOR Interest Determination Date that Euro LIBOR has been discontinued or the reference to Euro LIBOR becomes illegal, or most other debt obligations similar to the Euro LIBOR Notes have converted away from Euro LIBOR to a new reference rate, the Calculation Agent will use, as directed by the Company, as a substitute for Euro LIBOR and for each future Euro LIBOR Interest Determination Date, the alternative reference rate (the "Alternative Euro LIBOR Rate") selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with accepted market practice. As part of such substitution, the Calculation Agent will, as directed by the Company, make such adjustments ("Euro Libor Adjustments") to the Alternative Euro LIBOR Rate and the spread thereon to account for the basis between Euro LIBOR and the Alternative Euro LIBOR Rate, as well as the business day convention, interest determination dates and related provisions and definitions, in each case that are consistent with accepted market practice for the use of such Alternative Euro LIBOR Rate for debt obligations such as the Notes. If the Company determines that there is no clear market consensus as to whether any rate has replaced Euro LIBOR in customary market usage, the Company may appoint, in its sole discretion and at its own expense, an independent financial advisor experienced in the international capital markets (the "IFA") to determine an appropriate Alternative Euro LIBOR Rate, and any Euro LIBOR Adjustments and the decision of the IFA will be binding on the Company, the Calculation Agent, the Trustee and the holders of the Euro LIBOR Notes. If, however, we determine that Euro LIBOR has been discontinued, but for any reason an Alternative Euro LIBOR Rate has not been determined or there is no such market practice for the use of such Alternative Euro LIBOR Rate (and the IFA has not determined an appropriate Alternative Euro LIBOR Rate and Euro LIBOR Adjustments), Euro LIBOR in effect for the applicable period will be Euro LIBOR in effect immediately prior to such Euro LIBOR Interest Determination Date.

Federal Funds (Effective) Rate: Unless otherwise specified in the applicable Pricing Supplement, the Federal Funds Rate for each interest reset period will be the rate on the applicable Interest Determination Date for federal funds published in H.15 Daily Update under the heading "Federal Funds (effective)," as displayed on Reuters on page FEDFUNDS1 under the heading "EFFECT," or any successor service or page ("Reuters Page FEDFUNDS1").

The following procedures will be followed if the Federal Funds Rate cannot be determined as described above:

(1) If by 3:00 P.M., New York City time, on the applicable Calculation Date the above rate is not yet published in H.15 Daily Update or another recognized electronic source, then the Federal Funds Rate will be the arithmetic mean of the rates, as of 11:00 A.M., New York City time, on that Interest Determination Date, for the last transaction in overnight federal funds arranged by three leading brokers of federal funds transactions in New York City selected by the Calculation Agent.

(2) If fewer than three brokers selected by the Calculation Agent are quoting rates as mentioned in clause (1), the Federal Funds Rate with respect to such Interest Determination Date will be the rate in effect on the applicable Interest Determination Date.

Federal Funds (Open) Rate: Unless otherwise specified in the applicable Pricing Supplement, the Federal Funds (Open) Rate for each interest reset period will be the rate on the applicable Interest Determination Date for federal funds published in H.15 Daily Update under the heading "Federal Funds" and opposite the caption "Open," as displayed on Reuters on page FEDFUNDS1.

The following procedures will be followed if the Federal Funds (Open) Rate cannot be determined as described above:

(1) If the above rate does not appear on Reuters Page FEDFUNDS1 or is not yet published by 3:00 P.M., New York City time on the Calculation Date for the applicable Interest Determination Date, the Federal Funds (Open) Rate for the interest reset period will be the rate on that Interest Determination Date as reported by Prebon Yamane (or a successor) on Bloomberg that appears on FEDSPREB Index.

(2) If by 3:00 P.M. New York City time on the Calculation Date the above rate is not published on Reuters Page FEDFUNDS1 or FEDSPREB Index on Bloomberg then the Federal Funds (Open) Rate will be the arithmetic mean of the rates, before 9:00 A.M., New York City time, on that Interest Determination Date, for the last transaction in overnight federal funds arranged by three brokers of federal funds transactions in New York City selected by the Calculation Agent after consultation with the Company.

(3) If fewer than three brokers selected by the calculation agent are quoting as described above, the Federal Funds (Open) Rate for the new interest reset period will be the same as that for the immediately preceding interest reset period. If there was no such interest reset period, the Federal Funds (Open) Rate will be the initial interest rate.

LIBOR: Unless otherwise specified in the applicable Pricing Supplement, LIBOR will be determined by the Calculation Agent in accordance with the following provisions:

(1) With respect to an Interest Determination Date relating to a LIBOR Note or any Interest Determination Date for a Floating Rate Note for which the interest rate is determined with reference to LIBOR (a "LIBOR Interest Determination Date"), LIBOR will be as specified in the applicable Pricing Supplement and will be determined as the arithmetic mean of the offered rates for deposits in U.S. dollars having the Index Maturity specified in such Pricing Supplement, commencing on the second London Banking Day immediately following such LIBOR Interest Determination Date, which appear on LIBOR01 as of approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date, if at least two such offered rates appear on LIBOR01, provided that if LIBOR01 by its terms provides for a single rate, that single rate will be used. Unless otherwise specified in the applicable Pricing Supplement, "LIBOR01" will mean the display designated as page "LIBOR01" on Reuters, or any successor service (or such other page as may replace the LIBOR01 page on that service for the purpose of displaying London interbank offered rates of major banks for U.S. dollars). If (i) fewer than two offered rates appear or (ii) no rate appears on LIBOR01 and LIBOR01 by its terms provides only for a single rate, LIBOR01 in respect of that LIBOR Interest Determination Date will be determined as if the parties had specified the rate described in (2) below.

(2) LIBOR01 will be determined at approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date on the basis of the rates at which deposits in U.S. dollars having the Index Maturity specified in the applicable Pricing Supplement are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent (after consultation with the Company) commencing on the second London Banking Day immediately following such LIBOR Interest Determination Date and in a principal amount equal to an amount of not less than U.S.$1,000,000 that is representative for a single transaction in such market at such time. The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR for such LIBOR Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR for such LIBOR

Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., New York City time, on such LIBOR Interest Determination Date by three major banks in New York, New York selected by the Calculation Agent (after consultation with the Company) for loans in U.S. dollars to leading European banks, having the specified Index Maturity, commencing on the second London Banking Day immediately following such LIBOR Interest Determination Date and in a principal amount equal to an amount of not less than U.S.$1,000,000 that is representative for a single transaction in such market at such time. Notwithstanding the foregoing, if fewer than three banks selected as aforesaid by the Calculation Agent are quoting as described above, LIBOR in effect for the applicable period will be LIBOR in effect on such LIBOR Interest Determination Date.

(3) Notwithstanding paragraph (2) above, if the Company, in its sole discretion, determines on or prior to the relevant LIBOR Interest Determination Date that LIBOR has been discontinued or the reference to LIBOR becomes illegal, or most other debt obligations similar to the LIBOR Notes have converted away from LIBOR to a new reference rate, the Calculation Agent will use, as directed by the Company, as a substitute for LIBOR and for each future LIBOR Interest Determination Date, the alternative reference rate (the "Alternative LIBOR Rate") selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with accepted market practice. As part of such substitution, the Calculation Agent will, as directed by the Company, make such adjustments ("LIBOR Adjustments") to the Alternative LIBOR Rate and the spread thereon to account for the basis between LIBOR and the Alternative LIBOR Rate, as well as the business day convention, interest determination dates and related provisions and definitions, in each case that are consistent with accepted market practice for the use of such Alternative LIBOR Rate for debt obligations such as the Notes. If the Company determines that there is no clear market consensus as to whether any rate has replaced LIBOR in customary market usage, the Company may appoint, in its sole discretion and at its own expense, an IFA to determine an appropriate Alternative LIBOR Rate, and any LIBOR Adjustments and the decision of the IFA will be binding on the Company, the Calculation Agent, the Trustee and the holders of the LIBOR Notes. If, however, we determine that LIBOR has been discontinued, but for any reason an Alternative LIBOR Rate has not been determined or there is no such market practice for the use of such Alternative LIBOR Rate (and the IFA has not determined an appropriate Alternative LIBOR Rate and LIBOR adjustments), LIBOR in effect for the applicable period will be LIBOR in effect on such LIBOR Interest Determination Date.

Prime Rate: Unless otherwise specified in the applicable Pricing Supplement, "Prime Rate" will mean, with respect to any Interest Determination Date relating to a Prime Rate Note or any Interest Determination Date for a Floating Rate Note for which the interest rate is determined with reference to the Prime Rate,

(1) the rate on the applicable Interest Determination Date as published in H.15 Daily Update under the heading "Bank Prime Loan,"

(2) if the rate referred to in clause (1) or the rate from another recognized electronic source is not so published by 3:00 P.M., New York City time, on the applicable Calculation Date, the rate calculated by the Calculation Agent as the arithmetic mean of the rates of interest offered by at least four banks that appear on the Reuters Screen US PRIME 1 Page as the particular bank's prime rate as of 11:00 A.M., New York City time, on the applicable Interest Determination Date,

(3) if fewer than four rates described in clause (2) are shown by 3:00 P.M., New York City time, on the related Calculation Date on the Reuters Screen US PRIME 1 Page, the rate on the applicable Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on the applicable Interest Determination Date by three major banks, which may include affiliates of the Calculation Agent, in The City of New York selected by the Calculation Agent (after consultation with the Company), or

(4) if the banks selected by the Calculation Agent (after consultation with the Company) are not quoting as mentioned in clause (3), the Prime Rate with respect to such Interest Determination Date will be the rate in effect on such Interest Determination Date.

"**Reuters Screen US PRIME 1 Page**" means the display on the Reuters Monitor Money Rates Service or any successor service on the "US PRIME 1 Page" or any other page as may replace the US PRIME 1 Page on such service for the purpose of displaying prime rates or base lending rates of major United States banks.

Treasury Rate: Unless otherwise specified in the applicable Pricing Supplement, "Treasury Rate" will mean, with respect to any Interest Determination Date relating to a Treasury Rate Note or any Interest Determination Date for a Floating Rate Note for which the interest rate is determined with reference to the Treasury Rate (a "Treasury Rate Interest Determination Date"),

(1) the rate for the auction held on the related Treasury Rate Interest Determination Date on which United States Treasury bills of the specified Index Maturity are auctioned which appears on either the Reuters Page USAUCTION10 or Page USAUCTION11 under the heading "INVEST RATE,"

(2) if such auction rate for such Treasury Rate Interest Determination Date does not appear by 3:00 P.M., New York City time, on the applicable Calculation Date on Reuters Page USAUCTION10 or Page USAUCTION11, the rate for that Treasury Rate Interest Determination Date will be the Bond Equivalent Yield of the rate set forth in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, for that day in respect of the Index Maturity under the caption "U.S. Government securities/Treasury bills,"

(3) if such auction rate for such Treasury Rate Interest Determination Date does not appear by 3:00 P.M., New York City time, on the applicable Calculation Date on Reuters Page USAUCTION 10 or Page USAUCTION11 and such rate is not set forth in the H.15 Daily Update in respect of the Index Maturity under the caption "U.S. Government securities/Treasury bills" or another recognized electronic source by 3:00 P.M., New York City time, on the applicable Calculation Date, the Treasury Rate for that Treasury Rate Interest Determination Date will be the Bond Equivalent Yield of the auction rate for those Treasury bills as announced by the United States Department of the Treasury, or

(4) if the United States Treasury bills of the Index Maturity are not auctioned during any period of seven consecutive calendar days ending on and including any Friday and a Treasury Rate Interest Determination Date would have occurred if such Treasury bills had been auctioned during that seven-day period, a Treasury Rate Interest Determination Date will be deemed to have occurred on the day during that seven-day period on which such Treasury bills would have been auctioned in accordance with the usual practices of the United States Department of the Treasury, and the Treasury Rate for that Treasury Rate Interest Determination Date will be calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates quoted to the Calculation Agent for the issue of United States Treasury bills with a remaining maturity closest to the Index Maturity, as of approximately 3:30 P.M., New York City time, on the relevant Calculation Date, by three primary United States government securities dealers in The City of New York, which may include affiliates of the Calculation Agent, selected by the

Calculation Agent (after consultation with the Company), or so many of them as provides such a quotation to the Calculation Agent, and if none of the dealers provides such a quotation, the Treasury Rate for the relevant Treasury Rate Interest Determination Date will be the Treasury Rate determined as provided above for the Treasury Rate Interest Determination Date during the preceding seven-day period for which the Treasury Rate may be determined as provided above.

The Calculation Agent will request each of such dealers to provide a quotation of its secondary market bid rate specified above. "Bond Equivalent Yield" means, in respect of a Treasury bill with a maturity of six months or less for which the relevant rate is quoted on a bank discount basis, a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the per annum rate for the Treasury bill quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366, as applicable, and "M" refers to: if the Index Maturity approximately corresponds to the length of the period for which the Bond Equivalent Yield is being calculated, the actual number of days in that period, and, otherwise, the actual number of days in the period from and including the applicable Treasury Rate Interest Determination Date to, but excluding, the next following date scheduled to be a Treasury Rate Interest Determination Date for the Note.

Foreign Currency Notes

If any Note is denominated and/or payable in a currency other than U.S. dollars, the applicable Pricing Supplement will specify the foreign currency or currencies in which the principal, premium, if any, and interest with respect to such Note are to be paid, along with any other terms relating to the non-U.S. Dollar denominated Note. See "Material United States Federal Income Tax Considerations — U.S. Holders."

Indexed Notes

General

The Notes may be issued with the principal amount payable at maturity and/or interest, if any, to be determined with reference to the price or prices, or changes in the price or prices, of specified commodities or stocks or other securities, the exchange rate of one or more specified currencies relative to an indexed currency, or such other price, exchange rate or formula as is set forth in the applicable Pricing Supplement and the related Note (each, an "Indexed Note").

Investment Considerations

An investment in Indexed Notes, as to principal or interest or both, indexed to one or more values of currencies (including exchange rates between currencies), commodities, securities or interest rate indices entails significant economic risks that are not associated with similar investments in a conventional fixed-rate debt security and may be subject to extraordinary tax treatment. See "Material United States Federal Income Tax Considerations — U.S. Holders — Indexed Notes and Notes with Contingent Payments." If the interest rate of such a Note is so indexed, it may result in an interest rate that is less than that payable on a conventional fixed-rate debt security issued at the same time, including the possibility that no interest will be paid, and, if the principal amount of such a Note is so indexed, the principal amount payable at maturity may be less than the original purchase price of such Note if allowed pursuant to the terms of such Note, including the possibility that no principal will be paid. The secondary market for such Notes will be affected by a number of factors, independent of the creditworthiness of the Company and the value of the applicable currency, commodity, security or interest rate index, including the volatility of, or of the price or value of, the applicable currency, commodity, security or interest rate index, the time remaining to the maturity of such Notes, the amount outstanding of such Notes and market interest rates. The value of the applicable currency, commodity, security or interest rate index will depend on a number of interrelated factors, including economic, financial and political events, over which the Company has no control. Additionally, if the formula used to determine the principal amount or interest payable with respect to such Notes contains a multiple or leverage factor, the effect of any change in the applicable currency, commodity, security or interest rate index will be increased. Historical experience relating to the relevant currencies, commodities, securities or interest rate indices and their values should not be taken as an indication of future performance or values of such currencies, commodities, securities or interest rate indices during the term of any Note. The particular economic and tax risks associated with the issuance of Indexed Notes will be specified in the applicable Pricing Supplement.

Amortizing Notes

Fixed Rate Notes or Floating Rate Notes may provide for level or graduated amortization of principal over the term of the Note, rather than payment of principal at the stated maturity of the Note, as specified in the applicable Pricing Supplement.

Reset Notes

If specified in the applicable Pricing Supplement, the Company will have the option with respect to the related Note to reset the interest rate, in the case of a Fixed Rate Note, or to reset the Spread and/or Spread Multiplier, in the case of a Floating Rate Note, and, if so, (1) the date or dates on which such interest rate or such Spread and/or Spread Multiplier, as the case may be, may be reset, and (2) the formula, if any, for such resetting.

The Company may exercise such option with respect to a Note by notifying the Trustee of such exercise at least 45 but not more than 60 calendar days prior to an optional interest reset date for such Note. If the Company so notifies the Trustee of such exercise, the Trustee will send not later than 40 calendar days prior to such optional interest reset date, by telegram, telex, facsimile transmission, hand delivery or letter (first class, postage prepaid) to the holder of such Note a notice indicating (1) that the Company has elected to reset the interest rate, in the case of a Fixed Rate Note, or the Spread and/or Spread Multiplier, in the case of a Floating Rate Note, (2) such new interest rate or such new Spread and/or Spread Multiplier, as the case may be, and (3) the provisions, if any, for redemption of such Note during the period from such optional interest reset date to the next optional interest reset date or, if there is no such next optional interest reset date, to the stated maturity of such Note, including the date or dates on which or the period or periods during which and the price or prices at which such redemption may occur during such subsequent interest period.

Notwithstanding the foregoing, not later than 20 calendar days prior to an optional interest reset date for a Note, the Company may, at its option, revoke the interest rate, in the case of a Fixed Rate Note, or the Spread and/or Spread Multiplier, in the case of a Floating Rate Note, provided for in the reset notice and establish a higher interest rate, in the case of a Fixed Rate Note, or a Spread and/or spread Multiplier resulting in a higher interest rate, in the case of a Floating Rate Note, for the subsequent interest period commencing on such optional interest reset date by causing the Trustee to send by telegram, telex, facsimile transmission, hand delivery or letter (first class, postage prepaid) notice of such higher interest rate or Spread and/or Spread Multiplier resulting in a higher interest rate, as the case may be, to the holder of such Note. Such notice will be irrevocable. All Notes with respect to which the interest rate or Spread and/or Spread Multiplier is reset on an optional interest reset date to a higher interest rate or Spread and/or Spread Multiplier resulting in a higher interest rate will bear such higher interest rate, in the case of a Fixed Rate Note, or Spread and/or Spread Multiplier resulting in a higher interest rate, in the case of a Floating Rate Note, whether or not tendered for repayment as provided in the next paragraph.

If the Company elects prior to an optional interest reset date to reset the interest rate or the Spread and/or Spread Multiplier of a Note, the holder of such Note will have the option to elect repayment of such Note, in whole but not in part, by the Company on such optional interest reset date at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, such optional interest reset date. In order for a Note to be so repaid on an optional interest reset date, the holder thereof must follow the procedures set forth in the applicable Pricing Supplement for optional repayment, except that the period for delivery of such Note or notification to the Trustee will be at least 25 but not more than 35 calendar days prior to such optional interest reset date. A holder who has tendered a Note for repayment following receipt of a reset notice may revoke such tender for repayment by written notice to the Trustee received prior to 5:00 P.M., New York City time, on the tenth calendar day prior to such optional interest reset date.

Extension of Maturity Date

If specified in the applicable Pricing Supplement, the Company will have the option with respect to the related Note to extend the stated Maturity Date for one or more periods of from one to five whole years up to, but not beyond, the final Maturity Date specified in such Pricing Supplement.

The Company may exercise its option to extend the stated Maturity Date with respect to a Note by notifying the Trustee of such exercise at least 45 but not more than 60 calendar days prior to the current stated Maturity Date of such Note (including, if such stated Maturity Date has previously been extended, the stated maturity as previously extended) in effect prior to the exercise of such option. If the Company so notifies the Trustee of such exercise, the Trustee will send not later than 40 calendar days prior to the current stated Maturity Date, by telegram, telex, facsimile transmission, hand delivery or letter (first class, postage prepaid) to the holder of such Note a notice relating to such extension, indicating (1) that the Company has elected to extend the stated maturity of such Note, (2) the new stated

Maturity Date, (3) in the case of a Fixed Rate Note, the interest rate applicable to the extension period or, in the case of a Floating Rate Note, the Spread and/or Spread Multiplier applicable to the extension period, and (4) the provisions, if any, for redemption of such Note during the extension period, including the date or dates on which or the period or periods during which and the price or prices at which such redemption may occur during the extension period. Upon the sending by the Trustee of an extension notice to the holder of a Note, the stated maturity of such Note will be extended automatically, and, except as modified by the extension notice and as described in the next two paragraphs, such Note will have the same terms as prior to the sending of such extension notice.

Notwithstanding the foregoing, not later than 20 calendar days prior to the current stated Maturity Date for a Note, the Company may, at its option, revoke the interest rate, in the case of a Fixed Rate Note, or the Spread and/or Spread Multiplier, in the case of a Floating Rate Note, provided for in the applicable extension notice and establish a higher interest rate, in the case of a Fixed Rate Note, or a Spread and/or Spread Multiplier resulting in a higher interest rate, in the case of a Floating Rate Note, for the extension period by causing the Trustee to send by telegram, telex, facsimile transmission, hand delivery or letter (first class, postage prepaid) notice of such higher interest rate or Spread and/or Spread Multiplier resulting in a higher interest rate, as the case may be, to the holder of such Note. Such notice will be irrevocable. All Notes with respect to which the stated maturity is extended will bear such higher interest rate, in the case of a Fixed Rate Note, or Spread and/or Spread Multiplier resulting in a higher interest rate, in the case of a Floating Rate Note, for the extension period, whether or not tendered for repayment as provided in the next paragraph.

If the Company extends the stated maturity of a Note (including, if such stated maturity has previously been extended, the stated maturity as previously extended), the holder of such Note will have the option to elect repayment of such Note, in whole, but not in part, by the Company on the current stated Maturity Date (including the last day of the then current extension period, if any) at a price equal to the principal amount thereof, plus accrued and unpaid interest to, but excluding, such date. In order for a Note to be so repaid on the current stated Maturity Date, the holder thereof must follow the procedures set forth in the applicable Pricing Supplement, except that the period for delivery of such Note or notification to the Trustee will be at least 25 but not more than 35 calendar days prior to the current stated Maturity Date. A holder who has tendered a Note for repayment following receipt of an extension notice may revoke such tender for repayment by written notice to the Trustee received prior to 5:00 P.M., New York City time, on the tenth calendar day prior to the current stated Maturity Date.

Renewable Notes

If specified in the applicable Pricing Supplement, the holder of a Note (other than an amortizing Note) will have the option to renew the term of all or any portion of such Note in accordance with the procedures described in such Pricing Supplement.

Combination of Provisions

If specified in the applicable Pricing Supplement, any Note may be subject to all of the provisions, or any combination of the provisions, described above under "— Reset Notes," "— Extension of Maturity Date" and "— Renewable Notes."

Original Issue Discount; Zero Coupon Notes

Notes may be issued at a price less than their stated redemption price at maturity, resulting in the Notes being treated as issued with original issue discount for U.S. federal income tax purposes. Such discounted Notes may currently pay no interest or interest at a rate that at the time of issuance is below market rate and such Notes may provide that upon redemption or repayment prior to their stated maturity or upon acceleration of the maturity of such Notes, an amount less than the stated principal amount thereof shall become due and payable. If Notes are issued with original issue discount for U.S. federal income tax purposes, holders of such Notes will be required to include the amount of original issue discount in income in accordance with applicable provisions of the Code (as defined herein), and the Treasury regulations promulgated thereunder. See "Material United States Federal Income Tax Considerations — U.S. Holders — Notes with Original Issue Discount." Special federal income tax and other considerations applicable to any such discounted Notes may be described in the applicable Pricing Supplement.

Certain Covenants

Limitation on Liens

The Indenture provides that neither we nor any Subsidiary of ours shall incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness For Borrowed Money that is secured by a Lien on or with respect to any revenues (including any uncalled capital), property or assets now owned or hereafter acquired by us or such Subsidiary unless we make or cause to be made effective provisions whereby the Notes and all other debt securities issued under the Indenture and entitled to the benefit of this covenant will be secured by such Lien equally and ratably with (or prior to) all other indebtedness thereby secured so long as any such indebtedness shall be secured. The foregoing restriction does not apply to the following:

- any lien or charge on any Securitizable Assets which may arise as a result of a transaction involving a transfer of such Securitizable Assets to an entity that issues ABS obligations backed by such Securitizable Assets;

- any lien securing our performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money, obtaining advances or credit, or the securing of debt, if made and continuing in the ordinary course of business;

- any lien or charge on any of our property (whether tangible or intangible, real or personal), that exists at the time the property is acquired or constructed (which includes an acquisition through merger or consolidation) other than liens created in contemplation of such acquisition or construction, or that is given to secure either the payment of all or any part of the purchase, construction or improvement price of the property, or any indebtedness incurred prior to, at the time of or within 180 days after the property is acquired or its construction or improvement is completed for the purpose of financing all or any part of its purchase, construction or improvement price;

- any lien to secure payment obligations with respect to the following transactions if entered into for hedging and not speculative purposes: rate swap transactions, swap options, basis swaps, forward rate transactions, commodity swaps, commodity options, equity or equity index swaps, equity or equity index options, bond options, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, credit protection transactions, credit swaps, credit default swaps, credit default options, total return swaps, credit spread transactions, repurchase transactions, reverse repurchase transactions, buy/sell-back transactions, securities lending transactions, weather index transactions, or forward purchases or sales of a security, commodity or other financial instrument or interest (including any option with respect to any of these transactions), or similar transactions;

- liens in favor of us or a consolidated subsidiary that is, directly or indirectly, wholly owned by us;

- liens existing on the date of the Indenture;

- the pledge of receivables payable in currencies other than United States dollars to secure borrowings in countries other than the United States, or the pledge, lien or deposit of 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 in connection with the exporting of goods between (or the marketing of goods in) countries other than the United States;

- bankers' lien or rights of offset;

- liens for taxes not yet subject to penalties for nonpayment or contest;

- carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like liens imposed by law, arising in the ordinary course of business and securing obligations that, except for liens resulting from the conduct of obligors or dealers, are not overdue by more than 60 days or are being contested in good faith;

- pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

- any extension, renewal or replacement of any lien, charge or pledge referred to above, provided the amount secured is not increased, and it relates to the same property; or

- other liens arising in connection with our indebtedness and our Subsidiaries' indebtedness in an aggregate principal amount for us and our Subsidiaries not exceeding at the time such lien is issued, created or assumed 10% of our Consolidated Net Tangible Assets.

Limitation on Consolidation, Merger, Conveyance or Transfer on Certain Terms

The Indenture provides that we will not consolidate with or merge into any other Person or sell, lease, convey or transfer all or substantially all of our properties and assets, unless:

(1) the Person formed by such consolidation or into which we are merged or the Person which acquires by sale, lease, conveyance or transfer all or substantially all of our properties and assets shall be organized and existing under the laws of the United States of America or any State or the District of Columbia, and shall expressly assume, by supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the debt securities issued under the Indenture, including the Notes, and the performance of every covenant of the Indenture (as supplemented from time to time) on our part to be performed or observed;

(2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have happened and be continuing; and

(3) we have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each stating that such consolidation, merger, sale, lease, conveyance or transfer and such supplemental indenture comply with this covenant and that all conditions precedent provided for relating to such transaction have been complied with.

Upon any consolidation or merger, or any conveyance or transfer of all or substantially all of our properties and assets as set forth above, the successor Person formed by such consolidation or into which we are merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise all of our right and power under the Indenture with the same effect as if such successor had been named as our company in the Indenture. In the event of any such conveyance or transfer, we, as the predecessor, shall be discharged from all obligations and covenants under the Indenture and debts securities issued thereunder, including the Notes, and may be dissolved, wound up or liquidated at any time thereafter.

Subject to the foregoing, the Indenture and the Notes do not contain any covenants or other provisions designed to afford Holders of Notes protection in the event of a highly leveraged transaction involving our company or in the event of a decline in our credit rating as a result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving our company that could affect such Holders or for any other reason. Notwithstanding the foregoing, nothing herein will prohibit or restrict a transfer of Securitizable Assets to an entity that issues ABS obligations backed by such Securitizable Assets.

Reports to Holders of the Notes

The Indenture provides that we will file with the Trustee, within 90 days after the end of each fiscal year, an audited consolidated balance sheet and an audited consolidated statement of income, changes in shareholder's equity and cash flows for that fiscal year. These financial statements will set forth, in comparative form and in reasonable detail, the figures for the previous fiscal year. We will not be required to file with the Trustee any financial statements on a more frequent basis.

Delivery of Rule 144A Information

The Indenture provides that, so long as the Notes remain outstanding and we are not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or are not complying with the reporting requirements thereof, we will prepare and will furnish to any Holder of debt securities issued under the Indenture, any beneficial owner of debt securities and any prospective purchaser or other prospective transferee of debt securities designated by such a Holder or a beneficial owner, promptly upon request and at our expense, the financial statements and other information specified in Rule 144A(d)(4) (or any successor provision thereto) under the Securities Act (collectively, the "Rule 144A Information"), in each case whether or not such debt securities are "restricted securities" within the meaning of Rule 144 (or any successor provision thereto) under the Securities Act and whether or not such request is being made in connection with any sale or transfer of debt securities.

Defeasance

The Indenture provides that we, at our option,

(a) will be Discharged from any and all obligations in respect of any series of debt securities (except in each case for certain obligations to register the transfer or exchange of debt securities, replace stolen, lost or mutilated debt securities, maintain paying agencies and hold moneys for payment in trust) or

(b) need not comply with the covenants described above under "Description of the Notes—Certain Covenants" and that certain Events of Default (other than those arising out of the failure to pay interest or principal on the debt securities of a particular series and certain events of bankruptcy, insolvency and reorganization) will no longer constitute Events of Default with respect to such series of debt securities;

in each case if we deposit with the Trustee, in trust, money or the equivalent in securities of the government which issued the currency in which the debt securities are denominated or government agencies backed by the full faith and credit of such government, or a combination thereof, which through the payment of interest thereon and principal thereof in accordance with their terms will provide money in an amount sufficient to pay all the principal (including any mandatory sinking fund payments) of, and interest on, such series on the date such payments are due in accordance with the terms of such series.

To exercise any such option, we are required, among other things, to deliver to the Trustee an opinion of counsel to the effect that the deposit and related defeasance would not cause the Holders of such series to recognize income, gain or loss for U.S. federal income tax purposes and, in the case of a Discharge pursuant to clause (a), accompanied by a ruling to such effect received from or published by the IRS.

In addition, we are required to deliver to the Trustee an Officers' Certificate stating that such deposit was not made by us with the intent of preferring the Holders over other creditors of ours or with the intent of defeating, hindering, delaying or defrauding creditors of our company or others.

Events of Default, Notice and Waiver

The Indenture provides that, if an Event of Default specified therein with respect to any series of debt securities, including the Notes, issued thereunder shall have happened and be continuing, either the Trustee thereunder or the Holders of 25% in aggregate principal amount of the outstanding debt securities of such series (or 25% in aggregate principal amount of all outstanding debt securities under the Indenture, in the case of certain Events of Default affecting all series of debt securities under the Indenture) may declare the principal of all the debt securities of such series to be due and payable.

"*Events of Default*" in respect of any series, including the Notes, are defined in the Indenture as being:

- default for 30 days in payment of any interest (including Additional Interest) installment with respect to such series;

- default in payment of principal of, or premium, if any, on, or any sinking or purchase fund or analogous obligation with respect to, debt securities of such series when due at their stated maturity, by declaration on acceleration, when called for redemption or otherwise;

- default in the performance of or breach of any of our obligations set forth under "—Limitation on Consolidation, Merger, Conveyance or Transfer on Certain Terms";

- default for 60 days after written notice to us by the Trustee thereunder or by Holder of 25% in aggregate principal amount of the outstanding debt securities of such series in the performance, or breach, of any other covenant or warranty pertaining to debt securities of such series;

- certain events or bankruptcy, insolvency and reorganization with respect to us or any subsidiary thereof which is organized under the laws of the United States or any political sub division thereof or the entry of an order ordering the winding up or the liquidation of our affairs;

- our indebtedness or indebtedness of one of our subsidiaries in principal amount of at least US $25,000,000 (or its equivalent in any other currency), is accelerated by reason of a default or there has been a failure to pay such indebtedness at maturity, if that indebtedness is not discharged or the acceleration is not annulled within 10 days after written notice; or

- the support agreement between us and HMC is not (or is claimed by either party to the agreement not to be) in full force and effect or is modified, amended or terminated in circumstances where such modification, amendment or termination would have a material adverse effect upon any Holder of the Notes offered hereby or we waive, or fail to take all reasonable steps to exercise, any of our rights under the support agreement or HMC fails to perform or observe any obligation on its part under the support agreement so as to affect materially and adversely the interests of any holder of the Notes offered hereby.

The Indenture provides that the Trustee thereunder will, within 90 days after the occurrence of a default with respect to the debt of any series, give to the Holders of the debt securities of such series notice of all uncured and unwaived defaults known to it, provided, however, that, except in the case of default in the payment of principal of, premium, if any, or interest, if any, on any of the debt securities of such series, the Trustee thereunder will be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the Holders of the debt securities of such series. If an Event of Default, other than a bankruptcy, insolvency, reorganization or similar event of default with respect to us, has occurred and has not been cured, the Trustee or the holders of at least 25% in principal amount of the Notes outstanding may declare the entire principal amount of, and any other amounts and accrued interest on, all the Notes to be due and immediately payable. This is called a declaration of acceleration of maturity. If an Event of Default occurs because of certain events in bankruptcy, insolvency or reorganization with respect to us, the principal amount of all the Notes will be automatically accelerated, without any action by the Trustee or any Holder. The term "default" for the purpose of this provision means any event which is, or after notice or lapse of time or both would become an Event of Default with respect to debt securities of such series.

The Indenture contains provisions entitling the Trustee, subject to the duty of the Trustee during an Event of Default to act with the required standard of care, to be indemnified to its reasonable satisfaction by the Holders of the debt securities before proceeding to exercise any right or power under the Indenture at the request of Holders of the debt securities.

The Indenture provides that the Holders of a majority in aggregate principal amount of the outstanding debt securities of any series may direct the time, method and place of conducting proceedings for remedies available to the Trustee or exercising any trust or power conferred on the Trustee in respect of such series, subject to certain conditions.

In certain cases, the Holders of a majority in principal amount of the outstanding debt securities of any series may waive, on behalf of the Holders of all debt securities of such series, any past default or Event of Default with respect to the debt securities of such series except, among other things, a default not theretofore cured in payment of the principal of, or premium, if any, or interest, if any, on any of the debt securities of such series or payment of any sinking or purchase fund or analogous obligations with respect to such debt securities.

We will furnish to the Trustee every year a written statement of certain of our officers stating that, to their knowledge, we are in compliance with the Indenture and the Notes, or else specifying any default that exists.

Modification of the Indenture

We and the Trustee may, without the consent of the Holders of the debt securities, enter into indentures supplemental to the Indenture for, among others, one or more of the following purposes:

(1) to evidence the succession of another Person to us and the assumption by such successor of our obligations under the Indenture;

(2) to add to the covenants of our company or to surrender any rights or powers of our company for the benefit of the Holders of debt securities of any or all series;

(3) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provisions therein, or to make any other provisions with respect to matters or questions arising under the Indenture;

(4) to add to the Indenture any provisions that may be expressly permitted by the Trust Indenture Act of 1939, as amended, or "the Act," excluding the provisions referred to in Section 316(a)(2) of the Act as in effect at the date as of which the Indenture was executed or any corresponding provisions in any similar federal statute hereafter enacted;

(5) to establish the form or terms of any series of debt securities, to provide for the issuance of any series of debt securities and/or to add to the rights of the Holders of debt securities;

(6) to evidence and provide for the acceptance of any successor Trustee with respect to one or more series of debt securities or to add or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts thereunder by one or more trustees in accordance with the Indenture;

(7) to provide any additional Events of Default;

(8) to provide for uncertificated securities in addition to or in place of certificated securities; provided that the uncertificated securities are issued in registered form for U.S. federal income tax purposes;

(9) to provide for the terms and conditions of converting those debt securities that are convertible into common stock or another such similar security;

(10) to secure any series of debt securities pursuant to the Indenture's limitation on liens;

(11) to add guarantors in respect of the debt securities;

(12) to make any change necessary to comply with any requirement of the SEC in connection with the qualification of the Indentures or any supplemental indenture under the Act; and

(13) to make any other change that does not adversely affect the rights of the Holders of the debt securities.

No supplemental indenture for the purpose identified in clauses (2), (3), (5) or (7) above may be entered into if to do so would adversely affect the rights of the Holders of debt securities of any series in any material respect.

The Indenture contains provisions permitting us and the Trustee, with the consent of the Holders of a majority in principal amount of the outstanding debt securities of all series to be affected voting as a single class, to execute supplemental indentures for the purpose of adding any provisions to or changing or eliminating any of the provisions of the Indenture or modifying the rights of the Holders of the debt securities of such series to be affected, except that

no such supplemental indenture may, without the consent of the Holders of affected debt securities, among other things:

(1) change the maturity of the principal of, or the maturity of any premium on, or any installment of interest on, any such debt security, or reduce the principal amount or the interest or any premium of any such debt securities, or change the method of computing the amount of principal or interest on any such debt securities on any date or change any place of payment where, or the currency in which, any debt securities or any premium or interest thereon is payable;

(2) reduce the percentage in principal amount of any such debt securities the consent of whose Holders is required for any supplemental indenture, waiver of compliance with certain provisions of the Indenture or certain defaults under the Indenture;

(3) modify any of the provisions of the Indenture related to (i) the requirement that the Holders of debt securities consent to certain amendments of the Indenture, (ii) the waiver of past defaults and (iii) the waiver of certain covenants, except to increase the percentage of Holders required to make such amendments or grant such waivers; or

(4) impair or adversely affect the right of any Holder to institute suit for the enforcement of any payment on, or with respect to, such debt securities on or after the maturity of such debt securities.

Certain Definitions

The following are certain of the terms defined in the Indenture:

"*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 class or series) and (ii) secured by specific assets transferred directly or indirectly to such trust or entity by us or a Subsidiary.

"*Consolidated Net Tangible Assets*" means the aggregate amount of our consolidated assets (less applicable reserves and other properly deductible items), after deducting therefrom (i) all current liabilities and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles all as set forth on our most recent audited consolidated balance sheet.

"*GAAP*" means generally accepted accounting principles as such principles are in effect in the United States as of the date of the Indenture.

"*Holder*," when used with respect to any debt securities, means a holder of the debt securities, which means a Person in whose name a debt security is registered in the Security Register.

"*Indebtedness For Borrowed Money*" of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments and (c) all guarantee obligations of such Person with respect to Indebtedness For Borrowed Money of others. The Indebtedness For borrowed Money of any Person shall include the Indebtedness For Borrowed Money of any other entity (including any partnership in which such Person is general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other contractual relationship with such entity, except to the extent the terms of such Indebtedness For Borrowed Money provide that such Person is not liable therefor.

"*Lien*" means any lien, mortgage, pledge, encumbrance, charge or other security interests.

"*Person*" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"*Responsible Officer*," when used with respect to the Company, means any of the Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Senior Executive Vice President, General Counsel, Treasurer or Controller of our company (or any equivalent of the foregoing officers).

"*Securitizable Assets*" means vehicle loan receivables, vehicle installment contracts, vehicle leases (together with or without the underlying vehicles), and/or other accounts receivable or assets arising from the financial services which the Company provides, the records relating thereto, any related assets and the proceeds, rights and benefits accruing to it thereunder and any beneficial interests therein.

"*Security Register*" means the register or registers we shall keep or cause to be kept, in which, we shall provide for the registration of debt securities, or of debt securities of a particular series, and of transfers of debt securities or of debt securities of such series.

"*Subsidiary*" means, with respect to any Person, any corporation more than 50% of the voting stock of which is owned directly or indirectly by such Person, and any partnership, association, joint venture or other entity in which such Person owns more than 50% of the equity interests or has the power to elect a majority of the board of directors or other governing body.

The Trustee

U.S. Bank National Association is the Trustee under the Indenture. The Trustee is a depository for funds and performs other services for, and transacts other banking business with, us in the normal course of business.

Governing Law

The Indenture is governed by, and will be construed in accordance with, the laws of the State of New York.

Form, Denomination, Transfer and Exchange; Book-Entry Registration

General

Notes being offered and sold within the United States or otherwise to U.S. persons (as defined in Regulation S under the Securities Act) are being offered and sold only to qualified institutional buyers in reliance on Rule 144A. We refer to these Notes as the "Rule 144A Notes." Notes are also being offered and sold to non-U.S. persons in offshore transactions in reliance on Regulation S. We refer to these Notes as the "Regulation S Notes." Rule 144A Notes initially will be represented by one or more securities in registered, global form, without interest coupons, collectively referred to as the "Rule 144A Global Notes." Regulation S Notes initially will be represented by one or more temporary securities in registered, global form, without interest coupons (collectively, the "Temporary Regulation S Global Notes"). Each Temporary Regulation S Global Note will, as described below, be exchangeable for one or more securities in registered, global form, without interest coupons (collectively, the "Permanent Regulation S Global Notes" and, together with the Temporary Regulation S Global Notes, the "Regulation S Global Notes" and, the Regulation S Global Notes together with the Rule 144A Global Notes, collectively the "Global Notes"). Global Notes will be deposited upon issuance with the Trustee as custodian for DTC and registered in the name Cede & Co. (or another nominee of DTC) as nominee for DTC, in each case for credit to an account of a direct or indirect participant in DTC as described below. Prior to the expiration of the "40-day distribution compliance period," as described below, beneficial interests in the Temporary Regulation S Global Notes may be held only through Euroclear and Clearstream (as indirect participants in DTC), unless transferred to a person that takes delivery through a Rule 144A Global Note in accordance with the certification requirements described below. Each Temporary Regulation S Global Note will be exchangeable for a Permanent Regulation S Global Note after the expiration of the "40-day distribution compliance period," as described below, and in accordance with the certifications required by Regulation S. Beneficial interests in the Rule 144A Global Notes may not be exchanged for beneficial interests in the Regulation S Global Notes at any time except in the limited circumstances described below. See "— Exchanges between Regulation S Notes and Rule 144A Notes."

"*40-day distribution compliance period*" means 40 days after the later of the commencement of this offering and the date the applicable Notes were originally issued.

Except as set forth below, Global Notes may be transferred, in whole, but not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in certificated form except in the limited circumstances described below. See "—Exchange of Global Notes for Certificated Notes." Rule 144A Notes (including beneficial interests in Rule 144A Global Notes) and Regulation S Notes (including beneficial interests in Regulation S Global Notes) will be subject to certain restrictions on transfer. Rule 144A Notes (including Rule 144A Global Notes) and Regulation S Notes (including Regulation S Global Notes) will bear a restrictive legend as described under "Transfer Restrictions." In addition, transfers of beneficial interests in Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream, which may change from time to time).

Notes will be denominated and payable in U.S. dollars (or one or more foreign currencies as specified in the applicable Pricing Supplement) and issued in fully registered form, without coupons, in minimum denominations of U.S.$2,000 and in integral multiples of U.S.$1,000 in excess thereof (or the equivalent amount in one or more foreign currencies as specified in the applicable Pricing Supplement). Notwithstanding the foregoing, Notes which have a maturity of less than one year from their date of issue and in respect of which the issue proceeds are to be received by the Company in the United Kingdom will have a minimum denomination of £100,000 (or its equivalent in other currencies).

Upon issuance of a Global Note in respect of one or more Notes in book-entry form ("Book-Entry Notes"), DTC, or its nominee, will credit the accounts of persons that hold accounts with DTC ("Participants") as designated by the Agents or other agent or the Company in respect of such Notes. Ownership of beneficial interests in a Global Note will be limited to Participants, including Euroclear and Clearstream, or persons that may hold interests through Participants. Ownership of beneficial interests by Participants in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC for such Global Note. Ownership of beneficial interests in such Global Note by persons that hold through Participants will be shown on, and the transfer of that ownership interest within such Participant will be effected only through, records maintained by such Participant. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form.

Payment of principal, premium, if any, and interest on Book-Entry Notes represented by any Global Note will be made to DTC or its nominee, as the case may be, as the sole registered owner and the sole registered holder of the Global Note representing such Book-Entry Notes. The Company, the Trustee and their respective agents will not have any responsibility or liability for any aspect of DTC's records relating to or payments made on account of beneficial ownership interests in a Global Note representing any Book-Entry Notes or for maintaining, supervising or reviewing any of DTC's records relating to such beneficial ownership interests.

The Company has been advised by DTC that redemption proceeds and distributions on any Global Note will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit the accounts of Direct Participants (as defined below), upon DTC's receipt of funds and corresponding detail information from the Company or the Agents on the date payable in accordance with their respective holdings shown on DTC's records. Payment by Participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agents, the Trustee or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Company or the Agents, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the owner of beneficial interests in a Global Note shall be the responsibility of Direct Participants and Indirect Participants (as defined below).

A Global Note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of DTC or a nominee of such successor. A Global Note representing Book-Entry Notes is exchangeable only if DTC notifies the Company that it is unwilling or unable to continue as depository in respect of such Global Note or if at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depository is not appointed by the Company within 90 days. Any Global Note that is exchangeable pursuant to the preceding sentence shall be exchangeable for

Notes in definitive form issuable in denominations of U.S.$2,000 and in integral multiples of U.S.$1,000 in excess thereof (or the equivalent amount in one or more foreign currencies as specified in the applicable Pricing Supplement) and registered in such names as DTC or another depository holding such Global Note shall direct. Subject to the foregoing, the Global Note is not exchangeable, except for a Global Note of like denomination to be registered in the name of DTC or its nominee.

So long as DTC, or its nominee, is the registered owner of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner and registered holder of the Book-Entry Notes represented by such Global Note for the purposes of receiving payments of principal, premium, if any, and interest on such Book-Entry Notes, receiving notices and for all other purposes under the Indenture and such Notes. Beneficial interests in such Global Note will be evidenced only by, and the transfer thereof will be effected only through, records maintained by DTC and its Participants. Except as provided above, owners of beneficial interests in a Global Note will not be entitled to be and will not be considered the holders thereof for any purpose. Accordingly, each person owning a beneficial interest in a Global Note must rely on the procedures of DTC and, if such person is not a Participant, on the procedures of the Participant through which such person owns its interest, to exercise any rights of a registered holder under the Notes.

DTC, Clearstream and Euroclear

DTC has advised the Company as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., and Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Direct Participants and Indirect Participants are on file with the SEC.

Purchasers in Europe may hold their interests in a Global Note directly through Euroclear or Clearstream, or indirectly through organizations that are participants in Euroclear or Clearstream.

Euroclear and Clearstream will hold interests in a Global Note on behalf of their participants through DTC. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Clearstream and Euroclear have provided us with the following information:

Clearstream is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participating organizations ("Clearstream participants") and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in several countries. As a professional depositary, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector ("Commission de Surveillance du Secteur Financier"). Clearstream participants 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 agents. Clearstream participants in the U.S. are limited to securities brokers and dealers and banks. 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, to the extent received by the U.S. depositary for Clearstream.

Euroclear was created in 1968 to hold securities for participants of Euroclear ("Euroclear 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 performs various other services, including securities lending and borrowing and interacts with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (the "Euroclear operator") under contract with Euroclear plc, a U.K. corporation. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not Euroclear plc. Euroclear plc establishes policy for Euroclear on behalf of Euroclear participants. 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.

The Euroclear operator is a Belgian bank. As such it is regulated by the Belgian Banking and Finances Commission. 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 the Euroclear System, 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 clearance accounts. The Euroclear operator acts under the terms and conditions only on behalf of Euroclear participants, and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the terms and conditions, to the extent received by the U.S. depositary for Euroclear.

Euroclear has further advised the Company that investors that acquire, hold and transfer interests in the Notes by book-entry through accounts with the Euroclear operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the global securities certificates.

Although DTC, Euroclear and Clearstream have acknowledged the foregoing procedures, they are under no obligation to perform or continue to perform these procedures, and the procedures may be discontinued at any time. None of the Company nor the Trustee will have any responsibility for the performance by DTC or its Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

The information in this section concerning DTC, Euroclear and Clearstream has been obtained from sources that the Company believe to be reliable, but the Company takes no responsibility for the accuracy of this information.

Exchanges Between Regulation S Notes and Rule 144A Notes

Prior to the expiration of the 40-day distribution compliance period, Regulation S Notes (including beneficial interests in the Regulation S Global Notes) may be exchanged for Rule 144A Notes (including beneficial interests in the Rule 144A Global Notes) only if:

- such exchange occurs in connection with a transfer of the Notes pursuant to Rule 144A; and
- the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that the Notes are being transferred to a person:

- whom the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;

- purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and

- in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Rule 144A Notes (including beneficial interests in a Rule 144A Global Note) may be transferred to a person who takes delivery in the form of an interest in a Regulation S Note (including a beneficial interest in a Regulation S Global Note), whether before or after the expiration of the 40-day distribution compliance period, only if the transferor first delivers to the Trustee a written certificate (in the applicable form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 (if available) and that, if such transfer occurs prior to the expiration of the 40-day distribution compliance period, the Note (including beneficial interests therein) transferred will be held immediately thereafter until the expiration of the 40-day distribution compliance period through Euroclear or Clearstream.

Although DTC, Euroclear and Clearstream, have agreed to the foregoing procedures to facilitate transfers of interests in Rule 144A Global Notes and Regulation S Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither we, the Trustee, nor any of our or their agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations. The policies and practices of DTC may prohibit transfers of beneficial interests in the Regulation S Global Notes prior to the expiration of the 40-day distribution compliance period.

Exchange of Global Notes for Certificated Notes

In a few special situations, the Global Notes will terminate and interests in them will be exchanged for physical certificates representing the Notes. After that exchange, the choice of whether to hold the Notes directly or in street name will be up to the investor, subject to certain matters in the discretion of DTC as described below. Investors must consult their own bank or brokers to find out how to have their interests in the Notes transferred to their own name so that they will be direct holders.

The special situations for termination of the Global Notes are:

- When DTC notifies us that it is unwilling, unable or no longer qualified to continue as depositary.

- When an event of default on the Notes has occurred and has not been cured. Defaults are discussed above under “Events of Default, Notice and Waiver.”

In all cases, certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC, as the depositary (in accordance with its customary procedures), and will bear the applicable restrictive legend referred to under the caption “Transfer Restrictions,” unless that legend is not required by applicable law.

You may have certificated Notes broken into more Notes of smaller denominations or combined into fewer Notes of larger denominations, as long as the total principal amount is not changed and as long as the denomination of each Note remains at least $2,000. You may exchange or transfer certificated Notes at the office of the Trustee. The Trustee acts as our agent for registering certificated Notes in the names of holders and transferring the securities. We may change this appointment to another entity or perform the service ourselves. The entity performing the role of maintaining the list of registered holders is called the security registrar. It will also register transfers of the certificated Notes. You will not be required to pay a service charge to transfer or exchange the Notes, but you may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange of such certificated Notes will only be made if the security registrar is satisfied with your proof of ownership.

We expect that new certificated Notes issued in the circumstances set forth above will be available within seven business days at the office of the Trustee and the office of any paying agent.

Exchange of Certificated Notes for Global Notes

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to us, and the security registrar, a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "Transfer Restrictions."

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered hereby.

The Notes have not been registered, and will not be registered, under the Securities Act or any other applicable securities laws, and the securities may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the Notes are being offered and sold only:

- to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and

- to non-U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Each purchaser of Notes (other than the Agents in connection with the initial issuance and sale of Notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States;

- it acknowledges that the Notes have not been registered under the Securities Act or with any notes regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

- it understands and agrees that Notes initially offered to qualified institutional buyers will be represented by one or more global Notes and that Notes offered outside the United States to non-U.S. persons in reliance on Regulation S will also be represented by one or more global Notes;

- it will not resell or otherwise transfer any of such Notes except (a) to the Issuer, (b) to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States to non-U.S. persons in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;

- it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;

- it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the Indenture;

- it is either (a) not acquiring or holding a Note (or a beneficial interest therein) with the assets of an "employee benefit plan" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that is subject to Title I of ERISA, a "plan" as defined in and subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or any entity deemed to hold "plan assets" of the foregoing (each, a "Benefit Plan Investor"), or any other employee benefit plan or entity that is subject to any law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("Similar Law"), or (b) the acquisition and holding of the Note (or a beneficial interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law;

- it acknowledges that the trustee, registrar or transfer agent for the Notes will not be required to accept for registration transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to the Issuer and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with; and

- it acknowledges that we, the Agents and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the Agents. If it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

The following is the form of restrictive legend which will appear on the face of each global note, and which will be used to notify transferees of the foregoing restrictions on transfer. This legend can only be removed with our consent:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT THIS NOTE OR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (I) TO HYUNDAI CAPITAL AMERICA (THE "ISSUER") OR ANY OF ITS SUBSIDIARIES, (II) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (III) IN AN OFFSHORE TRANSACTION TO A NON-U.S. PERSON IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. THE HOLDER HEREOF, BY ACQUIRING OR HOLDING THIS NOTE, AGREES THAT EITHER (I) IT IS NOT ACQUIRING OR HOLDING THIS NOTE WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO TITLE I OF ERISA, A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR ANY ENTITY DEEMED TO HOLD "PLAN ASSETS" OF THE FOREGOING, OR ANY OTHER EMPLOYEE BENEFIT PLAN OR ENTITY THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (II) THE ACQUISITION AND HOLDING OF THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES THAT IT WILL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ONLY WITH THE CONSENT OF THE ISSUER."

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER

HEREOF, BY ACQUIRING OR HOLDING THIS NOTE, AGREES THAT EITHER (I) IT IS NOT ACQUIRING OR HOLDING THIS NOTE WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO TITLE I OF ERISA, A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR ANY ENTITY DEEMED TO HOLD "PLAN ASSETS" OF THE FOREGOING, OR ANY OTHER EMPLOYEE BENEFIT PLAN OR ENTITY THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (II) THE ACQUISITION AND HOLDING OF THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW. THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE AFTER 40 DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DAY ON WHICH THE NOTES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND (B) THE ORIGINAL ISSUE DATE OF THIS NOTE."

For further discussion of the requirements (including the presentation of transfer certificates) under the Indenture to effect exchanges or transfers of interest in global Notes and certificated Notes, see "Description of the Notes—Form, Denomination, Transfer and Exchange; Book Entry Registration."

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

General

The following is a summary of certain U.S. federal income tax consequences of purchasing, holding and selling Notes. The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations (including proposed Treasury regulations) issued thereunder, Internal Revenue Service ("IRS") rulings and pronouncements and judicial decisions now in effect, all of which are subject to change, possibly with retroactive effect (which could result in U.S. federal income tax considerations different from those discussed below). Except where stated otherwise, this summary deals only with Notes held as capital assets by a "U.S. Holder" (as defined below).

We do not address all of the tax consequences that may be relevant to a U.S. Holder. We also do not address, except as stated below, any of the tax consequences to holders that are "Non-U.S. Holders" (as defined below) or to holders that may be subject to special tax treatment including banks, thrift institutions, real estate investment trusts, personal holding companies, regulated investment companies, insurance companies, tax exempt entities, persons that hold Notes in a "straddle" or as part of a "hedging," "integrated," "conversion" or "constructive sale" transaction or U.S. Holders whose "functional currency" is not the U.S. dollar, and brokers and dealers in securities or currencies. Further, we do not address:

- all of the tax consequences applicable to Notes with special features, such as amortizing Notes, reset Notes, Notes with respect to which the Company has the option to extend the stated Maturity Date, or renewable Notes, which consequences would be discussed in the applicable Pricing Supplement;
- the U.S. federal income tax consequences to stockholders in, or partners or beneficiaries of, an entity that is a holder of Notes;
- the U.S. federal estate and gift or alternative minimum tax consequences of the purchase, ownership or sale of Notes; or
- any state, local or foreign tax consequences of the purchase, ownership and sale of Notes.

A U.S. Holder is a beneficial owner of Notes that is, for U.S. federal income tax purposes:

- a citizen or resident of the U.S.;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S., any state thereof or the District of Columbia;
- a trust if (1) a U.S. court can exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (2) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person; or
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A Non-U.S. Holder is a beneficial owner of Notes other than a U.S. Holder or an entity treated as a partnership for U.S. federal tax purposes.

If an entity treated as a partnership for U.S. federal tax purposes holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner in an entity treated as a partnership for U.S. federal tax purposes holding Notes, you should consult your own tax advisor.

U.S. Holders

Payments of Interest

Payments of qualified stated interest (as defined below) on a Note (other than amounts attributable to pre-acquisition accrued interest, if any, which will be treated as a return of capital) generally will be taxable to a U.S. Holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. Holder's regular method of accounting for tax purposes). A U.S. Holder that uses the cash method of accounting and that holds a Note denominated in a currency other than U.S. dollars (a "foreign currency") will be required to include in income the U.S. dollar value of the amount of interest income received by the U.S. Holder (determined as of the time that such payment is received), regardless of whether such payment in fact is received in U.S. dollars or converted into U.S. dollars. A U.S. Holder that uses the accrual method of accounting and that holds a Note denominated in a foreign currency will be required to include in income the U.S. dollar value of the amount of interest income that has accrued during an accrual period determined by translating such income at the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate of exchange for the partial period within the taxable year). A U.S. Holder that uses the accrual method of accounting may elect, however, to translate such income using the spot rate of exchange on the last day of the accrual period (or, with respect to an accrual period that spans two taxable years, at the spot rate on the last day of the taxable year). Such an election must be applied consistently by the U.S. Holder from year to year and cannot be revoked without the consent of the IRS. The average rate of exchange for an accrual period is the simple average of the spot exchange rates for each business day of such period (or other average exchange rate for the period reasonably derived and consistently applied by the U.S. Holder). If the last day of an accrual period is within five business days of the date of receipt or payment of the accrued interest, a U.S. Holder that uses the accrual method of accounting and that makes such an election may translate such interest using the spot rate on the date of receipt or payment. A U.S. Holder that uses the accrual method of accounting will recognize foreign currency gain or loss, as the case may be, on the receipt of an interest payment if the amount of the payment in U.S. dollars received, or in the case of a U.S. Holder who elects to receive payment on the Notes in a foreign currency, the U.S. dollar value of the foreign currency payment determined by translating the payment at the spot rate on the date the payment is received, differs from the amount of interest previously accrued during the accrual period. This foreign currency gain or loss will be treated as ordinary income or loss and will generally be treated as U.S. source income or as an offset to U.S. source income, respectively.

Payments of Principal

A U.S. Holder of a Note denominated in a foreign currency will recognize foreign currency gain or loss, as the case may be, on the receipt of payments of principal on a Note, measured by the difference between the U.S. dollar value of the principal payment received (translated at the spot rate on the date such payment is received) and the U.S. dollar value of such amount translated at the spot rate in effect on the date such U.S. Holder acquired the Note.

Purchase, Sale, Redemption and Retirement of Notes

A U.S. Holder's tax basis in a Note generally will equal the cost of such Note to such holder, increased by any amounts included in income by the U.S. Holder as original issue discount or market discount and reduced by any amortized premium (each as described below) and any payments other than qualified stated interest (as defined below) made on such Note. In the case of a Note denominated in a foreign currency, the cost of such Note to a U.S. Holder will be the U.S. dollar value of the foreign currency purchase price determined on the date of purchase. In the case of a Note which is denominated in a foreign currency and is traded on an established securities market, a cash basis taxpayer (or, if it elects, an accrual basis taxpayer) will determine the U.S. dollar value of the cost of such Note by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a U.S. Holder's tax basis in a Note in respect of foreign currency-denominated original issue discount, market discount and premium will be determined in the manner described below for such adjustments. The conversion of U.S. dollars to a foreign currency and the immediate use of that currency to purchase a Note generally will not result in taxable gain or loss for a U.S. Holder.

Upon the sale, exchange, redemption or retirement of a Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (less any accrued interest, which will be taxable as such) and the U.S. Holder's tax basis in the Note. With respect to the sale,

exchange, redemption or retirement of a Note denominated in a foreign currency, the amount realized generally will be the U.S. dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis taxpayer and (ii) the date of the sale, exchange, redemption or retirement in the case of an accrual basis taxpayer. In the case of a Note which is denominated in a foreign currency and is traded on an established securities market, a cash basis taxpayer (or, if it elects, an accrual basis taxpayer) will determine the U.S. dollar value of the amount realized by translating the amount paid at the spot rate of exchange on the settlement date of sale. The election available to accrual basis U.S. Holders in respect of the purchase and sale of a Note denominated in a foreign currency that is traded on an established securities market must be applied consistently by the U.S. Holder from year to year and cannot be revoked without the consent of the IRS.

Except as discussed below with respect to market discount, short-term OID Notes (as defined below) and foreign currency gain or loss, gain or loss recognized by a U.S. Holder on the sale, exchange, redemption or retirement of a Note generally will be capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Holder's holding period for such Notes exceeds one year. A U.S. Holder generally may offset capital losses against capital gains, and, if such U.S. Holder is an individual and such capital losses exceed such capital gain, to a limited extent (currently up to U.S.$3,000 per taxable year) against ordinary income.

Notwithstanding the foregoing, gain or loss recognized by a U.S. Holder on the sale, exchange, redemption or retirement of a Note denominated in a foreign currency generally will be treated as ordinary income or loss and will generally be treated as U.S. source income or as an offset to U.S. source income, respectively, to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the U.S. Holder held such Note.

Notes with Original Issue Discount

U.S. Holders of Notes issued with original issue discount ("OID Notes") generally will be subject to the special rules for original issue discount obligations provided by the Code and the Treasury regulations issued thereunder (the "OID Regulations"). A Note will be considered to have been issued with original issue discount if such Note has a stated redemption price at maturity (as defined below) that exceeds its issue price (as defined below) by at least 0.25% of the stated redemption price at maturity multiplied by the number of complete years to the maturity for such Note (or in the case of Notes providing for payment of principal in installments, the weighted average maturity). If the stated redemption price at maturity of a Note exceeds its issue price by less than this amount, such Note will be considered to have de minimis original issue discount and will not be an OID Note. Holders of Notes with de minimis original issue discount generally will include the amount of original issue discount on the Notes in income, as capital gain, on a pro rata basis as principal payments are made on the Notes, unless the Holder makes a constant yield election (as defined below). U.S. Holders of OID Notes (including cash basis taxpayers) should be aware that, as described in greater detail below, they generally must include original issue discount in income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income. As described below under the heading "—Potential Acceleration of Income," a taxpayer's inclusion of original issue discount in income may be accelerated, and you are strongly encouraged to consult with your tax advisor regarding the potential application of such acceleration.

In general, each U.S. Holder of an OID Note which matures more than one year from the date of issue, whether such U.S. Holder uses the cash or the accrual method of accounting for tax purposes, will be required to include in ordinary gross income the sum of the "daily portions" of original issue discount on that Note for all days during the taxable year that the U.S. Holder owns the Note. In addition, a U.S. Holder will be required to include any "qualified stated interest" (as defined below) on such a Note in gross income (as interest) under the U.S. Holder's regular method of accounting for tax purposes. The daily portions of original issue discount on an OID Note are determined by allocating to each day in any accrual period (generally any period of one year or less that is elected by a U.S. Holder, typically a period that ends or begins on a scheduled interest or principal payment date) a ratable portion of the original issue discount allocable to the accrual period. In the case of an initial holder, the amount of original issue discount on an OID Note allocable to each accrual period generally is determined by (i) multiplying the "adjusted issue price" (as defined below) of the Note at the beginning of the accrual period by the yield to maturity of the Note (adjusting the yield to take into account the length of the particular accrual period) and (ii) subtracting from that product the amount (if any) payable as "qualified stated interest" (as defined below) during that accrual period. The

"adjusted issue price" of an OID Note at the beginning of any accrual period will be the sum of its issue price and the amount of original issue discount allocable to all prior accrual periods (without regard to any acquisition premium), reduced by the amount of all payments other than qualified stated interest payments (if any) made with respect to such Notes in all prior accrual periods. The "issue price" of a Note for this purpose generally is the first price at which a substantial amount of the Notes included in the particular issuance is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). "Qualified stated interest" is defined to include stated interest that is unconditionally payable in cash or in property (other than debt instruments of the Company) at least annually at a single fixed rate or, to the extent described below, at a variable rate if the Note is a variable rate debt instrument (as defined below). The "stated redemption price at maturity" of a Note is the sum of all payments provided by the terms of the Note, other than qualified stated interest payments.

If a portion of the initial purchase price of a Note is attributable to pre-issuance accrued interest, the first stated interest payment on the Note is to be made within one year of the Note's issue date, and the payment will equal or exceed the amount of pre-issuance accrued interest, then the U.S. Holder may elect to decrease the issue price of the Note by the amount of pre-issuance accrued interest. In that event, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on the Note.

Under the OID Regulations, interest payments on a "variable rate debt instrument" may be considered qualified stated interest. For this purpose, a Note is a "variable rate debt instrument" if it is an instrument that (x) has an issue price that does not exceed the total noncontingent principal payments by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of such total noncontingent principal payments and the number of complete years to maturity of the Note (or in the case of Notes providing for payment of principal in installments, the weighted average maturity) and (ii) 15% of the total noncontingent principal payments; (y) provides for stated interest (compounded or paid at least annually) at the current value of (A) one or more qualified floating rates (as defined below), (B) a single fixed rate followed by one or more qualified floating rates, (C) a single objective rate (as defined below), or (D) a single fixed rate and a single objective rate (as defined below) that is a qualified inverse floating rate (as defined below); and (z) does not provide for any principal payments that are contingent (disregarding any remote and incidental contingencies, within the meaning of applicable Treasury regulations).

If a Note that provides for a variable rate of interest does not qualify as a variable rate debt instrument, such Note would be a "contingent payment debt instrument" subject to rules set forth in the Treasury regulations that address the U.S. federal income tax treatment of such instruments. As noted under the caption "— Indexed Notes and Notes with Contingent Payments," a description of any material U.S. federal income tax considerations relevant to U.S. Holders of such Notes will be set forth in the applicable Pricing Supplement.

A "qualified floating rate" is a floating rate under which variations in the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Note is denominated. A multiple of a qualified floating rate is not a qualified floating rate unless the relevant Spread Multiplier is (x) fixed at a number that is greater than 0.65 but not more than 1.35 or (y) fixed at a number that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. Notwithstanding the foregoing, stated interest on a Note that is subject to a maximum or minimum interest rate limitation (i.e., a cap or floor), a restriction on the amount of increase or decrease in such rate (i.e., a governor) or other similar restrictions generally will not be treated as a qualified floating rate. However, a restriction will not cause a variable rate to fail to be a qualified floating rate if it is a cap, floor or governor that is fixed throughout the term of the Note or is a cap, floor, governor or similar restriction that is not reasonably expected on the issue date to cause the yield on the Note to be significantly less than (in the case of a cap), significantly more than (in the case of a floor), or significantly different from (in the case of a governor), the expected yield determined without such cap, floor or governor, as the case may be. In addition, under the OID Regulations, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the variable rate note (e.g., two or more qualified floating rates with values within 25 basis points (i.e., 0.25%) of each other as determined on the Note's issue date) will be treated as a single qualified floating rate. An "objective rate" is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information; provided, however, that an objective rate does not include a rate based on information that is within the control of the Company (or a related party within the meaning of the applicable statutory provisions) or that is unique to the circumstances of the Company (or a related party within the meaning of the applicable statutory provisions), other than the Company's credit quality, such as dividends, profits or the value of the Company's stock. A variable rate is not an objective rate, however, if it is

reasonably expected that the average value of the rate during the first half of the Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Note's term. A "qualified inverse floating rate" is an objective rate (1) that is equal to a fixed rate minus a qualified floating rate and (2) the variations in which can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds. The OID Regulations also provide that if a debt instrument provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate and if the variable rate on the debt instrument's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points (i.e., 0.25%)), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

Under the OID Regulations, if a Note qualifies as a variable rate debt instrument that provides for interest at a single qualified floating rate or a single objective rate and that rate is payable unconditionally at least annually, all of the interest is treated as qualified stated interest. Therefore, such a Note will not have original issue discount unless its stated principal amount exceeds the price at which it is issued by an amount that is greater than or equal to the de minimis amount. The accrual of original issue discount, if any, on such a Note is determined by assuming the Note bears interest at a fixed interest rate equal to the value of the qualified floating rate or qualified inverse floating rate on the issue date, or equal to the reasonably expected yield for the note in the case of any other objective rate. The qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period. If a Note qualifying as a variable rate debt instrument provides for interest at more than a single qualified floating rate or a single objective rate, the rules for determining the amount and accrual of original issue discount and qualified stated interest on such a variable rate debt instrument provide for the conversion of such debt instrument into an equivalent fixed rate debt instrument and the application of the general rules regarding original issue discount to such debt instrument. The OID Regulations generally require that such a Note be converted into an equivalent fixed rate debt instrument by substituting any variable rate for the appropriate fixed rate substitute (as described above). Under such rules, the qualified stated interest allocable to an accrual period based on such assumed fixed rate is increased or decreased, as the case may be, if the interest actually paid during such accrual period exceeds, or is less than, the interest assumed to be paid during the accrual period based on such assumed fixed rate. If a Note qualifying as a variable rate debt instrument provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate (other than a Note described in the preceding paragraph that provides for stated interest at a fixed rate for an initial period), the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Note provides for a qualified inverse floating rate). Under such circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Note as of the Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. After converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Note is then converted into an equivalent fixed rate debt instrument and subject to the general rules regarding original issue discount, as described above.

While each U.S. Holder of an OID Note which matures more than one year from the issue date will be required to accrue original issue discount income under a constant yield method, as described above, a taxpayer may also elect to include in gross income all interest that accrues on a debt instrument (including qualified stated interest, original issue discount, de minimis original issue discount, market discount (as defined below), de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium (as discussed below)) under a constant yield method (such election, a "constant yield election").

As a result of this "constant yield" method of including original issue discount income, the amounts so includible in income by a U.S. Holder in respect of an OID Note denominated in U.S. dollars are generally lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis.

In the case of an OID Note denominated in a foreign currency, a U.S. Holder should determine the U.S. dollar amount includible in income as original issue discount for each accrual period by (i) calculating the amount of original issue discount allocable to each accrual period in the foreign currency using the constant yield method described above, and (ii) translating the foreign currency amount so derived at the average exchange rate in effect during that accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate of exchange for

the partial period within the taxable year) or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period (or, with respect to an accrual period that spans two taxable years, at the spot rate on the last day of the taxable year). Because exchange rates may fluctuate, a U.S. Holder of an OID Note denominated in a foreign currency may recognize a different amount of original issue discount income in each accrual period than would the holder of a similar OID Note denominated in U.S. dollars. Upon receipt of an amount attributable to original issue discount (whether in connection with a payment of interest or the sale or retirement of an OID Note), a U.S. Holder may recognize foreign currency gain or loss (treated as ordinary income or loss) in an amount equal to the difference between the amount of income received attributable to the original issue discount (translated into U.S. dollars at the spot rate on the date of receipt) and the amount of original issue discount previously accrued (as discussed above). For these purposes, all receipts on a Note will be viewed first, as the receipt of any qualified stated interest payments called for under the terms of the Note; second, as receipts of previously accrued original issue discount (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

OID Notes that are subject to redemption prior to maturity, have an extendible maturity date or are subject to renewal or that include interest rate reset features may be subject to rules that differ from the general rules discussed above. U.S. Holders that intend to purchase OID Notes with such a feature should carefully examine the applicable Pricing Supplement and should consult with their own tax advisors with respect to such feature since the tax consequences with respect to original issue discount will depend, in part, on the particular terms and the particular features of the purchased Note.

A subsequent U.S. Holder of an OID Note that purchases the Note at a cost less than its stated redemption price at maturity also generally will be required to include in gross income the daily portions of original issue discount, calculated as described above. However, if the subsequent U.S. Holder acquires the OID Note at a lower yield to maturity than the yield of the Note for original issue discount purposes with respect to the initial holder of the Note (i.e., if the subsequent U.S. Holder has acquisition premium with respect to the Note), the subsequent U.S. Holder may reduce its periodic inclusions of original issue discount income to reflect the lower yield to maturity of the Note or make the constant yield election described above and compute original issue discount accruals by treating the purchase as a purchase at original issue and applying the mechanics of the constant yield method.

Short-term OID Notes

Under the OID Regulations, no payment of interest on a Note that matures one year or less from the date of its issuance (a "short-term OID Note") would be considered to be qualified stated interest. Therefore, any such Note would be considered to be issued with original issue discount. In general, a U.S. Holder that uses the cash method of accounting for tax purposes and that holds a short-term OID Note that matures one year or less from the date of its issuance is not required to accrue original issue discount for U.S. federal income tax purposes unless such U.S. Holder elects to do so. U.S. Holders that utilize the accrual method of accounting and certain other holders, including banks and dealers in securities, are required to include original issue discount (or, alternatively, acquisition discount) on such short-term OID Notes on a straight-line basis, unless an election is made to accrue the original issue discount according to a constant yield method based on daily compounding. A U.S. Holder that includes original issue discount on a short-term OID Note as it accrues is subject to the rules set forth above regarding foreign currency gains or losses on OID Notes. In the case of a U.S. Holder that is not required, and does not elect, to include original issue discount in income currently, any gain recognized on the sale, exchange or retirement of a short-term OID Note will be ordinary income to the extent of the original issue discount accrued on a straight-line basis (or, if elected, under the constant yield method) through the date of sale, exchange or retirement. In addition, such non-electing U.S. Holder will be required to defer the deduction of all or a portion of any interest paid on indebtedness incurred to purchase or carry a short-term OID Note until such original issue discount is included in such U.S. Holder's income.

Premium and Market Discount

A U.S. Holder of a Note that purchases the Note at a cost greater than the sum of all amounts payable on the Note other than payments of qualified stated interest will be considered to have purchased the Note at a premium, and may make an election, applicable to all Notes held by such U.S. Holder, to amortize such premium, using a constant yield method, over the remaining term of the Note. Such election applies to all taxable debt instruments held by the U.S. Holder at the beginning of the first taxable year for which the election applies or thereafter acquired and is irrevocable without the consent of the IRS. The amount amortized in any year will be treated as a reduction of the

U.S. Holder's interest income from the Note. The U.S. Holder's tax basis in such Notes will be reduced to the extent that amortizable premium is applied to offset interest payments. In the case of a Note denominated in a foreign currency purchased at a premium, a U.S. Holder should calculate the amortization of the premium in the relevant foreign currency and should reduce interest income by the amortizable bond premium in units of such foreign currency. A U.S. Holder should recognize foreign currency gain or loss (treated as ordinary income or loss) equal to the difference between the U.S. dollar value of the premium amortized with respect to a period, determined on the date the interest attributable to such period is received, and the U.S. dollar value of the premium determined on the date of the acquisition of the Note. A U.S. Holder that does not elect to amortize premium will translate the premium, computed in the applicable foreign currency, into U.S. dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss.

If a U.S. Holder of a Note purchases a Note, other than a short-term OID Note, at a price that produces a yield to maturity higher than the yield to maturity at which such Note first was issued, the Note will be considered to bear "market discount" in the hands of such U.S. Holder unless the market discount is less than a specified de minimis amount. In such case, any partial principal payment (or, in the case of an OID Note, any payment other than a payment of qualified stated interest) or any gain realized by the U.S. Holder on the sale, exchange, redemption or retirement of the Note generally will be treated as ordinary income to the extent of the lesser of the amount of such payment or realized gain or the market discount that accrued on the Note while held by such U.S. Holder that was not previously included in income. Such U.S. Holder also could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or continued to purchase or carry the Note (unless the U.S. Holder elects to include such market discount in income as it accrues). Such election applies to all taxable debt instruments held by the U.S. Holder at the beginning of the first taxable year for which the election applies or thereafter acquired and is irrevocable without the consent of the IRS. The adjusted basis of a Note in the hands of a U.S. Holder subject to such election will be increased to reflect market discount included in gross income, thereby reducing any gain or increasing any loss on a sale or otherwise taxable disposition of the Note. In general, market discount on a Note will be treated as accruing ratably over the term of such Note, or, at the election of the U.S. Holder, under a constant yield method. With respect to Notes which are denominated in a foreign currency, the amount of market discount which accrues during any accrual period will be determined in the foreign currency and translated into U.S. dollars (i) at the spot rate of exchange on the date the Note is disposed of, or (ii) if the holder elects to include such market discount in income as it accrues, in the manner described above under the heading "— Payments of Interest," under the special rules describing the translation of income using the average rate of exchange for the accrual period. If a U.S. Holder elects to include market discount in income as it accrues, then upon the disposition or maturity of a Note and the receipt of an amount attributable to accrued market discount, such U.S. Holder will recognize foreign currency gain or loss (treated as ordinary income or loss) in the same manner as for original issue discount. A U.S. Holder that does not make the election to include market discount in income as it accrues will take into account, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate in effect on that date, and no part of the accrued market discount will be treated as foreign currency gain or loss.

Indexed Notes and Notes with Contingent Payments

The tax consequences to a U.S. Holder of an Indexed Note or a Note the payments under which are contingent will depend on factors including the specific index or indices used to determine payments on such Note and the amount and timing of any noncontingent payments on such Note. A description of any material U.S. federal income tax considerations relevant to U.S. Holders of Indexed Notes and Notes the payments under which are contingent will be set forth in the applicable Pricing Supplement.

Potential Acceleration of Income

An accrual method taxpayer that prepares an "applicable financial statement" (as defined in Section 451 of the Code, which includes any GAAP financial statement, Form 10-K annual statement, audited financial statement or a financial statement filed with any federal agency for non-tax purposes) generally would be required to include certain items of income such as original issue discount and possibly de minimis original issue discount and market discount in gross income no later than the time such amounts are reflected on such a financial statement. This could result in an acceleration of income recognition for income items differing from the above description, although the precise application of this rule is unclear at this time.

Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" (in the case of an individual) or "undistributed net investment income" (in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally will include its interest income and its net gains from the disposition of the Notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders that are individuals, estates or trusts are urged to consult their tax advisors regarding the applicability of the Medicare tax to their income and gains in respect of their investment in the Notes.

Tax Return Disclosure Regulations

Pursuant to certain Treasury regulations (the "Disclosure Regulations"), any taxpayer that has participated in a "reportable transaction" and that is required to file a U.S. federal income tax return must generally attach a disclosure statement disclosing such taxpayer's participation in the reportable transaction to the taxpayer's tax return for each taxable year for which the taxpayer participates in the reportable transaction. A penalty in the amount of 75% of the decrease in tax shown on the return as a result of such transaction (or which would have resulted from such transaction if such transaction were respected for U.S. federal tax purposes) is imposed on any taxpayer that fails to file a reportable transaction disclosure statement. The maximum penalty is $200,000 ($100,000 for a natural person) for failure to disclose a listed transaction, and $50,000 ($10,000 for a natural person) for any other reportable transaction; whereas the minimum penalty is $10,000 ($5,000 for a natural person) for failure to disclose any reportable transaction. The Disclosure Regulations provide that, in addition to certain other transactions, a "loss transaction" constitutes a "reportable transaction." A "loss transaction" is any transaction resulting in the taxpayer claiming a loss under Section 165 of the Code in an amount equal to or in excess of certain threshold amounts. The Disclosure Regulations specifically provide that a loss resulting from a "Section 988 transaction" (as defined in Section 988(c)(1) of the Code relating to foreign currency transactions) will constitute a Section 165 loss. In the case of individuals or trusts, whether or not the loss flows through from an S corporation or partnership, if the loss arises with respect to a Section 988 transaction, the applicable threshold amount is $50,000 in any single taxable year. Higher threshold amounts apply depending upon the taxpayer's status as a corporation, partnership, or S corporation, as well as certain other factors. It is important to note, however, that the Disclosure Regulations provide that the fact that a transaction is a reportable transaction shall not affect the legal determination of whether the taxpayer's treatment of the transaction is proper. U.S. Holders should consult their own tax advisors concerning the potential application of the Disclosure Regulations to the Notes.

Non-U.S. Holders

Payments of Interest

Subject to the discussion of backup withholding and FATCA below, payments of principal of, and interest (including original issue discount) on, any Note to a Non-U.S. Holder, other than (i) a "controlled foreign corporation" (as such term is defined in the Code) which is related to the Company through actual or constructive stock ownership, (ii) a person owning (actually or constructively) securities representing at least 10% of the total combined outstanding voting power of all classes of voting stock of the Company and (iii) a bank which acquires such Note in consideration of an extension of credit and pursuant to a loan agreement entered into in the ordinary course of its business, will generally not be subject to any United States withholding tax under the "portfolio interest exemption," provided that the certification requirement described below is satisfied or an exemption is otherwise established.

Under current law, the certification requirement will generally be satisfied in any of the following circumstances:

- if a Non-U.S. Holder provides the U.S. payor with a properly completed and duly executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or suitable successor or substitute form), stating, among other things, that the Non-U.S. Holder is not a U.S. person; or

- if a Note is held through a securities clearing organization, bank or another financial institution that holds customers' securities in the ordinary course of its trade or business, (i) the Non-U.S. Holder provides such a form to such organization or institution, and (ii) such organization or institution, under penalty of perjury, certifies to the U.S. payor that it has received such statement from the beneficial owner or another intermediary and furnishes the U.S. payor with a copy thereof.

If the requirements of the portfolio interest exemption described above are not satisfied, a 30% withholding tax will generally apply to the gross amount of interest on the Notes that is paid to a Non-U.S. Holder, unless either: (a) an applicable income tax treaty reduces or eliminates such tax, and the Non-U.S. Holder claims the benefit of that treaty by providing a properly completed and duly executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or suitable successor or substitute form) establishing qualification for benefits under the treaty, or (b) the interest is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States and the Non-U.S. Holder provides an appropriate statement to that effect on a properly completed and duly executed IRS Form W-8ECI (or suitable successor form).

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a Note is effectively connected with the conduct of that trade or business, the Non-U.S. Holder will be required to pay U.S. federal income tax on that interest on a net income basis (and the 30% withholding tax described above will not apply, provided the appropriate statement is provided to the U.S. payor) generally in the same manner as a U.S. person. If a Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and its country of residence, any interest income that is effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business will be subject to U.S. federal income tax in the manner specified by the treaty and generally will only be subject to such tax if such income is attributable to a permanent establishment (or a fixed base in the case of an individual) maintained by the Non-U.S. Holder in the United States provided the Non-U.S. Holder claims the benefit of the treaty by properly submitting an IRS Form W-8BEN or an IRS Form W-8BEN-E (or a suitable successor or substitute form), as applicable. In addition, a Non-U.S. Holder that is treated as a foreign corporation for U.S. federal income tax purposes may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its earnings and profits for the taxable year, subject to adjustments, that are effectively connected with such Non-U.S. Holder's conduct of a trade or business in the United States.

Purchase, Sale, Redemption and Retirement of Notes

Subject to the discussion of backup withholding below, any gain realized by a Non-U.S. Holder on the sale, exchange or retirement of a Note will not be subject to U.S. federal income tax, unless (x) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (y) in the case of any gain realized by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of such sale, exchange or retirement and certain other conditions are met. If the first exception applies, the Non-U.S. Holder will generally be subject to U.S. federal income tax on the net gain derived from the sale, exchange or other disposition of the Notes in the same manner as a U.S. person. In addition, corporate Non-U.S. Holders may be subject to a 30% branch profits tax on any such effectively connected gain. If the second exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% on the amount by which its U.S.-source capital gains exceed its U.S.-source capital losses. If a Non-U.S. Holder is eligible for the benefits of an income tax treaty between the United States and its country of residence, the U.S. federal income tax treatment of any such gain may be modified in the manner specified by the treaty.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements apply in the case of certain non-corporate U.S. Holders with respect to certain payments of principal, premium, if any, and interest (including original issue discount) on a Note, and to the proceeds of the sale or retirement of a Note, unless, in the case of backup withholding, a holder provides certain identifying information (generally on IRS Form W-9) or otherwise establishes an exemption from backup withholding. Payments of principal, premium and interest (including original issue discount) on a Note to a holder that is a Non-U.S. Holder will not be subject to any backup withholding or information reporting requirements if the beneficial owner of the Note or a financial institution holding the Note on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification (generally on an appropriate IRS Form W-8) to the U.S. payor and the U.S. payor does not have actual knowledge that the certification is false. If provided

by a beneficial owner, the certification must give the name and address of such owner, state that such owner is not a United States person, and be signed by the owner under penalties of perjury. If provided by a financial institution, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification (and include a copy of such certification), and be signed by an authorized representative of the financial institution under penalties of perjury. The holder may also be subject to penalties if it fails to properly provide the appropriate certification or other evidence of exemption from withholding. Notwithstanding the foregoing, income allocable to Non-U.S. Holders may be subject to annual tax reporting on IRS Form 1042-S. Any amounts deducted and withheld may be allowed as a credit against the beneficial owner's U.S. federal income tax liability, if any. If backup withholding results in an overpayment of taxes, the holder may obtain a refund.

The IRS will not require a financial institution to furnish it with the names of the beneficial owners of the Notes that are non-U.S. persons or a copy of such beneficial owners' certifications where the financial institution is a qualified intermediary which has entered into a withholding agreement with the IRS pursuant to United States Treasury regulations addressing the withholding tax rules and has assumed primary withholding responsibility.

In the case of payments to foreign partnerships (other than payments to foreign partnerships that qualify as "withholding foreign partnerships" within the meaning of such United States Treasury regulations and payments to foreign partnerships of income that is effectively connected with the conduct of a trade or business in the United States), the partners of such partnerships will be required to provide the certification discussed above in order to establish an exemption from withholding tax, backup withholding and information reporting requirements. Moreover, a payor may rely on a certification provided by a Non-U.S. Holder only if such payor does not have actual knowledge or a reason to know that any information or certification stated in such certificate is unreliable. Further, if the payment of the proceeds of a sale of a Note is made to the beneficial owner thereof by the foreign office of a foreign "broker" (as defined in applicable United States Treasury regulations), backup withholding and information reporting generally will not apply, provided that such custodian, nominee, agent or broker (i) derives gross income less than 50% of which for the three-year period prior to payment is effectively connected with the conduct of a trade or business in the United States, (ii) is not a "controlled foreign corporation" and (iii) is not a foreign partnership (x) one or more of the partners of which, at any time during its tax year, are United States persons (as defined in Treasury regulations Section 1.1441-1(c)(2)) that, in the aggregate hold more than 50% of the income or capital interest in the partnership or (y) which, at any time during its tax year, is engaged in the conduct of a trade or business in the United States. If the broker is a United States person or a foreign person that fails to satisfy any of the tests in the proviso of the preceding sentence, the payment by the foreign office of such broker of the proceeds of the sale of a Note will not be subject to backup withholding (unless the payor has actual knowledge that the payee is a United States person), but will be subject to information reporting unless the broker has documentary evidence in its records that the beneficial owner is not a United States person and certain conditions are met, or the beneficial owner otherwise establishes an exemption. Payments to or through the U.S. office of a broker generally will be subject to backup withholding and information reporting unless the Non-U.S. Holder establishes an exemption.

FATCA

Pursuant to Sections 1471 through 1474 of the Code and the Treasury regulations promulgated thereunder ("FATCA"), a 30% U.S. withholding tax may be imposed on payments of interest on the Notes made to non-U.S. financial institutions and certain other non-U.S. non-financial entities (including, in some instances, where such an entity is acting as an intermediary) that fail to comply with certain information reporting obligations. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest payments on the Notes as a result of a holder's failure to comply with these rules or the presence in the payment chain of an intermediary that does not comply with these rules, no person would be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, holders may receive less interest than expected. Certain countries have entered into, and other countries are expected to enter into, agreements with the United States to facilitate the type of information reporting required under FATCA. While the existence of such agreements will not eliminate the risk that Notes will be subject to the withholding described above, these agreements are expected to reduce the risk of the withholding for investors in (or indirectly holding Notes through financial institutions in) those countries. Holders should consult their own tax advisors regarding FATCA and whether it may be relevant to their purchase, ownership and disposition of the Notes.

CERTAIN CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE BENEFIT PLANS

Subject to the following discussion, the Notes may be acquired with assets of a Benefit Plan Investor, as well as by governmental plans (as defined in Section 3(32) of ERISA) and church plans (as defined in Section 3(33) of ERISA) (collectively, with Benefit Plan Investors, referred to as "Plans"). Section 406 of ERISA and Section 4975 of the Code prohibit a Benefit Plan Investor from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan Investor. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of such Benefit Plan Investor. In addition, Title I of ERISA requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents. Plans that are governmental plans are not subject to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA or Section 4975 of the Code; *however*, such Plans might be subject to Similar Law.

An investment in the Notes by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if we, our Agents, or any of our or their respective affiliates is or becomes a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain exemptions from the prohibited transaction rules could be applicable to the acquisition or holding of an investment in the Notes by a Benefit Plan Investor depending upon the type and circumstances of the plan fiduciary making the decision to acquire such investment and the relationship of the party in interest or disqualified person to the Benefit Plan Investor. Even if the conditions specified in an exemption are met, the scope of the relief provided by an exemption might or might not cover all acts that might be construed as prohibited transactions. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes, and prospective investors that are Benefit Plan Investors should consult with their legal advisors regarding the applicability of any exemption.

By acquiring a Note (or a beneficial interest therein), each purchaser and transferee (and if the purchaser or transferee is a Plan, then its fiduciary) is deemed to represent and warrant that either: (a) it is not, and for so long as it holds the Note (or a beneficial interest therein) will not be, acquiring or holding a Note (or a beneficial interest therein) with the assets of a Benefit Plan Investor or a Plan that is subject to Similar Law, or (b) the acquisition and holding of the Note (or a beneficial interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law.

Prospective investors are advised to consult their advisers with respect to the matters discussed above and other applicable legal requirements.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the Private Placement Agency Agreement, dated as of March 13, 2015 (the "Agency Agreement"), the Notes are being offered from time to time for sale by the Company through one or more of the Agents named on the cover of this Offering Memorandum, or through one or more additional or other agents appointed by the Company from time to time, each of which has agreed to use its reasonable efforts to solicit offers to purchase the Notes. The applicable Pricing Supplement will discuss any variation in the plan of distribution therein.

The Company reserves the right, in its sole discretion, to withdraw, cancel or modify this Program or any offer made hereby without notice and may reject orders in whole, or in part, whether placed directly with the Company or through one of the Agents. Each Agent will have the right, in its sole discretion, to reject any offer to purchase Notes solicited by it, in whole, or in part.

The Company will pay an Agent, in connection with sales of these Notes resulting from a solicitation that such Agent made or an offer to purchase that such Agent received, a commission as agreed between the Company and such Agent at the time of such sale. Actual commissions payable in respect of any sale of such Notes will be specified in the applicable Pricing Supplement.

Subject to the terms and conditions set forth in the Agency Agreement and any related terms agreement, we may also sell these Notes to an Agent as principal for its own account at discounts to be agreed upon at the time of sale. That Agent may resell these Notes to investors and other purchasers subject to the restrictions described under "Transfer Restrictions" at a fixed offering price or at prevailing market prices, or prices related thereto at the time of resale or otherwise, as that Agent determines. The Notes will be sold to investors at par unless otherwise agreed upon by the purchaser and the Company and specified in the applicable Pricing Supplement. If the Company sells a Note at a discount to, or a premium over, its principal amount, the price to the investors will be as agreed between the Company and the relevant Agent and indicated on the cover page of the applicable Pricing Supplement.

An Agent may offer the Notes it has purchased as principal to other dealers. That Agent may sell the Notes to any dealer at a discount and, unless otherwise specified in the applicable Pricing Supplement, the discount allowed to any dealer will not be in excess of the discount that Agent will receive from us. After the initial offering of Notes that an Agent is to resell on a fixed offering price basis, the Agent may change the offering price, concession and discount.

The Company may also sell the Notes directly to investors in those jurisdictions in which it is permitted to do so and to or through such other agents as the Company shall designate from time to time. No commission will be payable on Notes sold directly to investors by the Company. After the initial offering of Notes, the offering price and other selling terms may be changed.

Unless specified in the applicable Pricing Supplement, settlement for sales of Notes will be made in immediately available funds in New York, New York, generally two business days after the sale date.

No Note will have an established trading market when issued. Unless otherwise specified in the applicable Pricing Supplement, we do not intend to apply for the listing of the Notes on a national notes exchange. Each of the Agents may from time to time purchase and sell Notes in the secondary market but none of the Agents are obligated to do so and may discontinue market-making at any time without notice.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

Accordingly, in connection with sales outside the United States, each Agent has agreed that, except as permitted by the purchase agreement and set forth in the "Transfer Restrictions," it will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or

(ii) otherwise until 40 days after the later of the commencement of this offering and the closing date, and it will have sent to each dealer to which it sells Notes during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

In connection with this offering, the Agents may purchase and sell Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of Notes in excess of the principal amount of Notes to be purchased by the Agents in this offering, which creates a short position for the Agents. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Agents may conduct these transactions in the over-the-counter market or otherwise. If the Agents commence any of these transactions, they may discontinue them at any time.

The Agents and their affiliates are full service financial institutions. Some of the Agents and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. We currently have loan commitments outstanding with certain of the Agents or their affiliates.

The Agents are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates (directly, as collateral securing other obligations or otherwise). If any of the Agents or their affiliates has a lending relationship with us, certain of those Agents or their affiliates routinely hedge, and certain other of those Agents or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these Agents and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes. The Agents and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We have agreed to indemnify the several Agents against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Agents may be required to make because of any of those liabilities.

Notice to Prospective Investors in Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment or supplement thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. Any purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Agents are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with any offering.

Prohibition of Sales to EEA and United Kingdom Retail Investors

The Notes may not be offered, sold or otherwise made available to any retail investor in the EEA or in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the Prospectus Regulation; and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Notice to Prospective Investors in the United Kingdom

Notes which have a maturity of less than one year may not be offered or sold other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Company.

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Hong Kong

This Offering Memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. The Notes will not be offered or sold in Hong Kong by means of any document (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (a) to "professional investors" as defined in the Securities and Futures Ordinance of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the

contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Notice to Prospective Investors in Singapore

This Offering Memorandum has not been and will not be registered as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") by the Monetary Authority of Singapore, and the offer of the Notes in Singapore is made primarily pursuant to the exemptions under Section 274 and 275 of the SFA. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA (an "Institutional Investor") pursuant to Section 274 of the SFA, (ii) to an accredited investor as defined in Section 4A of the SFA (an "Accredited Investor") or other relevant person as defined in Section 275(2) of the SFA (a "Relevant Person") and pursuant to Section 275(1) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

It is a condition of the offer that where the Notes are subscribed for or acquired pursuant to an offer made in reliance on Section 275 of the SFA by a Relevant Person which is:

(a) a corporation (which is not an Accredited Investor), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an Accredited Investor; or

(b) a trust (where the trustee is not an Accredited Investor). the sole purpose of which is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor, securities or securities-based derivatives contracts (each as defined in Section 2(1) of the SFA) of that corporation and the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has subscribed for or acquired the Notes except:

(i) to an Institutional Investor, an Accredited Investor, a Relevant Person, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 276(4)(i)(B) of the SFA (in the case of that trust);

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

Singapore Securities and Futures Act Product Classification—Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to Prospective Investors in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended, "FIEL") and, accordingly, have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan, or to, or for the account or benefit of, any Japanese Person or to, or for the account or benefit of, others for re-offering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any Japanese Person, pursuant to an exemption from the registration requirement of, and otherwise in

compliance with, the FIEL and all other applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Notice to Prospective Investors in Switzerland

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Offering Memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Notice to Prospective Investors in Republic of Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea and none of the Notes may be offered, delivered or sold directly or indirectly in Korea or to any resident of Korea (as such term is defined in the Foreign Exchange Transaction Law of Korea rules and regulations promulgated thereunder), except as otherwise permitted under applicable Korean laws and regulations.

Notice to Prospective Investors in China

This Offering Memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in China (for such purposes, not including Hong Kong and Macau Special Administrative Regions of China or Taiwan). The Notes have not been and will not be, offered or sold and may not be offered or sold, directly or indirectly, in China (for such purposes, not including Hong Kong and Macau Special Administrative Regions of China or Taiwan), other than to qualified domestic institutional investors, except as permitted by the securities laws of China.

Notice to Prospective Investors in Taiwan

The Notes have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and the Notes may not be sold, issued or offered within Taiwan through a public offering or in a circumstance which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan requiring registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Notes in Taiwan.

LEGAL MATTERS

The validity of the Notes offered hereby will be passed upon for us by Mayer Brown LLP, Chicago, Illinois. Certain legal matters in connection with the offering of the Notes will be passed upon for the Agents by Sidley Austin LLP, New York, New York.

INDEPENDENT AUDITORS

The consolidated financial statements of Hyundai Capital America and subsidiaries as of December 31, 2019 and 2018 and for each of the years then ended December 31, 2019, included in this Offering Memorandum, have been audited by KPMG LLP, independent auditors, as stated in their report appearing herein.

The consolidated financial statements of Hyundai Motor Company and subsidiaries as of and for the year ended December 31, 2019, included in this Offering Memorandum, have been audited by KPMG Korea, independent auditors, as stated in their report appearing herein.

The consolidated financial statements of Hyundai Motor Company and subsidiaries as of and for the year ended December 31, 2018, included in this Offering Memorandum, have been audited by Deloitte Anjin LLC, independent auditors, as stated in their report appearing herein.

INDEX TO FINANCIAL STATEMENTS
HYUNDAI CAPITAL AMERICA

	Page
Report of Independent Auditors' on Financial Statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018	F-3
Consolidated Balance Sheets as of December 31, 2019 and 2018	F-5
Consolidated Statements of Income for the years ended December 31, 2019 and 2018	F-6
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019 and 2018	F-7
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019 and 2018	F-8
Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018	F-9
Notes to the Consolidated Financial Statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018	F-10

HYUNDAI CAPITAL AMERICA AND SUBSIDIARIES
(A Majority-Owned Subsidiary of Hyundai Motor America)

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
Hyundai Capital America:

We have audited the accompanying consolidated financial statements of Hyundai Capital America and its subsidiaries, a majority-owned subsidiary of Hyundai Motor America, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Capital America and its subsidiaries, a majority-owned subsidiary of Hyundai Motor America, as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Irvine, California
February 14, 2020

HYUNDAI CAPITAL AMERICA AND SUBSIDIARIES
(A Majority-Owned Subsidiary of Hyundai Motor America)

Consolidated Balance Sheets

December 31, 2019 and 2018

(Amounts in thousands, except share data)

Assets		**2019**	**2018**
Cash and cash equivalents	$	129,209	145,101
Restricted cash		419,270	456,857
Investments (note 3):			
Available-for-sale		287,188	204,536
Equity		17,136	12,571
Other		4,762	5,469
Finance receivables, net (note 4)		18,247,654	15,137,448
Investment in operating leases, net (note 5)		15,182,497	15,681,913
Due from affiliates, net (note 8)		667,251	876,044
Derivative assets (note 13)		2,847	19,931
Returned and repossessed collateral		88,055	102,948
Other assets (note 14)		840,276	743,488
Total assets	$	35,886,145	33,386,306
Liabilities and Shareholders' Equity			
Liabilities:			
Debt, net (note 7)	$	28,461,778	26,219,284
Net deferred tax liabilities (note 9)		1,504,509	1,500,831
Derivative liabilities (note 13)		27,315	8,000
Accounts payable and other liabilities (note 16)		1,702,036	1,695,964
Total liabilities		31,695,638	29,424,079
Commitments and contingent liabilities (note 11)			
Shareholders' equity:			
Common stock, no par value. Authorized, 5,000,000 shares; issued and outstanding, 1,940,065 shares		1,525,000	1,525,000
Accumulated other comprehensive income (loss)		7,752	(2,899)
Retained earnings		2,657,755	2,440,126
Total shareholders' equity		4,190,507	3,962,227
Total liabilities and shareholders' equity	$	35,886,145	33,386,306

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

		2019	**2018**
Restricted cash	$	418,733	453,871
Finance receivables, net		4,310,366	4,137,850
Investment in operating leases, net		3,077,655	4,048,199
Other assets		11,617	11,528
Total assets	$	7,818,371	8,651,448
Debt, net	$	6,020,870	6,444,950
Other liabilities		6,290	7,278
Total liabilities	$	6,027,160	6,452,228

See accompanying notes to consolidated financial statements.

HYUNDAI CAPITAL AMERICA AND SUBSIDIARIES

(A Majority-Owned Subsidiary of Hyundai Motor America)

Consolidated Statements of Income

Years ended December 31, 2019 and 2018

(Amounts in thousands)

		2019	2018
Financing revenue:			
Operating leases	$	3,641,058	3,772,333
Retail		830,651	714,343
Wholesale		107,856	90,906
Total financing revenue		4,579,565	4,577,582
Depreciation on operating leases		2,781,163	3,016,532
Interest expense		822,256	713,388
Net financing revenue		976,146	847,662
Other revenue:			
Disposal of investment in operating leases		124,717	103,001
Servicing fees		1,714	3,499
Vehicle service contracts revenue, net (note 15)		22,616	17,263
Loss from derivative instruments (note 13)		(38,190)	(11,301)
Other revenue, net		35,405	30,286
Total net financing margin and other revenue		1,122,408	990,410
Expenses:			
Operating expenses		571,852	502,326
Provision for credit losses (note 6)		307,753	346,912
Total expenses		879,605	849,238
Income before provision for income taxes		242,803	141,172
Provision for Income tax (note 9)		26,411	20,437
Net income	$	216,392	120,735

See accompanying notes to consolidated financial statements.

HYUNDAI CAPITAL AMERICA AND SUBSIDIARIES
(A Majority-Owned Subsidiary of Hyundai Motor America)

Consolidated Statements of Comprehensive Income

Years ended December 31, 2019 and 2018

(Amounts in thousands)

		2019	2018
Net income	$	216,392	120,735
Other comprehensive income, net of tax:			
Unrealized holding gains (losses) on available-for-sale investments:			
Unrealized holding gains (losses) arising during the period		15,404	(7,742)
Reclassification adjustment for net (gains) losses included in other revenue, net		(80)	1,894
		15,324	(5,848)
Income tax benefit (expense) related to unrealized holding gains (losses):			
Income tax benefit (expense) related to unrealized holding gains (losses)		(3,453)	1,758
Tax effect due to reclassification adjustment		17	(430)
Other comprehensive income (loss)		11,888	(4,520)
Comprehensive income	$	228,280	116,215

See accompanying notes to consolidated financial statements.

HYUNDAI CAPITAL AMERICA AND SUBSIDIARIES
(A Majority-Owned Subsidiary of Hyundai Motor America)

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2019 and 2018

(Amounts in thousands, except share data)

	Common stock		Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
	Shares	Amount			
Balance at December 31, 2017	1,940,065	$ 1,525,000	1,334	2,319,678	3,846,012
Issuance of common stock	—	—	—	—	—
Net income	—	—	—	120,735	120,735
Other comprehensive income (loss)	—	—	(4,520)	—	(4,520)
Reclassification of adoption of accounting standard	—	—	287	(287)	—
Balance at December 31, 2018	1,940,065	1,525,000	(2,899)	2,440,126	3,962,227
Issuance of common stock	—	—	—	—	—
Net income	—	—	—	216,392	216,392
Other comprehensive income (loss)	—	—	11,888	—	11,888
Reclassification of adoption of accounting standard	—	—	(1,237)	1,237	—
Balance at December 31, 2019	1,940,065	$ 1,525,000	7,752	2,657,755	4,190,507

See accompanying notes to consolidated financial statements.

HYUNDAI CAPITAL AMERICA AND SUBSIDIARIES
(A Majority-Owned Subsidiary of Hyundai Motor America)

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(Amounts in thousands)

		2019	2018
Cash flows from operating activities:			
Net income	$	216,392	120,735
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of investment in operating leases and fixed assets, net of accretion		2,508,612	2,645,804
Accretion of rate subsidies and other costs/fees on finance receivables, net of amortization		(109,491)	(56,504)
Provision for credit losses		307,753	346,912
Gain on disposal of investment in operating leases		(124,717)	(103,001)
Loss (gain) from sale of available-for-sale and changes in market value of equity investments		(3,787)	1,894
Loss on disposition of fixed assets		37	640
Net change in:			
Due to/from affiliates		(32,160)	39,226
Derivative assets		17,084	9,866
Deferred income taxes		242	12,371
Derivative liabilities		19,315	8,000
Other assets		(77,634)	(57,939)
Accounts payable and other liabilities		491,541	458,066
Net cash provided by operating activities		3,213,187	3,426,070
Cash flows from investing activities:			
Purchase of property, equipment and software		(38,396)	(22,960)
Proceeds from sales of property, equipment and software		18	—
Purchase of finance receivables		(21,312,083)	(15,723,737)
Principal collected on finance receivables, net		17,890,578	15,409,196
Purchase of investment in operating leases		(6,858,034)	(6,188,893)
Proceeds from liquidation of investment in operating leases and repossessed vehicles		4,750,883	4,330,625
Decrease in due from affiliates		219,000	780,000
Purchase of available-for-sale, equity and other investments		(85,425)	(38,365)
Proceeds from maturity and redemption of available-for-sale, equity and other investments		16,416	20,240
Proceeds from sales of available-for-sale, equity and other investments		1,315	43,857
Net cash used in investing activities		(5,415,728)	(1,390,037)
Cash flows from financing activities:			
Increase (decrease) in NACM		149,705	(177,917)
Proceeds from issuance of debt		77,116,824	69,317,687
Repayments on debt		(75,117,467)	(72,002,937)
Repayments on affiliate borrowings		—	(300,000)
Net cash provided by (used in) financing activities		2,149,062	(3,163,167)
Net change in cash and cash equivalents		(53,479)	(1,127,134)
Cash, cash equivalents and restricted cash at beginning of period		601,958	1,729,092
Cash, cash equivalents and restricted cash at end of period	$	548,479	601,958
Supplemental disclosures of cash flow information:			
Interest paid	$	820,058	712,731
Income taxes paid		9,362	7,117
Supplemental disclosures of noncash investing:			
Returned and repossessed collateral acquired in settlement of finance receivables	$	197,168	201,852
Accrual for property, equipment and software		5,906	3,332
Reversal of accrual for property, equipment and software		(3,332)	(571)

See accompanying notes to consolidated financial statements.

(1) Nature of Operations

Hyundai Capital America and its subsidiaries (HCA or the Company) is a majority-owned subsidiary of Hyundai Motor America (HMA or Parent). HCA was incorporated in the state of California on September 6, 1989. HMA, the primary distributor of Hyundai vehicles in the United States, owns 80% of the outstanding common stock of HCA. HMA is a wholly owned subsidiary of Hyundai Motor Company (HMC). The outstanding common stock of HMC is listed on the Korea Exchange (KRX), but is not registered with the Securities and Exchange Commission (SEC) in the United States of America. Kia Motors America, Inc. (KMA) owns 20% of the outstanding common stock of HCA. KMA is a wholly owned subsidiary of Kia Motors Corporation, which is an affiliate of HMC.

HCA has retail dealer agreements with dealers authorized by HMA, KMA, and Genesis Motor America LLC, a subsidiary of HMA. All of the dealers' dealerships are located within the United States. A small number of dealers have dealerships offering other domestic and imported vehicles, which are financed by the Company. Contracts for dealers are submitted to HCA under the trade names of Hyundai Motor Finance, Kia Motors Finance, and Genesis Finance.

HCA provides indirect retail passenger motor vehicle loan and lease financing by purchasing motor vehicle retail installment sale contracts and leases from dealers. HCA also provides direct wholesale financing to many of these dealers by financing inventories and making loans for facilities refurbishment, real estate purchases, construction, and working capital requirements.

The Company's wholly owned subsidiaries included in consolidation as of December 31, 2019 are as follows:

Hyundai ABS Funding, LLC
Hyundai Asset Backed Lease, LLC
Hyundai Auto Lease Offering, LLC
Hyundai Cha Funding, LLC
Hyundai HK Funding, LLC
Hyundai HK Funding Two, LLC
Hyundai HK Funding Three, LLC
Hyundai HK Funding Four, LLC
Hyundai HK Lease, LLC
HCA Exchange, LLC
Hyundai Lease Titling Trust
Hyundai Capital Insurance Services, LLC
HK Real Properties, LLC
Hyundai Protection Plan, Inc.
Hyundai Protection Plan Florida, Inc.
Hyundai Capital Insurance Company
Power Protect Extended Services, Inc.
Power Protect Extended Services Florida, Inc.
Extended Term Amortizing Program, LLC

Hyundai Capital Insurance Services, LLC was established in 2009 to provide insurance brokerage services. HK Real Properties, LLC was established in 2010 to manage foreclosed dealership properties. Hyundai Protection Plan, Inc. (HPP) and Hyundai Protection Plan Florida, Inc. (HPP FL) were established in 2012 as service contract obligor companies to offer a variety of service contract and related vehicle protection products. Hyundai Capital Insurance Company (HCIC) was established in 2012 to be a licensed captive insurance company to provide insurance products to support the obligor companies. Operations for these companies commenced in January 2013. Power Protect Extended Services, Inc. (PPES) and Power Protect Extended Services Florida, Inc. (PPES FL) were established in 2014 to expand the Company's vehicle service contract business (note 15). Operations in these companies

(Continued)

commenced in January 2019. Hyundai Capital America Deferred Compensation Plan, a grantor trust, was established for certain key personnel to defer a portion of their income to be paid out at a later date after which the income was actually earned. The remaining entities were established for the purpose of purchasing, holding, and selling finance receivables and leases.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company's accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of the Company and all variable interest entities (VIEs) of which the Company is the primary beneficiary. See note 2(o) for additional discussion on VIEs. All significant intercompany transactions and balances have been eliminated in consolidation.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management of the Company to make several estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The accounting estimates that are most significant to the Company's business are the allowance for credit losses and the determination of residual value of vehicles subject to operating leases as well as estimates related to the fair value of investment securities.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits, short-term money market instruments, and certain highly liquid investment securities with maturities of three months or less from the date of purchase.

(d) Restricted Cash

Restricted cash consists primarily of deposits held in trust for the benefit of the note holders with respect to the asset-backed notes secured by retail and wholesale finance receivables and operating leases.

(Continued)

(e) Investments

Investments consist of debt and equity securities, and other investments. The Company determines the appropriate classification of debt securities at the time of purchase. The Company classifies all of its debt securities as available for sale as the investments can be held for an indefinite period of time, but not necessarily to be held to maturity or on a long term basis. The available for sale securities are carried at fair value using quoted market prices, where available, with unrealized gains or losses included in accumulated other comprehensive income, net of applicable taxes in the consolidated statements of shareholders' equity. Interest income is recognized when earned. Realized gains and losses from available for sale securities are reported using the specific identification method and are included in the consolidated statements of income. Equity securities are carried at fair value using quoted prices, where available. Subsequent to the adoption of ASU 2016-01, all of the equity securities market gains and losses are included in other revenue, net in the consolidated statements of income. All of the available for sale and equity securities are held by HPP, HPP FL, and HCIC to meet certain regulatory capital requirements related to the Company's vehicle service contract business (note 15) and are generally not available to satisfy obligations not related to this line of business.

Available-for-sale securities are reviewed periodically to determine whether a decline in fair value below the carrying value is other than temporary. When a decline in the value of available-for-sale securities is considered other than temporary, a loss is recognized in the consolidated statements of income, and a new cost basis for the security is established. The other than temporary impairment is based on certain criteria for each group of invested assets, such as security specific analysis and other factors, which include the duration and severity of the impairment, the current liquidity and volatility of the market for each of the individual security categories, financial conditions and the forecasted performance of the issuer or underlying collateral of the security, and the Company's intent and ability to hold the investments for a period of time sufficient to allow for any anticipated recovery in fair value. Subsequent to the adoption of ASU 2016-01, all changes in market value of equity securities are immediately recognized in other revenue, net in the consolidated statements of income.

Other investments consist of certificates of deposit with banking institutions and company-owned life insurance. The certificates of deposit are pledged as security for letters of credit established for the lease of certain office facilities. They are stated at cost, which approximates fair value, and accrued interest is recorded in other assets (note 14). Effective January 2019, the Company no longer holds any certificates of deposit. The company-owned life insurance was acquired on certain executives and key employees through a trust in conjunction with the deferred compensation plan. It is carried at cash surrender value, which approximates fair value.

(f) Finance Receivables

Finance receivables include retail finance receivables and wholesale finance receivables. Retail finance receivables consist of retail installment contracts with consumers (retail portfolio). Wholesale finance receivables consist of floor plan, real estate, and working capital loans made to dealers (wholesale products portfolio).

(Continued)

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 December 31, 2019 and 2018, all finance receivables were classified as held-for-investment and there were no receivables classified as held-for-sale.

Retail finance receivables are generally due in installments from customers over a period of two to six years and are collateralized by liens on the related vehicles. The Company retains purchase money security interests in all automobiles financed until full payment is received. Retail finance receivables also include a retail balloon product offered where customers may finance their vehicles with a series of installment payments followed by a single balloon payment. At the end of the contract, the customer may keep the vehicle by making the final balloon payment or return it to HCA and pay charges for excess mileage and use, if any. The recorded investment of retail balloon products may contain an allowance for residual exposure as well as residual guarantees received from HMA and KMA.

Finance receivables are reported at the principal amount outstanding, net of allowance for credit losses, unearned origination fees, and deferred origination costs. A portion of the retail finance receivables include origination fees in the form of rate subsidies (subvention) received from HMA or KMA at the inception of the receivable and are accreted into revenue over the receivable's term using the effective-interest-rate method. Origination costs include flat commissions paid to the dealers for originating the loan and payments made for rate participation.

Revenue on finance receivables includes contractual interest income, accretion of origination fees, and amortization of origination costs. Interest income on finance receivables is accrued as earned using the simple-interest method. The recognition of finance revenue on retail finance receivables is discontinued when the underlying collateral is repossessed or accounts are charged off, generally no later than 120 days.

(g) Investment in Operating Leases

The Company leases vehicles to customers under operating leases typically for a term of two to four years. The investment in operating leases is reported at cost, less accumulated depreciation and net of origination fees and costs. 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 as earned. Rental subsidies received from HMA or KMA at the inception of the lease are accounted for as deferred origination fees to accounts payable and other liabilities and are accreted into revenue over the lease term in proportion to the recognition of operating lease income. Initial direct costs of originating operating leases are deferred and allocated over the lease term in proportion to the recognition of operating lease income. Occasionally, HMA or KMA guarantees a portion of the vehicle's residual value as part of a marketing program to reduce the customer's monthly payment. The guaranty amount is a fixed percentage of the vehicle's value established at origination and is accounted for as a reduction to investment in operating leases. At lease termination, the realized portion of the guaranty is recognized as income and presented net with the gain or loss on disposition of the vehicle in disposal of investment in operating leases.

(Continued)

A review for impairment of the Company's operating leases 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 are 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. No impairment charges were recorded for the years ended December 31, 2019 and 2018.

(h) Determination of Residual Values for Vehicles Subject to Operating Leases

The Company is exposed to residual risk for vehicles subject to operating leases to the extent the actual amount received upon the sale of vehicles at disposition is lower than the residual value, net of guaranty, estimated at lease inception. The Company initially estimates the residual values at lease inception using external industry guides, which take into account expected economic conditions for the used vehicle market. Periodically, residual values are reviewed to assess the appropriateness of the carrying value of the vehicles. To the extent the estimated fair value at lease termination is lower than the residual value established at lease inception, the residual value of the vehicle is adjusted downward so that the carrying value at lease-end will approximate the estimated end of term market value. Adjustments are made on a straight-line basis over the remaining terms of the leases and are included in depreciation expense on operating leases.

(i) Returned and Repossessed Collateral

Returned and repossessed collateral includes vehicles and real estate property acquired by voluntary return or through repossession/foreclosure for nonpayment of indebtedness. These held-for-sale assets are generally recorded at fair value less estimated selling expenses. The majority of vehicles are sold through automobile auctions within a short period after repossession. Real estate property is classified as available-for-sale property and disposal times vary depending upon market demand. Once the collateral has been sold, the net sales proceeds are applied as reduction to net credit losses. If there is a deficiency balance remaining, the cumulative value that was charged off is pursued for recovery.

(j) Allowance for Credit Losses

The allowance for credit losses is the Company's estimate of probable credit losses inherent in finance receivables and investment in operating leases as of the balance sheet date. Because credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain.

The allowance for credit losses is estimated using a combination of models and management judgment and is based on factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of the present portfolio (including vehicle brand, term, and internal risk evaluation), trends in historical and projected used vehicle values, and economic conditions.

(Continued)

Retail finance receivables are categorized as a homogeneous portfolio for the purpose of disclosures in note 6. The retail finance receivables portfolio is primarily comprised of pools of homogenous loans that are evaluated collectively for purposes of calculating the allowance. The allowance is calculated initially utilizing historic net loss data from the portfolio and applying it to the outstanding principal balance. In cases where historic loss data is not representative of the current environment, qualitative adjustments are used to supplement the allowance to the levels management estimates to be adequate. See note 6 for a discussion of retail financial receivables modified in a troubled debt restructure (TDR).

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 retail finance receivables. Operating leases are collectively evaluated to determine the estimated losses incurred.

Losses on retail finance receivables and investment in operating leases are charged to the allowance for credit losses at the earlier of when an account is deemed uncollectible or over 120 days contractually past due, taking into consideration the value of the collateral. Interest ceases to be earned on accounts that have been charged to the allowance. Subsequent recoveries on finance receivables and investments in operating leases previously charged off are credited to the allowance. Related collateral, if recoverable, is repossessed and sold. For leased assets, proceeds resulting in a gain will be retained by HCA and in the case of a shortfall between proceeds received from the sale of repossessed collateral and the amounts due from customers are charged off and trigger collection efforts. For retail contracts, the collateral is recorded at fair market value less selling costs upon repossession. Any shortfalls are charged to the allowance. After sale, excess amounts are resolved as recoveries and any remaining shortfalls trigger collection efforts.

Wholesale finance receivables where the dealer is currently in default, including loans modified in a TDR, are evaluated for impairment on an individual dealer basis. Wholesale finance receivable account balances are considered impaired when, based on current information and events, it is probable the borrower will be unable to make all of their contractual principal and interest payments or if the loan was modified in a TDR. Factors such as payment history, compliance with terms and conditions of the underlying loan agreement, and other subjective factors related to the financial stability of the borrower are considered when determining if a loan is impaired. The amount of the impairment on wholesale loans individually evaluated equals the difference between the outstanding loan amount and the estimated amount that could be recovered from the underlying collateral. The remaining wholesale finance receivables (not individually evaluated for impairment) are evaluated at the dealer and product level based upon the Company's internal risk assessment, which contemplates historic loss experience and current economic indicators.

(Continued)

Losses on wholesale finance receivables are charged to the allowance for credit losses upon loss of specific assets or when the fair value of the collateral supporting the impaired wholesale finance receivables is estimated to be below the carrying value of the receivables. Interest ceases to be earned on wholesale finance receivables generally when the dealer is in default on a loan for greater than 120 days.

(i) Nonaccrual Policy

Retail Portfolio

Retail finance receivables are not placed on nonaccrual status when principal or interest is 120 days or more past due. Rather, these receivables are charged off against the allowance for credit losses when payments due are no longer expected to be received or the account is 120 days contractually delinquent, whichever occurs first.

Wholesale Products Portfolio

Impaired wholesale finance receivables are placed on nonaccrual status if full payment of principal or interest is in doubt, or when principal or interest is 120 days or more past due. Impaired collateral dependent loans are placed on nonaccrual status if collateral is insufficient to cover principal and interest. Interest accrued, but not collected at the date a receivable is placed on nonaccrual status, is reversed against interest income. Interest income on nonaccrual receivables is recognized only to the extent it is received in cash. Accounts are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

(k) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation/amortization and included in other assets in the consolidated balance sheets. Leasehold improvements are depreciated over the lesser of the lease term or asset life. Depreciation and amortization of property and equipment are calculated using the straight-line method based on the following estimated useful lives:

Furniture, fixtures, equipment, and capitalized software	3 to 7 years
Leasehold improvements	2 to 11 years

The Company reviews property and equipment for recoverability whenever events or changes in circumstances indicate that impairment may have occurred. When such events or changes in circumstances occur, recoverability of the asset to be held and used is measured by a comparison of the carrying amount of the asset to estimated future net cash flows, undiscounted, and without interest, expected to be generated by the asset.

(Continued)

(l) Income Taxes

HCA uses the asset-and-liability method of accounting for income taxes, whereby the deferred tax assets and liabilities are determined based on differences between the financial reporting and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that all or a portion 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 the periods in which those temporary differences reverse and become deductible.

HCA is included in HMA's consolidated federal income tax return and combined or consolidated income tax returns in certain states. Federal income tax is provided in the consolidated financial statements on a separate-return method. In accordance with the tax sharing agreement between HCA and HMA, to the extent that HCA has net operating losses (NOLs), the current benefit is provided to HCA up to the amount that can be utilized by HMA. For states where a combined or consolidated income tax return is filed, state income taxes are allocated to HCA based upon the relative apportionment factors and income in those states. Current federal and state income taxes receivable or payable, which are included in due from affiliates, are settled on an annual basis.

In accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes - Overall*, the Company recognizes the effect of uncertain income tax positions only if those positions have a probability of more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company records interest related to unrecognized tax benefits and penalties through the income tax provision.

(m) Vehicle Service Contracts and Related Vehicle Protection Products

The Company offers vehicle service contracts and related vehicle protection products (the Products). The Products offered primarily consist of:

- Vehicle service contracts (VSC) that offer mechanical and roadside assistance over and beyond the manufacturer’s standard warranty;
- Guaranteed asset protection (GAP) coverage that pays the difference between the vehicle’s cash value (as determined by the primary insurer) and the balance of the contract holder’s outstanding loan balance when a damaged vehicle is deemed to be a total loss; and
- Other ancillary finance and insurance products that complement the vehicle owners’ overall experience with the vehicle.

(Continued)

For VSC and GAP products, the Company receives cash upon origination of the contract and is required to pay claims throughout the contract period. At origination, the Company records the gross amount of the contract to accounts payable and other liabilities (note 16) as unearned revenue and the amount of deferred acquisition costs directly attributable to the contract to other assets (note 14). A contract deficiency liability is recognized if the sum of the anticipated claims expenses, maintenance costs, and any acquisition costs not previously expensed, less anticipated investment income, exceed the unearned contract revenue. Such deficiency is first recognized as a reduction of deferred acquisition costs and is included in the consolidated statements of income. To the extent the deficiency exceeds deferred acquisition costs, a contract deficiency liability is established.

These amounts are deferred and recognized to revenue based upon the contract's estimated claims experience curve over the life of the products. The Company uses an actuarial consulting firm to estimate the claims experience curve based upon an analysis on the historical and industry claims experience. Claims are recorded as incurred and are reflected in vehicle service contracts revenue, net (note 15).

Other related vehicle protection products consist of other fee income products where the Company does not have claims risk. Fees are recognized over the life of the contract for certain products where the Company is paid to administrate the policies or at contract origination for other products where the fee is a sales commission.

(n) Derivatives

The Company enters into interest rate and foreign exchange derivative agreements to reduce the exposure to market risks from changing interest rates and foreign currency exchange rates. The interest rate instruments are used to economically hedge interest rate exposure on floating rate debt, and the currency exchange agreements are used to manage the currency exposure on foreign denominated debt. The Company has elected not to apply hedge accounting. The fair value change in the interest rate and currency exchange agreements is included in other revenue.

(o) Variable Interest Entities

A VIE is an entity that either (i) has insufficient equity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The Company is the primary beneficiary when it is determined that the Company has both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses or the right to receive residual returns that could potentially be significant to the VIE.

(i) On-Balance-Sheet Securitization Trusts

HCA uses several special-purpose entities that are considered VIEs to issue asset-backed securities (ABS) to third party, bank sponsored asset-backed securitization vehicles and to investors in securitization transactions. The securities issued by these VIEs are backed by the cash flows from finance receivables and investment in operating leases (the assets) that have been transferred to the VIEs. Although the transferred assets have been legally sold to the VIEs,

(Continued)

HCA holds variable interests in the VIEs that are expected to absorb expected losses, receive the expected residual returns, or both. The Company determined that HCA is the primary beneficiary of the securitization entities because (i) HCA's servicing responsibilities for the transferred receivables give them the power to direct the activities that most significantly impact the performance of the VIEs and (ii) HCA's variable interests in the VIEs give them the obligation to absorb losses and the right to receive residual returns that could potentially be significant.

The cash held by the Company on behalf of the VIE is classified as restricted cash on the consolidated balance sheets. The assets of the VIEs and the restricted cash held by HCA serve as the sole source of repayment for the asset-backed securities issued by these entities. Investors in the notes issued by the VIEs do not have recourse to HCA's general credit, with the exception of customary representation and warranty repurchase provisions and indemnities.

As the primary beneficiary of these entities, HCA is exposed to credit, interest rate, and prepayment risk from the receivables transferred to the VIEs. However, HCA's exposure to these risks did not change as a result of the transfer of the assets to the VIEs. HCA may also be exposed to interest rate risk arising from the secured notes issued by some of the VIEs.

The transfers of the receivables to the special-purpose entities in HCA's securitizations are considered to be sales for legal purposes. However, the securitized assets and the related debt remain on HCA's consolidated balance sheets. The Company recognizes financing revenue on the pledged receivables and interest expense on the secured debt issued by the entities. The Company also maintains an allowance for credit losses on the pledged receivables to cover probable credit losses estimated using a methodology consistent with that used for the nonsecuritized loan portfolio. The interest rate instruments are consolidated within HCA's consolidated financial statements.

(ii) Off-Balance-Sheet Securitization Trusts

The Company has one active off-balance-sheet securitization trust as of the balance sheet date. The trust was created for an ABS transaction that occurred in March 2016, and the sale of the residual interest certificates in such trust occurred in October 2017. The Company still services the assets held by the VIE.

(Continued)

(p) Debt Issuance Costs

The Company incurs costs that are directly related to issuing debt. These costs are deferred and amortized over the life of the debt using the effective-interest-rate method and recognized as interest expense. For debt issuances with no scheduled payment terms or variable payment terms where the effective-interest-rate method cannot be calculated, the costs are amortized as follows:

(i) Debt with No Scheduled Payment Terms

Direct costs related to debt issuances with no scheduled payment terms (revolving lines of credit) are deferred and amortized, straight-line over the expected term of the debt – generally from the date the line of credit is opened until the renewal date.

(ii) Debt with Variable Payment Terms

The Company issues notes related to asset-backed securitizations where the repayment term is dependent upon the cash flows of the securitized finance receivables. Direct costs related to these notes are amortized proportionately to the collection of cash flows from the securitized receivables as an approximation of the effective-interest rate method.

(q) Recently Adopted Accounting Pronouncements

In February 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the tax bill issued by the U.S. federal government on December 22, 2017, also known as Tax Cuts and Jobs Act (HR1). The Company adopted the guidance on January 1, 2018. In adopting this guidance, the Company elects to reclassify the stranded tax effect related to the changes in the fair market value of its available-for-sale debt and equity securities within accumulated other comprehensive income to retained earnings. The effect of adopting this pronouncement is a decrease in retained earnings of $287 and an increase in accumulated other comprehensive income of $287.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The Company adopted the guidance on January 1, 2019. The adoption of the guidance did not have a material impact on the consolidated statements of cash flows. Additionally, the FASB issued ASU No. 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted the guidance on January 1, 2019. The adoption of the guidance did not have a material impact on the consolidated financial statements.

In January 2016, FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. This new guidance also impacts financial liabilities under the fair value option and the presentation and disclosure

(Continued)

requirements for financial instruments. The Company adopted the guidance on January 1, 2019. In adopting the guidance, the Company reclassified the cumulative unrealized gains and losses on its equity securities in accumulated other comprehensive income to retained earnings. The adoption of the guidance is an increase to retained earnings of $1,237 and a decrease to accumulated other comprehensive income of $1,237.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* Additionally, the FASB issued amendments ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12, ASU No. 2016-20, and ASU No. 2017-14. The new guidance requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company adopted this guidance on January 1, 2019. The adoption of the guidance did not have an impact on the consolidated financial statements.

(r) Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The update seeks to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. In order to achieve this, the new guidance requires nonpublic entities to disclose transfers into and out of Level 3 of the fair value hierarchy, as well as purchases and issues of Level 3 assets and liabilities. The amendments are effective for the Company for the fiscal years beginning after December 15, 2019 and permit early adoption. The Company has evaluated the requirements of the guidance and will adopt on January 1, 2020. The adoption of the guidance will not have an impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in A Cloud Computing Arrangement That Is A Service Contract (A Consensus of the FASB Emerging Issues Task Force)*. The new guidance seeks to clarify the accounting treatment for fees paid by a customer in a cloud computing arrangement that does not include a software license, also termed a service contract. This update aligns the accounting treatment of implementation costs related to service contracts to that of the cloud computing arrangements that include a software license. The amendments under this update are effective for the Company for the fiscal years beginning after December 15, 2020 and permit early adoption. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements and financial statement disclosures.

In July 2018, the FASB issued ASU No. 2018-09, *Codification Improvements*. The new guidance contains 30 provisions which seek to address minor suggestions and clarifications from stakeholders. The provision applicable to the Company requires entities to take into consideration the effect of the sale restriction of a liability and / or an equity instrument held by another party as an asset when measuring the fair value of such instrument. The amendments are effective for the Company beginning January 1, 2020. The Company has evaluated the requirements of the guidance and will adopt on January 1, 2020. The adoption of the guidance will not have an impact on the consolidated financial statements.

(Continued)

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new guidance simplifies the application of hedge accounting and increases transparency as to the scope and results of hedging programs by making more hedging strategies eligible for hedge accounting as well as amending the presentation and disclosure requirements and changes how companies assess the effectiveness of hedges. The FASB issued ASU No. 2019-10—*Financial Instruments—Derivatives and Hedging (Topic 815): Effective Dates* to defer the effective date from January 1, 2020 to January 1, 2021. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements and financial statement disclosures.

In March 2017, the FASB issued ASU No. 2017-08, *Premium Amortization on Purchased Callable Debt Securities*. The new guidance requires entities to amortize premiums associated with certain callable debt securities up to their earliest call date. The amendments are effective for the Company beginning January 1, 2020. The Company has evaluated the requirements of the guidance and will adopt on January 1, 2020. The adoption of the guidance will not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Additionally, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, ASU No. 2019-04, *Codification improvements to Topic 326, Financial Instruments – Credit Losses* and ASU No. 2019-05, *Financial Instruments – Credit Loss (Topic 326): Targeted Transition Relief*. The new guidance replace the incurred loss impairment methodology in current U.S. 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 FASB issued ASU No. 2019-10—*Financial Instruments—Credit Losses (Topic 326): Effective Dates* to defer the effective date from January 1, 2022 to January 1, 2023. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements and financial statement disclosures.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance requires lessees to recognize the assets and liabilities on their balance sheets for the rights and obligations created by leases. It will also require disclosures designed to give users of financial statements the ability to assess the amount, timing, and uncertainty of cash flows arising from leases. Additionally, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors,* and ASU No. 2019-01*, Codification Improvements.* The FASB issued ASU No. 2019-10— *Leases (Topic 842): Effective Dates* to defer the original effective date from January 1, 2020 to January 1, 2021. The Company will adopt the guidance on January 1, 2021 and is currently evaluating the impact of this standard on its consolidated financial statements and financial statement disclosures.

(s) Reclassifications

Certain amounts in the prior years' financial statements and related note disclosures have been reclassified to conform to the current year presentation.

(Continued)

(3) Investments

The following tables present amortized cost, gross unrealized gains and losses, and estimated fair value of investments classified as available-for-sale at December 31, 2019 and 2018:

	December 31, 2019			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale investments:				
U.S. Treasury securities	$ 9,730	80	(21)	9,789
Mortgage-backed securities:				
Federal agency	1,017	5	(2)	1,020
Nonfederal agency	18,370	344	(18)	18,696
Municipal debt securities	2,700	71	—	2,771
Foreign government debt securities	2,196	74	—	2,270
Corporate debt securities	243,202	9,554	(114)	252,642
Total available-for-sale investments	$ 277,215	10,128	(155)	287,188

	December 31, 2018			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale investments:				
U.S. Treasury securities	$ 8,428	—	(193)	8,235
Mortgage-backed securities:				
Federal agency	1,353	1	(41)	1,313
Nonfederal agency	18,526	51	(256)	18,321
Municipal debt securities	2,929	25	(6)	2,948
Foreign government debt securities	2,485	—	(170)	2,315
Corporate debt securities	176,165	198	(4,959)	171,404
Total available-for-sale investments	$ 209,886	275	(5,625)	204,536

(Continued)

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at December 31, 2019 and 2018 are as follows:

	December 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale investments:						
U.S. Treasury securities	$ 1,898	(17)	1,177	(4)	3,075	(21)
Mortgage-backed securities:						
Federal agency	335	(1)	40	(1)	375	(2)
Nonfederal agency	1,833	(18)	1,250	—	3,083	(18)
Municipal debt securities	—	—	—	—	—	—
Foreign government debt securities	—	—	—	—	—	—
Corporate debt securities	11,065	(15)	13,922	(99)	24,987	(114)
Available-for-sale investments	$ 15,131	(51)	16,389	(104)	31,520	(155)

	December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale investments:						
U.S. Treasury securities	$ 136	(3)	8,099	(190)	8,235	(193)
Mortgage-backed securities:						
Federal agency	83	(2)	1,199	(39)	1,282	(41)
Nonfederal agency	4,751	(27)	9,885	(229)	14,636	(256)
Municipal debt securities	498	(2)	404	(4)	902	(6)
Foreign government debt securities	1,546	(152)	769	(18)	2,315	(170)
Corporate debt securities	81,854	(2,467)	73,697	(2,492)	155,551	(4,959)
Available-for-sale investments	$ 88,868	(2,653)	94,053	(2,972)	182,921	(5,625)

(Continued)

The Company reviewed the available-for-sale securities that were in a continuous loss position less than 12 months and longer than 12 months at each reporting period-end. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information, and information obtained from regulatory filings, management believes the decline in fair value for these available-for-sale securities is temporary. In addition, the Company intends and has the ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

Should the impairment of any of these available-for-sale securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified. For the years ended December 31, 2019 and 2018, no available-for-sale securities were deemed to be other-than-temporarily impaired, and therefore, all unrealized losses were recognized in accumulated other comprehensive income (loss).

All changes in market value of equity securities are immediately recognized in other revenue, net in the consolidated statements of income.

Investments by contractual maturity as of December 31, 2019 are summarized as follows:

	Available-for-sale		Equity investments	Other
	Amortized cost	Fair value	Fair value	Fair value
Due in one year or less	$ 31,643	31,664	—	—
Due after one year through five years	121,387	124,107	—	—
Due after five years through ten years	104,083	110,558	—	—
Due after ten years	20,102	20,859	17,136	4,762
Total investments	$ 277,215	287,188	17,136	4,762

Mortgage-backed securities have contractual terms to maturity. However, expected maturities of residential mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without call or prepayment penalties.

Other investments consist of company-owned life insurance which was acquired on certain executives and key employees through a trust in conjunction with the deferred compensation plan.

(Continued)

(4) Finance Receivables

Finance receivables consist of the following at December 31, 2019 and 2018:

		2019	2018
Retail	$	16,528,178	13,538,207
Wholesale		2,459,620	2,195,387
		18,987,798	15,733,594
Add:			
Premium on purchase of retail contracts		40,921	30,672
Less:			
Allowance for credit losses		(237,908)	(231,142)
Yield maintenance subvention		(543,157)	(395,676)
	$	18,247,654	15,137,448

As of December 31, 2019 and 2018, approximately $7,697,659 and $5,248,111, respectively, of the retail finance receivables held by the Company's subsidiaries have been pledged for borrowings under asset-backed conduit transactions (note 7). Refer to note 10 for additional information regarding finance receivables sold for legal purposes in securitization transactions.

The annual contractual maturities of finance receivables at December 31, 2019 were as follows:

		Retail	Wholesale	Total
2020	$	4,352,233	2,178,932	6,531,165
2021		3,905,717	52,075	3,957,792
2022		3,242,752	61,445	3,304,197
2023		2,490,120	44,952	2,535,072
2024		1,717,016	106,211	1,823,227
2025 and thereafter		820,340	16,005	836,345
	$	16,528,178	2,459,620	18,987,798

It is the Company's experience that a substantial portion of the finance receivable portfolio generally is repaid before contractual maturity dates.

Wholesale finance receivables are primarily inventory lines of credit, real estate, construction, and working capital loans for certain dealers. These loans are reviewed and renewed on a periodic basis.

(Continued)

The Company services retail finance receivables for borrowers residing in all 50 states and the District of Columbia with no concentration of retail finance receivables of more than 14% and 15% in any one state at December 31, 2019 and 2018, respectively.

(5) Investment in Operating Leases

Investment in operating leases at December 31, 2019 and 2018 were as follows:

	2019	2018
Investment in operating leases	$ 19,682,245	20,538,524
Initial direct costs	6,898	7,130
Less:		
Accumulated depreciation	(4,403,932)	(4,752,366)
Allowance for credit losses	(102,714)	(111,375)
Investment in operating leases	$ 15,182,497	15,681,913

As of December 31, 2019 and 2018, approximately $1,789,133 and $2,252,597, respectively, of the lease receivables held by the Company's subsidiaries have been pledged for borrowings under asset-backed conduit transactions (note 7). Refer to note 10 for additional information regarding securitized investments in operating leases under asset-backed securitization transactions.

Future minimum lease rentals on operating leases that have initial or remaining noncancelable terms of more than one year as of December 31, 2019 are as follows:

2020	$ 2,627,489
2021	1,650,828
2022	647,029
2023	66,994
2024	—
2025 and thereafter	—
	$ 4,992,340

The Company has operating leases outstanding from lessee residing in all 50 states and the District of Columbia with no concentration of lease receivables of more than 14% and 15% in any one state at December 31, 2019 and 2018, respectively.

(Continued)

(6) Allowance for Credit Losses and Credit Risk

The following tables provide an analysis of the allowance for credit losses related to retail finance receivables, wholesale finance receivables, and investment in operating leases for years ended December 31, 2019 and 2018:

	December 31, 2019				
	Retail receivables	Wholesale receivables	Total finance receivables	Investment in operating leases	Total
Balance, beginning of year	$ 219,592	11,550	231,142	111,375	342,517
Provision for credit losses	224,308	(54)	224,254	83,499	307,753
Charge-offs	(291,949)	(6,055)	(298,004)	(124,150)	(422,154)
Recoveries	79,511	1,005	80,516	31,990	112,506
Balance, end of year	$ 231,462	6,446	237,908	102,714	340,622

	December 31, 2018				
	Retail receivables	Wholesale receivables	Total finance receivables	Investment in operating leases	Total
Balance, beginning of year	$ 241,203	5,047	246,250	85,963	332,213
Provision for credit losses	203,507	6,508	210,015	136,897	346,912
Charge-offs	(338,504)	(18)	(338,522)	(142,004)	(480,526)
Recoveries	113,386	13	113,399	30,519	143,918
Balance, end of year	$ 219,592	11,550	231,142	111,375	342,517

(a) Credit Quality Indicators as of December 31, 2019 and 2018

The Company is exposed to credit risk on its finance receivables. Credit risk is the risk of loss arising from the failure of customers or dealers to meet the terms of their contracts or otherwise fail to perform as agreed.

(b) Retail Portfolio

While the Company uses various credit quality metrics to develop the allowance for credit losses on the retail loan finance portfolio, the aging of the individual accounts is the primary metric used to monitor the credit quality of these finance receivables. Based on experience, the payment status of borrowers is the strongest indication of the credit quality of the underlying receivables. Payment status also impacts charge offs.

(Continued)

For the retail finance receivables, individual borrower accounts are segregated into one of four aging categories based on the number of days outstanding. Retail finance receivables are generally considered delinquent if a contractually due installment (or portion thereof) has not been received after 30 days from the due date. Nonperforming includes retail finance receivables that are greater than or equal to 90 days delinquent.

The table below shows the recorded investments in retail receivables by credit quality indicator as of December 31, 2019 and 2018:

	December 31	
	2019	**2018**
Retail portfolio segment:		
Performing	$ 16,485,205	13,494,885
Nonperforming	42,973	43,322
Total	$ 16,528,178	13,538,207

(c) Wholesale Products Portfolio

For the three classes within the wholesale products portfolio (floor plan, real estate, and working capital), all loans outstanding to an individual dealer or dealership group are aggregated and evaluated collectively by dealer or dealership group. This reflects the interconnected nature of financing provided to individual dealers and dealer group customers.

When assessing the credit quality of the wholesale finance receivables, account balances are categorized into three distinct credit quality indicators based on internal risk assessments. The internal risk assessments for all wholesale finance receivables are updated on a quarterly basis.

The three credit quality indicators are as follows:

- Performing – Accounts not classified as either credit watch or default.
- Credit watch – The account is subject to heightened monitoring based upon certain qualitative and quantitative factors. These factors include liquidity ratios, profitability, and other early warning metrics developed by management. Accounts in credit watch status are not classified as impaired and the borrower is generally paying as agreed.
- Default – Account is considered impaired because the borrower is not meeting contractual obligations, certain contractual obligations have been temporarily waived, or management believes collateral is insufficient to cover principal and interest. The category also includes loans that have been modified in a TDR.

(Continued)

The table below shows the recorded investment for each credit quality indicator of wholesale finance receivable as of December 31, 2019 and 2018:

	2019				2018			
	Floor plan	Real estate	Working capital	Total	Floor plan	Real estate	Working capital	Total
Wholesale:								
Performing	$ 1,755,474	207,300	51,170	2,013,944	1,835,723	190,168	94,192	2,120,083
Credit watch	327,399	68,832	35,507	431,738	47,980	6,907	3,731	58,618
Default	6,627	7,164	147	13,938	7,005	8,703	978	16,686
Total	$ 2,089,500	283,296	86,824	2,459,620	1,890,708	205,778	98,901	2,195,387

The following tables summarize the information related to the recorded investment in impaired wholesale finance receivables by class, which are individually evaluated for impairment at the dates indicated. The difference between the recorded investment and the unpaid principal balance represents a partial charge-off of the receivable:

	December 31, 2019				
	Recorded investment	Unpaid principal balance	Related allowance	Average balance	Interest income recognized
Impaired account balances with an allowance:					
Floor plan	$ 6,627	6,627	698	11,708	422
Real estate	—	—	—	—	—
Working capital	147	147	147	180	4
Total	6,774	6,774	845	11,888	426
Impaired account balances without an allowance:					
Floor plan	—	3,548	—	3,965	—
Real estate	7,164	8,682	—	8,703	—
Working capital	—	602	—	602	—
Total	7,164	12,832	—	13,270	—
Total impaired account balances:					
Floor plan	6,627	10,175	698	15,673	422
Real estate	7,164	8,682	—	8,703	—
Working capital	147	749	147	782	4
Total	$ 13,938	19,606	845	25,158	426

(Continued)

	December 31, 2018				
	Recorded investment	Unpaid principal balance	Related allowance	Average balance	Interest income recognized
Impaired account balances with an allowance:					
Floor plan	$ 7,005	7,005	3,878	9,181	248
Real estate	8,703	8,703	1,518	8,812	122
Working capital	978	978	977	1,092	27
Total	16,686	16,686	6,373	19,085	397
Impaired account balances without an allowance:					
Floor plan	—	—	—	—	—
Real estate	—	—	—	—	—
Working capital	—	—	—	—	—
Total	—	—	—	—	—
Total impaired account balances:					
Floor plan	7,005	7,005	3,878	9,181	248
Real estate	8,703	8,703	1,518	8,812	122
Working capital	978	978	977	1,092	27
Total	$ 16,686	16,686	6,373	19,085	397

(d) Aging Analysis of Past-Due Finance Receivables as of December 31, 2019 and 2018

	30–59 days past due	60–89 days past due	Delinquent 90 days and above	Total past due	Current	Total financing receivables	Recorded investment 90+ days and accruing
2019:							
Retail	$ 371,884	110,739	42,973	525,596	16,002,582	16,528,178	42,973
Wholesale	—	6,774	7,164	13,938	2,445,682	2,459,620	—
Total	$ 371,884	117,513	50,137	539,534	18,448,264	18,987,798	42,973
2018:							
Retail	$ 362,824	116,429	43,322	522,575	13,015,632	13,538,207	43,322
Wholesale	—	—	14,925	14,925	2,180,462	2,195,387	—
Total	$ 362,824	116,429	58,247	537,500	15,196,094	15,733,594	43,322

Recorded investment 90+ days and accruing represents the investment in finance receivables greater than 90 days past due, which continue to accrue interest.

(Continued)

(e) Investment in Finance Receivables on Nonaccrual Status as of December 31, 2019 and 2018

		2019	2018
Retail	$	—	—
Wholesale		13,938	16,686
Total nonaccrual	$	13,938	16,686

The above table represents the investment in finance receivables placed on nonaccrual status where interest earnings have ceased and only recognized to the extend it is received in cash. See note 2(j) for an explanation of the Company's nonaccrual policy.

(f) Troubled Debt Restructurings

A restructuring of debt constitutes a TDR if the Company grants a concession for economic or legal reasons related to a debtor's financial difficulties that would otherwise not be considered in the normal course of business. As of December 31, 2019, HCA had no commitments to lend additional funds to borrowers involved in a TDR.

(i) Retail Finance Receivables

While payment extensions are sometimes granted on retail loans in the normal course of the collection process, no concessions are made on the principal balance loaned or the interest rate charged. Payment extensions typically result in a short-term one-month deferral of the consumer's normal monthly payment and do not constitute a TDR.

Retail loans modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code are considered to be TDRs. No changes are recorded to the recorded investment per the original contract for these TDRs until all payments and requirements of the reorganization are met. Retail loans classified as TDRs are charged off to the allowance for credit losses at the earlier of when the loan is deemed uncollectible or over 120 days delinquent under the terms of the original contract. Payments received subsequent to charge-off are applied to the allowance for credit losses as recoveries. As of December 31, 2019, the Company had 1,795 retail portfolio loans with outstanding principal balances of $26,242 in reorganization proceedings pursuant to the U.S. Bankruptcy Code, of which 150 of those loans with outstanding principal balances of $2,126 are classified as TDRs. As of December 31, 2018, the Company had 1,903 retail portfolio loans with outstanding principal balances of $28,587 in reorganization proceedings pursuant to the U.S. Bankruptcy Code, of which 209 of those loans with outstanding principal balances of $3,300 are classified as TDRs.

(Continued)

(ii) Wholesale Finance Receivables

Within the Company's wholesale loan portfolio, the Company grants concessions to maximize collections for borrowers that are having financial difficulties. These concessions are rare and typically granted when management feels other remedies to collect the entire balance would be unsuccessful.

Wholesale loans involved in TDRs are identified as impaired and a specific allowance for credit losses is assessed.

As of December 31, 2019 and 2018, the Company did not have TDRs in the wholesale portfolio.

(7) Debt

Debt and the related weighted average contractual interest rates for the Company and its subsidiaries were as follows at December 31, 2019 and 2018:

				Weighted average rates	
		2019	2018	2019	2018
Commercial paper	$	2,992,458	2,296,225	2.03 %	2.80 %
Revolving lines of credit and term loans		2,747,000	3,128,000	2.49	3.17
Asset-backed conduits		5,083,467	3,879,762	2.48	3.11
Asset-backed securitization		6,038,317	6,462,115	2.46	2.32
Senior unsecured notes		10,547,514	9,546,489	3.13	2.92
Affiliate borrowings		1,097,988	948,283	2.63	3.45
Less:					
Unamortized debt issuance costs		44,966	41,590	N/A	N/A
Total debt, net	$	28,461,778	26,219,284	2.68 %	2.84 %

(a) Commercial Paper

HCA utilizes commercial paper to meet short-term working capital requirements. The Company's commercial paper is recorded net of any discount at issuance. Amortization of the discount is reported as interest expense in the consolidated statements of income. On September 29, 2017, the Company upsized the program by $700,000, increasing its limit to $3,000,000. As of December 31, 2019 and 2018, the Company had a weighted average remaining maturity of 43 and 21 days, respectively.

(b) Revolving Lines of Credit and Term Loans

HCA utilizes committed revolving lines of credit and term loans to meet working capital requirements. The Company maintains relationships with a variety of global banking partners to ensure liquidity. The rates for these instruments are generally fixed or based upon a floating benchmark rate (typically London Interbank Offered Rate (LIBOR)) plus a fixed spread. The Company increased its revolving lines of credit by $100,000 and 750,000 in 2019 and 2018 respectively. As of December 31, 2019 and 2018, the Company had drawn $1,747,000 on its $4,900,000 revolving lines of credit and $2,278,000

(Continued)

on its $4,800,000 revolving lines of credit, respectively. Term loans generally have terms of one to five years. As of December 31, 2019 and 2018, the Company had an outstanding balance of $1,000,000 and $850,000, respectively in term loans. The revolving lines of credit and term loans mature at various times through May 2023.

(c) Asset-Backed Conduits

HCA's financing transactions with bank-sponsored asset-backed commercial paper conduits consist of bankruptcy remote, special-purpose entities (warehouse facilities) to which the Company has transferred finance receivable and lease assets, which are pledged as collateral for debt issued by the special-purpose entities (notes 4 and 5). Interest rates on these facilities are generally based upon a floating benchmark rate (such as the LIBOR or Commercial Paper index rate) plus a fixed spread. HCA generally engages in interest rate derivative instrument transactions to manage the risk related to floating interest rates. As of December 31, 2019 and 2018, the Company had the ability to draw an additional $2,982,135 and $3,556,785, respectively.

(d) Asset-Backed Securitization

HCA regularly sells pools of finance receivables and lease assets through asset-backed securitization transactions. Pursuant to these transactions, the assets are sold to a bankruptcy remote, special-purpose entity, which has been established for the limited purpose of buying and reselling the Company's finance receivables and lease assets. The special-purpose entity then transfers the same assets to a trust, which issues notes to investors, which are collateralized by the finance receivable and lease assets (note 10). The notes are generally fixed-rate and are structured to amortize on a monthly basis according to the cash collections on the underlying assets.

(Continued)

(e) Senior Unsecured Notes

The Company issues senior unsecured notes to meet longer term liquidity needs. The Company's senior unsecured notes are denominated in U.S. dollars and recorded net of any discount or premium at issuance. Interest expense on senior unsecured notes is recognized on an accrual basis and reported as interest expense in the consolidated statements of income. On March 13, 2015, the Company established a private U.S. medium term note (MTN) program under Rule 144A under the U.S. Securities Act of 1933, as amended. Under the MTN program, the Company can issue up to $4,000,000 aggregate principal amount of notes with original maturities of one year or more. On June 2, 2016, the Company upsized the program by $8,000,000, increasing its limit to $12,000,000. On June 11, 2019, the Company upsized the program by $28,000,000, increasing its limit to $40,000,000.

(f) Affiliate Borrowings

The Company administrates the North America Cash Management fund (NACM) for HMC's affiliates in the United States (note 8). Affiliate companies may deposit cash into the fund or borrow from it. Excess cash held by the fund is used to fund short-term borrowing needs of the affiliate companies that participate. Deposits to the fund from affiliate companies are classified as affiliate borrowings and included in the debt section of the consolidated balance sheets. Loans from the fund to affiliate companies are classified as due from affiliates, net. As of December 31, 2019 and 2018, deposits from affiliate companies included in debt were $197,988 and $48,283, respectively. The Company also enters into separate intercompany borrowing agreements with affiliated companies. These loan agreements range from one to two years and generally are renewed at maturity. The interest rates of these loans are generally fixed or floating, which consists of a benchmark rate (such as the LIBOR or Commercial Paper index rate) plus a fixed spread. As of December 31, 2019 and 2018, the principal balance outstanding for the agreements separate from NACM were $900,000 for both periods.

(Continued)

(g) Maturity of Debt

The following tables show the contractual maturity of the Company's debt as of December 31, 2019 and 2018. Actual repayment on asset-backed debt will vary based upon repayment activity on the related pledged assets:

	December 31, 2019				
	Within 1 year	1–2 years	2–3 years	3+ years	Total
Commercial paper	$ 2,992,458	—	—	—	2,992,458
Revolving lines of credit and term loans	2,147,000	350,000	250,000	—	2,747,000
Asset-backed conduits	526,104	1,438,212	1,226,711	1,892,440	5,083,467
Asset-backed securitization	266,403	1,889,393	2,305,464	1,577,057	6,038,317
Senior unsecured notes	2,699,744	2,799,260	2,799,262	2,249,248	10,547,514
Affiliate borrowings	197,988	900,000	—	—	1,097,988
Less unamortized debt issuance cost	19,586	9,631	6,666	9,083	44,966
Total	$ 8,810,111	7,367,234	6,574,771	5,709,662	28,461,778

	December 31, 2018				
	Within 1 year	1–2 years	2–3 years	3+ years	Total
Commercial paper	$ 2,296,225	—	—	—	2,296,225
Revolving lines of credit and term loans	2,428,000	350,000	350,000	—	3,128,000
Asset-backed conduits	1,054,281	1,665,566	894,730	265,185	3,879,762
Asset-backed securitization	672,939	1,704,559	2,522,236	1,562,381	6,462,115
Senior unsecured notes	2,299,713	2,698,899	2,798,741	1,749,136	9,546,489
Affiliate borrowings	948,283	—	—	—	948,283
Less unamortized debt issuance cost	19,477	9,294	5,409	7,410	41,590
Total	$ 9,679,964	6,409,730	6,560,298	3,569,292	26,219,284

(Continued)

(8) Transactions with Affiliates

The following table summarizes major component of due from affiliates, net as of December 31, 2019 and 2018:

	December 31	
	2019	**2018**
Intercompany receivables attributed to utilization of NOL	$ (19,730)	(3,375)
Short-term and long-term receivables from incentive programs	745,799	727,317
Borrowings from affiliates	—	219,000
Other	(58,818)	(66,898)
Total	$ 667,251	876,044

(a) Incentive Programs

As an accommodation to HMA and KMA, the Company, from time to time, provides incentive programs to customers. Generally, under these programs, the Company finances or leases vehicles on favorable terms and receives subsidy amounts from HMA and KMA. Subsidy amounts are generally received for lower than market interest rates, lower than market lease rentals, greater than market estimated lease residual values, and greater than normal expected credit losses.

The amounts billed to HMA for various yield incentive programs were $370,073 and $311,402 for the years ended December 31, 2019 and 2018, respectively. The amounts billed to KMA for various yield incentive programs were $202,951 and $227,201 for the years ended December 31, 2019 and 2018, respectively. These amounts are recognized in financing revenue over the terms of the related contracts.

The amounts billed to HMA for residual value and other end of term incentive programs were $35,923 and $66,397 for the years ended December 31, 2019 and 2018, respectively. The amounts billed to KMA for residual value and other end of term incentive programs were $56,212 and $56,177 for the years ended December 31, 2019 and 2018, respectively. The effect of the residual value incentive program is a reduction of depreciation over the life of the lease. Other end of term incentive programs consist of disposition fees paid on behalf of loyal customers and are recorded in financing revenue.

The outstanding receivable balance for HMA yield incentive programs were $173,820 and $137,753 as of December 31, 2019 and 2018, respectively, and are a component of due from affiliates, net. The outstanding receivable balance for HMA residual value and other end of term incentive programs were $243,227 and $274,141 as of December 31, 2019 and 2018, respectively, and are a component of due from affiliates, net.

The outstanding receivable balance for KMA yield incentive programs were $72,661 and $69,504 as of December 31, 2019 and 2018, respectively, and are a component of due from affiliates, net. The outstanding receivable balance for KMA residual value and other end of term incentive programs were

(Continued)

$256,091 and $245,919 as of December 31, 2019 and 2018, respectively, and are a component of due from affiliates, net.

The residual value and other end of term incentive receivable balance due from HMA and KMA for each period presented consists primarily of an estimated future billing amount for units covered under the incentive program but not billable until end of lease term. The corresponding amounts are included as a reduction of the investment in operating leases, net.

(b) Affiliate Borrowings

On July 1, 2003, the Company entered into the NACM agreement in which the Company manages liquidity for HMC affiliates in the United States. Such cash is available for borrowings by the affiliates. The Company can borrow up to $2,000,000 based on the funds availability under this facility. Affiliate deposits are included as liabilities in the debt section of the consolidated balance sheets, and affiliate borrowings are included as assets in the due from affiliates section. Affiliates participating in the program pay or receive a variable rate of interest, which is generally at Commercial Paper Index or Applicable Federal Rate (AFR) plus a fixed margin. The amounts included in the program as of December 31, 2019 and 2018 were as follows:

	December 31	
	2019	**2018**
Affiliate deposits (included in debt)	$ 197,988	48,283
Affiliate borrowings (included in due from affiliates)	—	(219,000)
Net amount due (from)/to affiliate companies	$ 197,988	(170,717)

In addition, the Company enters into separate, longer term, intercompany loan agreements with affiliates. Affiliate borrowings, outside of NACM agreements, include loan agreements ranging from one to two years and are generally renewed at maturity. The interest rates of these loans are generally fixed and floating which consist of a benchmark rate (such as the LIBOR or Commercial Paper index rate) plus a fixed spread. The amounts included in these borrowing arrangements were as follows as of December 31, 2019 and 2018, which were included in the debt section of the consolidated balance sheets:

	December 31	
	2019	**2018**
Affiliate borrowings from NACM participants	$ 900,000	900,000
Total	$ 900,000	900,000

(Continued)

For the years ended December 31, 2019 and 2018, the Company received interest income from affiliates of $3,675 and $6,131, respectively. For the years ended December 31, 2019 and 2018, the Company paid interest expense to the affiliates of $49,289 and $38,365, respectively, for all affiliate borrowings. The cash inflows and outflows of debt from these facilities are classified as a financing activity in the consolidated statements of cash flows and the cash inflows and outflows from deposits to these facilitates are classified as an investing activity. Interest revenue and expense are classified as operating activities in the consolidated statements of cash flows.

(c) Other Related Party Expenses

The following table summarizes other related party expenses for the years ended December 31, 2019 and 2018:

		2019	2018
Administrative services	$	1,419	1,234
Affiliate marketing support		71,600	19,500
HCS royalty		27,134	26,953
HMC credit support agreement		18,394	18,147
Total other related party expenses	$	118,547	65,834

Administrative Services – HCA maintains a portion of its operations in office space furnished by HMA and utilizes various administrative services common to both HCA and HMA. HCA reimburses HMA for occupancy costs and administrative services arranged for and paid by HMA on behalf of HCA. The administrative services expenses were included in operating expenses.

Affiliate Marketing Support – HCA provides marketing support to HMA and KMA to jointly increase the brand image and grow the customer base. Typically, this support is related to costs incurred by HMA and KMA to increase vehicle sales, which directly benefits HCA through higher volumes of loans and leases. The affiliate marketing support expenses were included in operating expenses.

HCS Royalty – HCA pays a royalty to Hyundai Capital Services (HCS), a Korean finance affiliate of HMC for the provision of business expertise and related services. The royalty expenses were included in operating expenses, and any unpaid amounts are included in the balance sheets as a liability under accounts payable and other liabilities. For December 31, 2019 and 2018, the total unpaid amounts were $23,064 and $22,910, respectively.

HMC Credit Support Agreement – HCA and HMC entered into a credit support agreement under which HMC has agreed to ensure HCA maintains positive net worth and sufficient liquidity to meet its payment obligations under any debt issuance covered by the agreement. The Credit Support Agreement is not a guarantee by HMC of any obligations of HCA. The credit support fee expenses were included in interest expense.

(Continued)

(9) Provision for Income Taxes

The significant components of the provision for income taxes provided for the years ended December 31, 2019 and 2018 were as follows:

		2019	2018
Current:			
Federal	$	(181)	(1)
State		26,350	8,067
		26,169	8,066
Deferred:			
Federal		13,087	4,373
State		(12,845)	7,998
		242	12,371
Income tax expense	$	26,411	20,437

The provision for income taxes differed from the amounts computed by applying the statutory federal income tax rate of 21% to pretax income for the years ended December 31, 2019 and 2018 as a result of the following:

		2019	2018
Computed “expected” income taxes	$	50,989	29,646
State income tax (net of federal tax benefit)		3,387	2,176
Change in valuation allowance		(2)	(11)
State income tax rate change		1,925	8,913
Deferred tax true-ups		6,833	2,696
Federal and state tax credits		(37,121)	(22,661)
Other		400	(322)
Income tax expense	$	26,411	20,437

(Continued)

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

There were no unrecognized income tax benefits during 2019 and 2018.

There was no interest expense recognized related to uncertain tax positions in 2019 and 2018.

The Company is routinely examined by various taxing authorities. For years before 2013, the Company is no longer subject to U.S. federal or state income tax examinations. There are ongoing audits in various jurisdictions the results of which the Company does not expect to be material to the Company's financial statements.

The tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are as follows:

		2019	2018
Deferred tax assets:			
Allowance for credit losses	$	77,313	76,021
State taxes		1,718	89
Tax credits		110,653	73,689
Royalty		6,277	6,231
Net operating loss carryover		1,706,378	1,651,868
Unearned premium reserves		28,404	20,969
Vehicle service contracts		17,852	13,967
Other		23,175	11,793
		1,971,770	1,854,627
Valuation allowance		(210)	(212)
		1,971,560	1,854,415
Deferred tax liabilities:			
Depreciation		4,829	6,187
Dealer service fees		22,138	20,350
Investment in operating leases		3,293,978	3,168,602
Mark-to-market adjustment		59,184	74,296
Deferred acquisition costs		92,504	83,053
Other		3,436	2,758
		3,476,069	3,355,246
Net deferred tax liabilities	$	1,504,509	1,500,831

(Continued)

As of December 31, 2019 and 2018, there were no current intercompany receivables (attributed to utilization of the Company's federal net operating losses), and current intercompany payables of $19,730 and $3,375 (attributed to state combined and consolidated tax liability allocation) were included in due from affiliates, net, respectively. During 2019 and 2018, the Company received $181 and $1,778 intercompany receivable settlements for utilization of refundable tax credits and tax credits at the consolidated federal tax level, respectively.

Included in the Company's deferred tax assets/(liabilities) are federal and state net operating loss (NOL) carryforwards with tax benefits resulting from operating losses incurred on the federal return and in various states in which the Company files separate and combined tax returns. Based on the federal and state statutes, these NOL carryovers expire at various times through 2039 which the company is tracking separately.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance is primarily attributable to the uncertainty regarding the realization of charitable contribution carryforward benefits. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences reverse and become deductible. The Company considers the reversal of deferred tax liabilities, projected taxable income, and tax planning strategies in making this assessment. Based upon these factors, management believes that it is more likely than not that the Company will realize substantially all of benefits of these deductible differences except for the charitable contribution carryforwards generated in 2015-2019 expiring at various times in 2020-2024.

(Continued)

(10) Variable Interest Entities

The Company uses one or more special-purpose entities that are considered VIE to issue asset-backed securities to third-party bank-sponsored asset-backed securitization vehicles and to investors in securitization transactions. 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 a 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.

The following tables show the assets and liabilities related to the VIE securitization transactions that were included in its consolidated financial statements as of December 31, 2019 and 2018.

	December 31, 2019						
	VIE assets				VIE liabilities		
	Restricted cash	Gross securitized assets	Net securitized assets	Other assets	Debt	Debt, net of unamortized issuance cost	Other liabilities
Finance receivables	$ 184,411	4,442,351	4,310,366	11,603	3,679,362	3,668,493	3,758
Investment in operating leases	234,322	3,097,741	3,077,655	14	2,358,955	2,352,377	2,532
Total	$ 418,733	7,540,092	7,388,021	11,617	6,038,317	6,020,870	6,290

	December 31, 2018						
	VIE assets				VIE liabilities		
	Restricted cash	Gross securitized assets	Net securitized assets	Other assets	Debt	Debt, net of unamortized issuance cost	Other liabilities
Finance receivables	$ 187,725	4,243,054	4,137,850	11,507	3,439,895	3,431,100	4,302
Investment in operating leases	266,146	4,076,063	4,048,199	21	3,022,220	3,013,850	2,976
Total	$ 453,871	8,319,117	8,186,049	11,528	6,462,115	6,444,950	7,278

(Continued)

(11) Commitments and Contingent Liabilities

(a) Lease Commitments

The Company is party to lease agreements ranging from 4 to 12 years for the headquarters facility in Irvine, California, as well as regional offices in Georgia, Texas, and California. In January 2019, the Company executed an amendment to the lease agreement for the headquarters facility in Irvine, California which was effective January 1, 2019 and extended the lease through April 30, 2030.

At December 31, 2019, including the lease amendment noted above, future minimum lease payments required under operating leases that have initial or remaining noncancelable terms of more than one year with unexercised options to renew are as follows:

Years ended December 31:		
2020	$	15,874
2021		16,325
2022		15,377
2023		15,871
2024		17,020
2025 and thereafter		38,714
	$	119,181

Rental expense is recognized on a straight-line basis over the lease term. For the years ended December 31, 2019 and 2018, total rental expense, including payments to affiliates for the headquarters as well as regional offices and temporary office spaces, was $14,712 and $14,645, respectively.

(b) Line of Credit Commitments

At December 31, 2019 and 2018, the Company had commitments to make available an additional $989,253 and $663,542, respectively, of wholesale inventory financing to dealers.

(c) Other Contingencies

(i) The Company is the subject of various claims and actions that arise in the ordinary course of its business. Management believes the ultimate outcome of such claims and actions should not have a materially adverse effect on the Company.

(ii) On June 20, 2018, the Company entered into an agreement with a third-party lease provider to guarantee lease obligations originated between the Genesis, Hyundai and Kia dealership and the lease provider. Under the agreement, the Company would be obligated to reimburse the lease provider for any contractual lease payments or other obligations defaulted on by the dealerships. At this time, the Company believes any payments required under the guarantee would not have a material impact on the Company.

(Continued)

(iii) Effective January 1, 2019, the Company is self-funding the medical insurance coverage for its employees. The Company obtained a stop-loss insurance policy to limit the claim losses to $150 per employee per year. In addition to actual claims paid, included in operating expenses on the statement of income is a reserve of $1,952 for claims incurred but not paid (IBNP). This IBNP is calculated based upon claim projections utilizing the Company's historical and industry data. At this time, the Company believes that the liability of $1,952 reported in Accrued salaries and fringe benefits as part of Accounts Payable and Other Liabilities (note 16) represent its best actuarial estimate of IBNP based upon the available data. While there is uncertainty in estimating this liability, the Company does not believe any additional claims incurred would have a material impact on the Company.

(12) Fair Value of Financial Instruments

(a) Fair Value Measurement – Definition and Hierarchy

The accounting guidance for fair value measurements defines fair value 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 taking into consideration assumptions that a market participant would use when pricing an asset or a liability. This accounting guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable ones. Fair value should be based on assumptions that market participants would use, including a consideration of nonperformance risk. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted (unadjusted) prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in active markets for similar assets and liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

The use of observable and unobservable inputs is reflected in the fair value hierarchy assessment disclosed in the tables within this section. The availability of observable inputs can vary based upon the financial instrument and a variety of factors, such as instrument type, market liquidity, and other specific characteristics particular to the financial instrument. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment by management. The degree of management's judgment can result in financial instruments being classified as or transferred to the Level 3 category.

(Continued)

The following methods and assumptions were used by management in estimating its fair value disclosures for financial instruments:

Cash and Cash Equivalents – Cash is comprised of deposits with banks and financial institutions. Cash equivalents primarily consist of short-term money market instruments and certain highly liquid investment securities with maturities of three months or less from the date of purchase. Generally, quoted prices are used to determine the fair value of cash equivalents.

Restricted Cash – Restricted cash consists primarily of deposits held in trust for bondholders for asset-backed securitization transactions.

Available-for-Sale Investments – Available-for-sale investments consist of debt securities, which are recorded at fair value. U.S. Treasury securities are actively traded and are classified as Level 1. U.S. federal agency debt securities, corporate debt, and other debt securities are classified as Level 2.

Equity Investments – Equity investments, consist of equity instruments which are recorded at fair value in the form of single stocks and shares purchased in mutual funds which are actively traded and are classified as Level 1.

Other Investments – Other investments consist of company-owned life insurance at December 31, 2019 and certificates of deposit with banking institutions and company-owned life insurance at December 31, 2018. The certificates of deposit are nonnegotiable and nontransferable, and were pledged as security for letters of credit established for the lease of certain office facilities. They are valued at cost, which approximates fair value and are classified as Level 2. The company-owned life insurance was acquired on certain executives and key employees through a trust in conjunction with the deferred compensation plan. The company-owned life insurance is carried at cash surrender value, which approximates fair value, and is classified as Level 2.

Finance Receivables – Finance receivables consist of consumer retail contracts and wholesale loans and lines of credit. The fair value is estimated by discounting the future cash flows of the finance receivables using current rates to approximate market rates of similar instruments. The carrying values of wholesale finance receivables whose interest rates adjust on a short-term basis with applicable market indices (generally the prime rate) are assumed to approximate fair value either due to their short maturities or due to the interest rate adjustment feature. These fair value estimates do not take into consideration an exit price concept as contemplated in ASC Topic 820, *Fair Value Measurement*. Finance receivables are not carried at fair value on a recurring basis on the consolidated balance sheet. In certain instances, for finance receivables for which there is evidence of impairment, the Company may use an observable market price or the fair value of collateral if the loan is collateral dependent. The fair values of impaired finance receivables based on the collateral value or market prices where available are reported at fair value on a nonrecurring basis and classified as Level 3. Additional adjustments may be applied to reflect current market conditions in estimating fair value.

(Continued)

Due to/from Affiliates – Due to/from affiliates consist of trade receivables and short-term notes due from affiliated companies, net of amounts owed. The carrying amounts include floating rate instruments that reprice frequently and approximate fair value at the reporting date. Due to/from affiliates are classified as Level 2.

Derivative Financial Instruments – As part of the risk management strategy, the Company enters into derivative transactions to mitigate interest rate exposure. These derivative instruments are considered over the counter. The Company records fair value estimates using industry standard valuation models that require observable market inputs, including market prices, yield curves, credit curves, interest rate, foreign exchange rate, and the contractual terms of the derivative instrument and are classified as Level 2.

Debt – Debt consists of commercial paper, revolving lines of credit and term loans, asset-backed conduit facilities, asset-backed securitization, senior unsecured notes, and affiliate company borrowings. The carrying amount of commercial paper issued is assumed to approximate fair value due to its short duration and generally negligible credit risk. Commercial paper is classified in Level 2 of the fair value hierarchy. The carrying amount for asset-backed conduit facilities includes floating rate instruments that reprice frequently and approximate fair value at the reporting date. Asset-backed conduit facilities are classified in Level 3 of the fair value hierarchy. Asset-backed securitization and senior unsecured notes are primarily valued using current market rates and credit spreads for debt with similar maturities. The Company's valuation models utilize observable inputs such as standard industry curves; therefore, the Company classifies these asset-backed securitization and senior unsecured notes in Level 2 of the fair value hierarchy. Where observable inputs are not available, the Company uses quoted market prices to estimate fair value of asset-backed securitization and senior unsecured notes. Fair value of revolving lines of credit and term loans, and affiliate company borrowings are estimated based on discounted amounts of future cash flows using internal assumptions. As these valuations utilize unobservable inputs, the Company's revolving lines of credit and term loans, and affiliated company borrowings are classified in Level 3 of the fair value hierarchy.

(Continued)

The following tables present a summary of carrying values and estimated fair values of certain financial instruments, classified by level, as of December 31, 2019 and 2018:

	December 31, 2019				
	Carrying value	**Total fair value**	**Quoted price in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:					
Cash and cash equivalents	$ 129,209	129,209	129,209	—	—
Restricted cash	419,270	419,270	419,270	—	—
Available-for-sale investments	287,188	287,188	9,789	277,399	—
Equity investments	17,136	17,136	17,136	—	—
Other investments	4,762	4,762	—	4,762	—
Finance receivables, net	18,247,654	17,827,728	—	—	17,827,728
Due from affiliates, net	667,251	667,251	—	667,251	—
Derivative assets	2,847	2,847	—	2,847	—
Liabilities:					
Debt, net	$ 28,461,778	28,651,739	—	19,916,734	8,735,005
Derivative liabilities	27,315	27,315	—	27,315	—

(Continued)

	December 31, 2018				
	Carrying value	**Total fair value**	**Quoted price in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:					
Cash and cash equivalents	$ 145,101	145,101	145,101	—	—
Restricted cash	456,857	456,857	456,857	—	—
Available-for-sale investments	204,536	204,536	8,235	196,301	—
Equity investments	12,571	12,571	12,571	—	—
Other investments	5,469	5,469	—	5,469	—
Finance receivables, net	15,137,448	14,773,878	—	—	14,773,878
Due from affiliates, net	876,044	876,044	—	876,044	—
Derivative assets	19,931	19,931	—	19,931	—
Liabilities:					
Debt, net	$ 26,219,284	26,047,550	—	18,173,234	7,874,316
Derivative liabilities	8,000	8,000	—	8,000	—

(Continued)

(b) Fair Value Measurements on a Recurring Basis

The Company uses fair value to measure financial instruments on a recurring basis (primarily available-for-sale investments and derivatives). These instruments are recorded at fair value at each reporting period. The following tables summarize the fair value of financial instruments measured and recorded on a recurring basis at December 31, 2019 and 2018:

	Items measured at fair value on a recurring basis			
	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2019
Assets:				
Available-for-sale investments	$ 9,789	277,399	—	287,188
Equity investments	17,136	—	—	17,136
Derivative assets	—	2,847	—	2,847
Total assets at fair value	$ 26,925	280,246	—	307,171
Liabilities:				
Derivative liabilities	$ —	27,315	—	27,315
Total liabilities at fair value	$ —	27,315	—	27,315

	Items measured at fair value on a recurring basis			
	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2018
Assets:				
Available-for-sale investments	$ 8,235	196,301	—	204,536
Equity investments	12,571	—	—	12,571
Derivative assets	—	19,931	—	19,931
Total assets at fair value	$ 20,806	216,232	—	237,038
Liabilities:				
Derivative liabilities	$ —	8,000	—	8,000
Total liabilities at fair value	$ —	8,000	—	8,000

(Continued)

(c) Fair Value Measurements on a Nonrecurring Basis

Certain financial instruments are not measured at fair value on a recurring basis, but are subject to fair value adjustments only in certain circumstances, for example, when there is evidence of impairment. The Company measures wholesale loans at fair value when the loan is judged to be impaired. To estimate fair value, the Company may use an observable market price or the fair value of collateral when the loan is collateral dependent. Additional adjustments may be applied to reflect current market conditions in estimating fair value. The following tables summarize financial instruments that are measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018:

	Items measured at fair value on a nonrecurring basis				
	Carrying value as of December 31, 2019	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value balance as of December 31, 2019
Financial assets:					
Impaired wholesale finance receivables, net	$ 13,093	—	—	13,093	13,093
Total financial assets at fair value	$ 13,093	—	—	13,093	13,093

	Items measured at fair value on a nonrecurring basis				
	Carrying value as of December 31, 2018	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value balance as of December 31, 2018
Financial assets:					
Impaired wholesale finance receivables, net	$ 10,313	—	—	10,313	10,313
Total financial assets at fair value	$ 10,313	—	—	10,313	10,313

(Continued)

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2019:

	Fair value	Valuation methodology	Unobservable inputs	Range	Weighted average
Impaired wholesale finance receivables, net	$ 13,093	Market approach	Discount including selling costs	10%-41%	17 %

(13) Derivatives

(a) Derivative Financial Instruments

The Company may be exposed to interest rate fluctuations in the normal course of business. The Company enters into interest rate derivatives to mitigate interest rate risks that result from the different characteristics of its assets and liabilities to ensure its exposure remains within established risk tolerances.

The Company's interest rate derivative agreements convert the floating rate paid on debt into a fixed rate. The Company receives the floating rate and pays the fixed rate. In 2019, the Company, on average, received a floating rate of 2.23%, and paid a fixed rate of 2.24%. In 2018, the Company, on average, received a floating rate of 2.05%, and paid a fixed rate of 1.71%. The interest rate derivative agreements expire from 2020 to 2023.

The Company estimates the fair value of derivative instruments using industry standard valuation models. These models project future cash flows and discount the future amounts to present value using market-based expectations for interest rates and contractual terms of the derivative instruments.

The Company includes an adjustment for nonperformance risk in the recognized measure of fair value of the derivative instruments. The adjustment reflects the full credit default spread (CDS) swap applied to a net exposure by counterparty. The Company uses the counterparty's CDS when the derivative instrument is in an asset position and the Company's CDS when it is in a liability position. This adjustment is not applied to swaps that are covered by collateral agreements or other legal structures that substantially mitigate nonperformance risk. As of December 31, 2019 and 2018, the adjustment for counterparty risk reduced derivative assets by $1 and $58, respectively. No adjustment for counterparty risk was recorded for derivative liabilities.

The Company has not elected to use hedge accounting and the mark to fair value is reported currently through earnings.

(Continued)

(b) Income Statements Effect of Derivative Financial Instruments

The following table summarizes the estimated pretax gain (loss) for each type of hedge designation for the years ended December 31, 2019 and 2018:

	Gain (Loss)	
	2019	2018
Derivatives not designated as hedging instruments:		
Interest rate swap	(37,679)	(11,301)
Interest rate cap	$ (511)	—
Total derivative financial instruments	$ (38,190)	(11,301)

(c) Balance Sheets Effect of Derivative Financial Instruments

Derivative financial instruments are recorded at fair value. The Company elected to present the derivative financial instruments on a gross basis rather than on a net basis by counterparty for purposes of balance sheet presentation and disclosure. The Company entered into master agreements with counterparties that may allow for netting of exposures. Although contractual right of offset may exist for certain derivative transactions, as of December 31, 2019 and 2018, there are no derivative contracts that have positions which could net by counterparty, and there are no collateral or pledged asset amounts that are subject to the aforementioned contractual right of offset.

The following table summarizes the estimated fair value of derivative financial instruments:

	December 31, 2019			December 31, 2018		
	Notional	Fair value assets	Fair value liabilities	Notional	Fair value assets	Fair value liabilities
Derivatives not designated as hedging instruments:						
Interest rate swap	3,664,371	1,174	27,315	4,890,618	19,931	8,000
Interest rate cap	$ 498,051	1,673	—	—	—	—
Total derivative financial instruments	$ 4,162,422	2,847	27,315	4,890,618	19,931	8,000

(Continued)

(14) Other Assets

Other assets were as follows at December 31, 2019 and 2018:

	December 31	
	2019	**2018**
Property and equipment, net of accumulated depreciation of $47,468 and $45,910 at December 31, 2019 and 2018, respectively [1, 3]	$ 31,313	31,773
Software, net of accumulated amortization of $98,539 and $85,783 at December 31, 2019 and 2018, respectively [2, 3]	100,325	81,198
Accrued interest receivable on finance receivables	52,230	44,808
Prepaid debt fees	4,876	5,776
Deferred origination costs on net investment in operating leases	152,098	133,190
Deferred acquisition costs on vehicle service contracts	404,188	365,461
Prepaid insurance on vehicle service contracts	46,031	43,560
ABS service fee receivable	91	213
Other	49,124	37,509
Total other assets	$ 840,276	743,488

1. Depreciation expenses were $6,918 and $7,436 for the years ended December 31, 2019 and 2018, respectively.

2. Amortization expenses were $12,756 and $11,981 for the years ended December 31, 2019 and 2018, respectively.

3. In 2019, the Company recognized impairment losses of $55 on its disposal of office equipment, furniture and fixtures attributable to building refurbishment at the Irvine, California office. In 2018, the Company recognized impairment losses of $229 on its leasehold improvements attributable to a lease surrender and termination of a regional office facility, and $411 on its capitalized software attributable to changes in the book value of reusable capitalized software as a result of changes in planned usage. These impairment losses are included in operating expenses.

(Continued)

(15) Vehicle Service Contracts and Vehicle Protection Products

The following table reflects operations from the Company's vehicle protection product business for the years ended December 31, 2019 and 2018, with the net amount presented in other revenue:

		2019	2018
Service contracts written, net	$	180,644	116,546
Change in unearned revenue of service contracts written, net		(57,464)	(24,064)
Total revenue from service contracts		123,180	92,482
Acquisition costs on contracts written		114,583	72,972
Change in acquisition costs on contracts written		(38,064)	(16,585)
Total acquisition costs		76,519	56,387
Claims incurred		26,456	21,109
Margin on service contracts		20,205	14,986
Other fee revenue, net		2,411	2,277
Total vehicle service contracts revenue, net	$	22,616	17,263

(Continued)

(16) Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of the following at December 31, 2019 and 2018:

	December 31	
	2019	2018
Net deferred rate subsidies and other fees on net investment in operating leases	$ 597,636	737,779
Accounts payable	223,952	150,240
Accrued interest and fees payable on debt	98,932	92,730
Accrued salaries and fringe benefits	48,435	43,603
Miscellaneous state and local taxes payable	51,604	53,251
Unearned vehicle service contract revenue	633,537	572,939
Other	47,940	45,422
Total accounts payable and other liabilities	$ 1,702,036	1,695,964

(17) Employee Benefit Plans

In 2014, the Company established a profit sharing retirement plan qualified under Section 401(k) of the Internal Revenue Code, which covers all regular full-time eligible employees. For the years ended December 31, 2019 and 2018, contributions made by the Company were $5,931 and $5,813, respectively.

(18) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through February 14, 2020, the date at which the consolidated financial statements were available to be issued.

APPENDIX A

INFORMATION REGARDING HYUNDAI MOTOR COMPANY

The following financial and other information concerning Hyundai Motor Company, or HMC, has been provided by HMC and is included in view of the existence of the support agreement between HMC and us, dated as of August 22, 2012. While we believe that the information in this Appendix A is correct, it is based solely upon information made available by HMC. See "Certain Relationships and Related Transactions—Support Agreement." The support agreement is not, and nothing done by HMC pursuant to the support agreement shall be deemed to constitute, a guarantee by HMC of any of the Notes.

The following summary discussion of HMC's financial condition and results as of and for the fiscal year ended December 31, 2019 and 2018 is based on selected consolidated financial data derived from audited consolidated financial statements prepared by HMC. HMC prepares its financial statements in accordance with Korean International Financial Reporting Standards, which may differ in certain respects from International Financial Reporting Standards adopted in other countries, and from United States generally accepted accounting principles. This discussion does not purport to be a comprehensive discussion and analysis of HMC's financial condition and results of operations and, accordingly, does not address known trends, demands, commitments, events, uncertainties, liquidity, capital resources and other information that may be important to you. This discussion is qualified in its entirety by, and should read in conjunction with, HMC's consolidated financial statements and related notes thereto included elsewhere in this Offering Memorandum. All references below to "Won" or "W" are references to the currency of Korea. HMC publishes its financial statements in Won.

Incorporated in Korea in 1967, HMC has experienced rapid growth in its short history of 53 years. HMC is a Fortune Global 100 company and one of the fastest growing automotive brands in terms of both volume and brand value, according to Interbrand. HMC, together with KMC, and their combined subsidiaries, make up the Hyundai Motor Group, which is the fifth largest global automaker by sales volume. HMC offers a diverse product line of 53 models of passenger cars, sports utility vehicles, and commercial vehicles, which are sold in over 200 countries in 2018, with sales principally in Asia, North America, Europe and Latin America. HMC's consolidated sales were ₩105,746 billion and ₩96,813 billion for the year ended December 31, 2019 and 2018, respectively. As of December 31, 2019, the ratio of HMC's consolidated long-term and short-term debt for borrowed money to total shareholders' equity was 106.6%.

HMC is the largest manufacturer of passenger and commercial vehicles in Korea, producing a full line of small- and medium-sized and luxury automobiles as well as a broad range of trucks, vans, buses and special purpose vehicles for sale in Korea and overseas. Owing in part to the significant restructuring measures that HMC undertook in response to the Asian economic crisis in the late 1990s, HMC achieved a premier position in the domestic market while improving its competitive strength against foreign competitors. Domestically, HMC believes that in 2019, it has accounted for 48.2% of vehicles sold in Korea. In 2018, 2017 and 2016, HMC's domestic market share in terms of units sold was 46.5%, 44.2% and 41.2%, respectively, according to the Korea Automobile Manufacturers Association. HMC believes that it enjoys a premium brand name with a reputation for quality, reliability, safety and after-sales service. HMC is committed to investing in research and development ("R&D") and new product launches in order to further strengthen its leading position in Korea and to improve the quality and attractiveness of its products to its customers.

HMC sells cars in North America primarily through Hyundai Motor America, or HMA, in Europe through local distributors and HMC's European sales subsidiaries, and in Latin America through local distributors. In the United States, HMC's second largest market. HMC achieved a market share of 4.2% in the year ended 2019, based on 710,008 units sold. HMC believes that its growth and success in the U.S. market is due to its efforts to improve product quality and enhance brand recognition.

Summary Financial Results

The following information for the fiscal years ended December 31, 2019 and 2018 and as of December 31, 2019 and 2018 sets forth HMC's operating and financial condition data. HMC's results of operations for the fiscal

years ended December 31, 2019 and 2018 are not a comprehensive statement of HMC's financial results for such periods, and are not necessarily indicative of results that may be expected for any future period.

	Years Ended December 31,	
	2019	2018
	(In billions of Korean Won, except ratios)	
Income Statement Data:		
Sales	₩ 105,746	₩ 96,813
Gross profit	17,655	15,142
Operating profit	3,606	2,422
Profit for the year	3,186	1,645
Operating profit margin (1)	3.4%	2.5%
Net profit margin (2)	3.0%	1.7%

	December 31,	
	2019	2018
	(In billions of Korean Won, except ratios)	
Balance Sheet Data:		
Total current assets	₩ 76,083	₩ 73,008
Total assets	194,512	180,656
Total current liabilities	53,314	49,438
Total liabilities	118,146	106,760
Total shareholder's equity	76,366	73,896
Short and long-term Debt (3)	81,372	73,296
Current ratio (4)	142.7%	147.7%
Debt to equity ratio (5)	106.6%	99.2%

(1) Calculated based on operating profit divided by sales.
(2) Calculated based on profit for the year divided by sales.
(3) Calculated based on the sum of short-term borrowings, the current portion of long-term debt and debentures, debentures, and long-term debt.
(4) Calculated based on total current assets divided by total current liabilities.
(5) Calculated based on short and long-term debt divided by total shareholder's equity.

Comparison of Year Ended December 31, 2019 and 2018

In the fiscal year ended December 31, 2019:

- HMC sold 4,476 thousand units worldwide, a decrease of 19 thousand units, or 0.4%, compared to the fiscal year ended December 31, 2018; and
- HMC recorded consolidated operating profit of ₩3,606 billion, an increase of ₩1,184 billion, or 48.9%, compared to the fiscal year ended December 31, 2018.

In Korea, HMC sold 742 thousand units, a 2.9% increase compared to the fiscal year ended December 31, 2018. According to the Korea Automobile Manufacturers Association, HMC had 48.2% of market share, a 3.8% increase over the same period in the prior year. In the U.S., HMC sold 710 thousand units, a 4.7% increase compared to the fiscal year ended December 31, 2018. According to Automotive News, HMC was able to achieve market share of 4.2% in the United States. In Europe, HMC sold 749 thousand units, representing a 0.4% increase compared to the same period last year. In China, HMC's sales decreased by 6.4%, selling 710 thousand units. In other regions, including India, Africa, and South Asia, HMC's aggregate sales decreased by 1.7%, tallying 1,565 thousand units.

HMC's consolidated sales totaled ₩105,746 billion for the fiscal year ended December 31, 2019, a 9.2% increase from the fiscal year ended December 31, 2018. HMC recorded consolidated operating profit of ₩3,606 billion for the fiscal year ended December 31, 2019, up 48.9% from the fiscal year ended December 31, 2018.

HMC recorded consolidated profit for the year of ₩3,186 billion for the fiscal year ended December 31, 2019, up 93.7% from the fiscal year ended December 31, 2018.

In the automobile segment, net sales amounted to ₩82,487 billion for the fiscal year ended December 31, 2019, a 9.6% increase from the fiscal year ended December 31, 2018. Operating profit before consolidation adjustments of the automobile segment amounted to ₩2,618 billion for the fiscal year ended December 31, 2019, a 146.5% increase from the fiscal year ended December 31, 2018.

In the finance segment, net sales amounted to ₩16,026 billion for the fiscal year ended December 31, 2019, a 7.1% increase from the fiscal year ended December 31, 2018. Operating profit before consolidation adjustments of the finance segment amounted to ₩888 billion for the fiscal year ended December 31, 2019, an 18.9% increase from the fiscal year ended December 31, 2018.

As of December 31, 2019, HMC had ₩15,975 billion in cash and cash equivalents and short-term financial instruments.

INDEX TO FINANCIAL STATEMENTS

HYUNDAI MOTOR COMPANY

	Page
Report of Independent Auditors on Financial Statements as of and for the year ended December 31, 2018	A-5
Report of Independent Auditors on Financial Statements as of and for the year ended December 31, 2019	A-11
Consolidated Statements of Financial Position as of December 31, 2019 and 2018	A-16
Consolidated Statements of Income for the years ended December 31, 2019 and 2018	A-18
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019 and 2018	A-19
Consolidated Statements of Changes in Equity for the years ended December 31, 2019 and 2018	A-20
Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018	A-22
Notes to the Consolidated Financial Statements as of and for the years ended December 31, 2019 and 2018	A-24

Deloitte Anjin LLC
9F., One IFC,
10, Gukjegeumyung-ro,
Youngdeungpo-gu, Seoul
07326, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

INDEPENDENT AUDITORS' REPORT

English Translation of Independent Auditors' Report Originally Issued in Korean on March 6, 2019

To the Shareholders and the Board of Directors of
Hyundai Motor Company:

Our Opinion
We have audited the accompanying consolidated financial statements of Hyundai Motor and its subsidiaries("the Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and December 31, 2017, respectively, and the consolidated statements of income, comprehensive income, statements of changes in equity and statements of cash flows, all expressed in Korean Won, for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2018 and December 31, 2017, respectively, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Audit Opinion
We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the Our Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in the Republic of Korea as required by prevailing audit regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our Key Audit Matters
The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

1) Valuation of the warranty provision

- Consolidated financial statement risk

Please refer with regard to the accounting policies to Notes 2.(20). The Group provides customers with the free warranty services for guaranteed period and recognizes warranty provision which is expected to be incurred by management assumption. The Group aggregates sales volume by vehicle model and estimates warranty expenses which is expected to be incurred based on historical data of the actual warranty expenses. The Group applies discount rate to recognize warranty provision. In order to measure and recognize warranty provision, management applies assumption to expected warranty expenses by vehicle model and discount rate. Management uses historical data of the actual warranty expenses to estimate expected warranty expense. We decided to choose the valuation of warranty provision as one of Key Audit Matters since the impact on the consolidated financial statements would be significant if the error on aggregation of sales volume by vehicle and estimation of expected warranty expenses is occurred.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/kr/about to learn more about our global network of member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4a, 3TR, United Kingdom.

- Our audit approach

For the purpose of audit on valuation of the warranty provision, we obtained the understanding of the process to measure and recognize the warranty provision and perform design & implementation test on key control identified in the process. In addition, we used IT specialist to perform design & implementation testing over general IT system and automated control related to collecting data of warranty expenses incurred in domestic and abroad

In order to confirm the appropriateness of assumption applied to expected warranty expenses by vehicle model, we compared the actual warranty expenses in the current year with expected warranty expenses which were estimated at the end of prior year and we verified discount rate used from external institute data. In addition, we performed sampling audit procedure on actual warranty expenses to verify accuracy of data for estimating expected warranty expenses, and we performed audit procedure to test completeness of vehicle sold to use estimation.

2) Valuation of Financial services receivables

- Consolidated financial statement risk

Please refer with regard to the accounting policies to Notes 2.(8). As described in Note 13, the financial service receivables consist of loan obligations, card receivable, financial lease receivables and others. As of December 31, 2018, the balance of financial receivable is ₩56,019,424 million, approximate 31% of the Group's total asset. The Group recognized the loss allowance of financial service receivables in the amount of ₩1,368,759 million as of December 31, 2018 and the impairment loss is recognized in the amount of ₩720,160 million for the year ended December 31, 2018. The Group measures expected credit loss on financial services receivables in accordance with K-IFRS 1109 'Financial Instruments' which have been applied from the year beginning on January 1, 2018. Judgement of the management is required to determine the certain level of significant decline on credit rating and assumptions applied to the expected credit loss model including credit rating and macroeconomic variables. In addition, the Group uses historical transaction data such as overdue, bankruptcy and collection in assumptions. Since the impact on the consolidated financial statements due to errors in the assumptions applied to the expected credit loss model is significant, we selected valuation of financial services receivables as a key audit matters.

- Our audit approach

For the purpose of audit on the appropriateness of valuation of financial services receivables, we obtained the understanding of the process to recognize the loss allowance on financial services receivables and confirmed process to accord with requirements in K-IFRS 1109 'Financial Instruments'. We performed design & implementation and operating effectiveness testing on key control identified in the process. We used IT specialist to perform design & implementation and operating effectiveness testing over general IT system related to the loss allowance on financial services receivables, and on automated control related to historical transaction data processing.

Furthermore, we performed sampling audit procedures to evaluate the appropriateness of credit rating and classification of stage including significant increase in the credit risk. We performed recalculation to confirm the appropriateness of calculation method related to estimation on risk factors.

Deloitte.

Responsibilities of Management and the Directors for the Financial Statements
Management is responsible for the preparation of the accompanying consolidated financial statements in accordance with K-IFRS, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management of the Group is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors′ responsibilities include overseeing the Group's financial reporting process.

Our Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in the Republic of Korea will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in the Republic of Korea, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

Deloitte.

We communicate with the directors of the Group regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors of the Group with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

The engagement partner on the audit resulting in this independent auditor's report is, Hwang, Seunghee.

March 6, 2019

Notice to Readers

This report is effective as of March 6, 2019, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

HYUNDAI MOTOR COMPANY

Contents

INDEPENDENT AUDITORS' REPORT ---------- 1

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ---------- 6

CONSOLIDATED STATEMENTS OF INCOME ---------- 8

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ---------- 9

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY ---------- 10

CONSOLIDATED STATEMENTS OF CASH FLOWS ---------- 12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ---------- 14

KPMG SAMJONG

KPMG SAMJONG Accounting Corp.
152, Teheran-ro, Gangnam-gu, Seoul 06236
(Yeoksam-dong, Gangnam Finance Center 27th Floor)
Republic of Korea

Tel +82 (2) 2112 0100
Fax +82 (2) 2112 0101
www.kr.kpmg.com

Independent Auditors' Report

To the Board of Directors and Shareholders
Hyundai Motor Company:

Opinion

We have audited the consolidated financial statements of Hyundai Motor Company and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2019, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

1) Warranty provisions

As described in Note 2 (20) and Note 17 to the consolidated financial statements, the Group recognized warranty provision in the amount of ₩ 5,447,307 million as of December 31, 2019.

The Group provides customers with free warranty services for guaranteed period and free repair services in the event of recall and campaign. The Group aggregates sales volume by vehicle model and estimates warranty expenses which is expected to be incurred based on historical data of the actual warranty expenses. The warranty provisions are measured at the present value based on the expected expenditure of the claim and discount rate. In order to measure and recognize warranty provision, management applies assumptions to expected warranty expenses by vehicle model and applies discount rates to measure the present value of provisions. Management uses historical data of the actual warranty expenses to estimate expected warranty expense. We determined the valuation of warranty provision as a key audit matter because errors in aggregation of sales volume by vehicle models and in assumptions used to estimate future warranty expenses would have a significant impact on the consolidated financial statements.

KPMG Samjong Accounting Corp., a corporation established under
Korean law, is a member firm of KPMG International, a Swiss cooperative.

The primary procedures we performed to address this key audit matter included the following:

- Understanding of the process to measure and recognize warranty provisions and testing of relevant controls.
- Testing of completeness of vehicles sold used for estimation through inspection of related documents.
- Evaluating reasonableness of assumptions applied for expected warranty cost per unit by vehicle model and testing of accuracy of the amount through recalculation.
- Testing of appropriateness of discount rate by comparing to external sources of information.

2) Valuation of financial services receivables

As described in Note 2.(8) and Note 14 to the consolidated financial statements, the Group recognized financial services receivables and loss allowance in the amount of ₩ 62,258,626 million and ₩ 1,480,555 million as of December 31, 2019, respectively.

The Group recognizes allowance for credit loss using the expected credit loss (ECL) model for financial services receivables in accordance with K-IFRS 1109 'financial instruments'. Judgment of the management is required to determine whether the receivable has experienced a significant increase in credit risk and other assumptions applied to the ECL model, including credit rating and macroeconomic variables. In addition, the Group uses historical transaction data such as overdue, bankruptcy and collection in determining assumptions used in the ECL model. Since the impact on the consolidated financial statements due to errors in the assumptions applied to the ECL model is significant, we determined to choose valuation of financial services receivables as a key audit matter.

The primary procedures we performed to address this key audit matter included the following:

- Assessing whether the Group's accounting policies comply with the requirements in K-IFRS 1109 *'Financial Instruments'*.
- Understanding of the process over the measurement of credit loss allowance on financial services receivables and testing of relevant controls.
- On a sample basis, assessing the credit rating and classification of stability including the identification of significant increase credit risk, through inspection of related documents.
- On a sample basis, checking the source data for probability of default and loss given default and testing of appropriateness of calculation methods used for the estimation through recalculation.

Other matters

The accompanying consolidated statement of financial position of the Group as of December 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, were audited by other auditors who expressed an unmodified opinion on those statements on March 6, 2019.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with K-IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Sang-Min Nam.

Seoul, Korea
March 4, 2020

This report is effective as of March 4, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company.

Lee, Won Hee
Chief Executive Officer
HYUNDAI MOTOR COMPANY

Main Office Address: (Road Name Address) 12, Heolleung-ro, Seocho-gu, Seoul
(Phone Number) 02-3464-1114

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019 AND 2018

ASSETS	NOTES	December 31, 2019	December 31, 2018
		(In millions of Korean Won)	
Current assets:			
Cash and cash equivalents	20	₩ 8,681,971	₩ 9,113,625
Short-term financial instruments	20	7,292,626	7,936,319
Other financial assets	5,20	9,449,913	9,755,725
Trade notes and accounts receivable	3,20	3,513,090	3,595,993
Other receivables	4,20	3,402,059	3,291,847
Inventories	6	11,663,848	10,714,858
Current tax assets		112,046	97,271
Financial services receivables	14,20	30,178,200	25,864,589
Non-current assets classified as held for sale	8	11,493	867,192
Other assets	7,20	1,777,627	1,770,682
Total current assets		76,082,873	73,008,101
Non-current assets:			
Long-term financial instruments	20	803,262	112,394
Other financial assets	5,20	3,059,526	2,223,358
Long-term trade notes and accounts receivable	3,20	127,430	136,777
Other receivables	4,20	705,154	755,088
Property, plant and equipment	9,40	32,831,524	30,545,608
Investment properties	10,40	171,494	189,334
Intangible assets	11,40	5,266,496	4,921,383
Investments in joint ventures and associates	13	18,375,290	17,143,239
Deferred tax assets	34	2,340,096	1,846,330
Financial services receivables	14,20	32,080,426	28,637,075
Investments in operating leases	15	21,068,340	20,425,766
Right-of-use assets	2,12	734,542	-
Other assets	7,20	865,767	711,299
Total non-current assets		118,429,347	107,647,651
Total assets		₩ 194,512,220	₩ 180,655,752

(Continued)

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019 AND 2018

LIABILITIES AND EQUITY	NOTES	December 31, 2019	December 31, 2018
		(In millions of Korean Won)	
Current liabilities:			
Trade notes and accounts payable	20	₩ 7,669,424	₩ 7,655,630
Other payables	20	6,060,100	5,425,460
Short-term borrowings	16,20,40	12,570,693	12,249,850
Current portion of long-term debt and debentures	16,20,40	15,778,558	14,104,927
Income tax payable		370,100	150,802
Provisions	17	3,462,034	3,291,868
Other financial liabilities	18,20	9,970	44,288
Non-current liabilities classified as held for sale	8	-	719,396
Lease liabilities	2,12,20	132,388	-
Other liabilities	19,20	7,260,829	5,796,193
Total current liabilities		53,314,096	49,438,414
Non-current liabilities:			
Long-term other payables	20	847,287	20,319
Debentures	16,20,40	41,805,814	36,956,114
Long-term debt	16,20,40	11,217,088	9,985,250
Net defined benefit liabilities	35	412,598	433,247
Provisions	17	3,682,895	3,508,036
Other financial liabilities	18,20	175,196	297,506
Deferred tax liabilities	34	3,503,077	3,320,346
Lease liabilities	2,12,20	635,596	-
Other liabilities	19,20	2,552,819	2,800,510
Total non-current liabilities		64,832,370	57,321,328
Total liabilities		118,146,466	106,759,742
Equity:			
Capital stock	21	1,488,993	1,488,993
Capital surplus	22	4,197,015	4,201,214
Other capital items	23	(1,516,817)	(1,155,244)
Accumulated other comprehensive loss	24	(2,353,022)	(3,052,198)
Retained earnings	25	68,249,633	66,490,082
Equity related to assets classified as held for sale	8,24	-	1,122
Equity attributable to the owners of the Company		70,065,802	67,973,969
Non-controlling interests		6,299,952	5,922,041
Total equity		76,365,754	73,896,010
Total liabilities and equity		₩ 194,512,220	₩ 180,655,752

(Concluded)

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	NOTES	2019	2018
		(In millions of Korean Won, except per share amounts)	
Sales	27,40	₩ 105,746,422	₩ 96,812,609
Cost of sales	32	88,091,409	81,670,479
Gross profit		17,655,013	15,142,130
Selling and administrative expenses	28,32	14,049,508	12,719,965
Operating profit		3,605,505	2,422,165
Gain on investments in joint ventures and associates, net	29	542,826	404,541
Finance income	30	827,120	823,499
Finance expenses	30	475,218	600,867
Other income	31	1,120,958	967,281
Other expenses	31,32	1,457,425	1,487,037
Profit before income tax		4,163,766	2,529,582
Income tax expense	34	978,120	884,563
Profit for the year		₩ 3,185,646	₩ 1,645,019
Profit attributable to:			
Owners of the Company		2,980,049	1,508,084
Non-controlling interests		205,597	136,935
Earnings per share attributable to the owners of the Company:	33		
Basic earnings per share:			
Common stock		₩ 11,310	₩ 5,632
1st preferred stock		₩ 11,355	₩ 5,681
Diluted earnings per share:			
Common stock		₩ 11,310	₩ 5,632
1st preferred stock		₩ 11,355	₩ 5,681

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
	(In millions of Korean Won)	
Profit for the year	₩ 3,185,646	₩ 1,645,019
Other comprehensive income (loss) :		
Items that will not be reclassified subsequently to profit or loss:		
Loss on financial assets measured at FVOCI, net	(37,965)	(99,125)
Remeasurements of defined benefit plans	(53,144)	(439,508)
Changes in retained earnings of equity-accounted investees, net	(108,983)	(67,347)
Changes in share of OCI of equity-accounted investees, net	16,966	(25,826)
	(183,126)	(631,806)
Items that may be reclassified subsequently to profit or loss:		
Profit (loss) on financial assets measured at FVOCI, net	15,906	(6,534)
Gain (loss) on valuation of cash flow hedge derivatives, net	45,051	(124,121)
Changes in share of OCI of equity-accounted investees, net	271,542	(237,547)
Gain on foreign operations translation, net	481,848	3,626
	814,347	(364,576)
Total other comprehensive income (loss)	631,221	(996,382)
Total comprehensive income	₩ 3,816,867	₩ 648,637
Comprehensive income attributable to:		
Owners of the Company	3,520,937	553,869
Non-controlling interests	295,930	94,768
Total comprehensive income	₩ 3,816,867	₩ 648,637

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Total equity attributable to the owners of the Company	Non-controlling interests	Total equity
				(In millions of Korean Won)				
Balance at January 1, 2018	₩ 1,488,993	₩ 4,201,214	₩ (1,640,096)	₩ (2,278,955)	₩ 67,332,328	₩ 69,103,484	₩ 5,653,870	₩ 74,757,354
Changes in accounting standards	-	-	-	(340,268)	188,665	(151,603)	(71,337)	(222,940)
Balances after adjustments	1,488,993	4,201,214	(1,640,096)	(2,619,223)	67,520,993	68,951,881	5,582,533	74,534,414
Comprehensive income:								
Profit for the year	-	-	-	-	1,508,084	1,508,084	136,935	1,645,019
Loss on financial assets measured at FVOCI, net	-	-	-	(93,248)	(11,510)	(104,758)	(901)	(105,659)
Loss on valuation of cash flow hedge derivatives, net	-	-	-	(69,896)	-	(69,896)	(54,225)	(124,121)
Changes in valuation of equity-accounted investees, net	-	-	-	(261,658)	(67,347)	(329,005)	(1,715)	(330,720)
Remeasurements of defined benefit plans	-	-	-	-	(443,505)	(443,505)	3,997	(439,508)
Gain (loss) on foreign operations translation, net	-	-	-	(7,051)	-	(7,051)	10,677	3,626
Total comprehensive income (loss)	-	-	-	(431,853)	985,722	553,869	94,768	648,637
Transactions with owners, recorded directly in equity:								
Payment of cash dividends	-	-	-	-	(1,076,734)	(1,076,734)	(50,727)	(1,127,461)
Increase in paid-in capital of subsidiaries by issuing stock	-	-	-	-	-	-	10	10
Acquisition of investment of subsidiaries	-	-	-	-	-	-	3,181	3,181
Purchases of treasury stocks	-	-	(454,734)	-	-	(454,734)	-	(454,734)
Retirement of treasury stocks	-	-	939,586	-	(939,586)	-	-	-
Issue of hybrid bond	-	-	-	-	-	-	299,240	299,240
Others	-	-	-	-	(313)	(313)	(6,964)	(7,277)
Total transactions with owners, recorded directly in equity	-	-	484,852	-	(2,016,633)	(1,531,781)	244,740	(1,287,041)
Balance at December 31, 2018	₩ 1,488,993	₩ 4,201,214	₩ (1,155,244)	₩ (3,051,076)	₩ 66,490,082	₩ 67,973,969	₩ 5,922,041	₩ 73,896,010

(Continued)

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Total equity attributable to the owners of the Company	Non-controlling interests	Total equity
				(In millions of Korean Won)				
Balance at January 1, 2019	₩ 1,488,993	₩ 4,201,214	₩ (1,155,244)	₩ (3,051,076)	₩ 66,490,082	₩ 67,973,969	₩ 5,922,041	₩ 73,896,010
Comprehensive income:								
Profit for the year	-	-	-	-	2,980,049	2,980,049	205,597	3,185,646
Gain (loss) on financial assets measured at FVOCI, net	-	-	-	(26,426)	(1,294)	(27,720)	5,661	(22,059)
Gain on valuation of cash flow hedge derivatives, net	-	-	-	34,570	-	34,570	10,481	45,051
Changes in valuation of equity-accounted investees, net	-	-	-	276,430	(108,983)	167,447	12,078	179,525
Remeasurements of defined benefit plans	-	-	-	-	(46,889)	(46,889)	(6,255)	(53,144)
Gain on foreign currency translation difference for foreign operation, net	-	-	-	413,480	-	413,480	68,368	481,848
Total comprehensive Income	-	-	-	698,054	2,822,883	3,520,937	295,930	3,816,867
Transactions with owners, recorded directly in equity:								
Payment of cash dividends	-	-	-	-	(1,063,331)	(1,063,331)	(58,503)	(1,121,834)
Increase in paid-in capital of subsidiaries by issuing stock	-	-	-	-	-	-	4,806	4,806
Acquisitions of investment of subsidiaries	-	-	-	-	-	-	13,004	13,004
Disposals of investment of subsidiaries	-	-	-	-	-	-	(19,637)	(19,637)
Purchases of treasury stocks	-	-	(458,031)	-	-	(458,031)	-	(458,031)
Retirement of treasury stocks	-	2,163	96,458	-	-	98,621	-	98,621
Issue of hybrid bonds	-	-	-	-	-	-	150,323	150,323
Others	-	(6,362)	-	-	(1)	(6,363)	(8,012)	(14,375)
Total transactions with owners, recorded directly in equity	-	(4,199)	(361,573)	-	(1,063,332)	(1,429,104)	81,981	(1,347,123)
Balance at December 31, 2019	₩ 1,488,993	₩ 4,197,015	₩ (1,516,817)	₩ (2,353,022)	₩ 68,249,633	₩ 70,065,802	₩ 6,299,952	₩ 76,365,754

(Concluded)

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	NOTES	2019	2018
		(In millions of Korean Won)	
Cash flows from operating activities:			
Cash generated from operations:	36		
Profit for the year		₩ 3,185,646	₩ 1,645,019
Adjustments		15,145,995	14,036,476
Changes in operating assets and liabilities		(15,644,327)	(9,592,809)
		2,687,314	6,088,686
Interest received		672,283	696,134
Interest paid		(2,073,310)	(1,950,392)
Dividend received		204,455	206,323
Income tax paid		(1,070,958)	(1,276,486)
Net cash provided by operating activities		419,784	3,764,265
Cash flows from investing activities:			
Changes in short-term financial instruments		(5,610)	(232,528)
Decreases in other financial assets (current), net		495,541	2,596,564
Decreases in other financial assets (non-current)		7,189	141,979
Collection of other receivables		51,417	79,241
Disposals of long-term financial instruments		2,861	47
Proceeds from disposals of property, plant and equipment		85,901	105,116
Proceeds from disposals of intangible assets		2,605	4,714
Disposals of investments in joint ventures and associates		1,404	-
Proceeds from acquisition of investment of subsidiaries		13,004	5,271
Increases in other financial assets (non-current)		(679,741)	(125,123)
Increases in other receivables		(49,631)	(56,755)
Purchases of long-term financial instruments		(18,759)	(16,691)
Acquisitions of property, plant and equipment		(3,586,716)	(3,226,486)
Acquisitions of intangible assets		(1,716,680)	(1,632,711)
Acquisitions of investments in joint ventures and associates		(588,541)	(61,772)
Others		56,572	4,070
Net cash used in investing activities		(5,929,184)	(2,415,064)

(Continued)

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	NOTES	2019	2018
		(In millions of Korean Won)	
Cash flows from financing activities:			
Proceeds from short-term borrowings, net		₩ 1,418,012	₩ 2,167,765
Proceeds from long-term debt and debentures		25,557,933	18,561,982
Proceeds from capital contribution from non-controlling interest		4,806	10
Repayment of long-term debt and debentures		(20,433,457)	(20,228,806)
Repayment of lease liabilities		(159,604)	-
Purchases of treasury stocks		(458,031)	(454,734)
Dividends paid		(1,121,820)	(1,127,452)
Issue of hybrid bonds		150,323	299,240
Others		(83,236)	(98,787)
Net cash provided by (used in) financing activities		4,874,926	(880,782)
Decrease due to transfer to assets classified as held for sale		-	(97,050)
Effect of exchange rate changes on cash and cash equivalents		202,820	(79,273)
Net increase (decrease) in cash and cash equivalents		(431,654)	292,096
Cash and cash equivalents, beginning of the year		9,113,625	8,821,529
Cash and cash equivalents, end of the year		₩ 8,681,971	₩ 9,113,625

(Concluded)

See accompanying notes to consolidated financial statements

1. GENERAL:

Hyundai Motor Company (the "Company" or "Parent Company") was incorporated in December 1967, under the laws of the Republic of Korea. The Company and its subsidiaries (the "Group") manufacture and distribute motor vehicles and parts, operates vehicle financing and credit card processing, and manufacture trains.

The shares of the Company have been listed on the Korea Exchange since June, 1974, and the Global Depositary Receipts issued by the Company have been listed on the London Stock Exchange and Luxembourg Stock Exchange.

As of December 31, 2019, the major shareholders of the Company are Hyundai MOBIS (45,782,023 shares, 21.43%) and Mr. Chung, Mong Koo (11,395,859 shares, 5.33%).

(1) The Group's consolidated subsidiaries as of December 31, 2019 are as follows.

Name of subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
Hyundai Capital Services, Inc.	Financing	Korea	59.68%	
Hyundai Card Co., Ltd. (*1)	″	″	36.96%	
Hyundai Rotem Company (Hyundai Rotem) (*2)	Manufacturing	″	43.36%	
Hyundai KEFICO Corporation (Hyundai KEFICO)	″	″	100.00%	
Green Air Co., Ltd.	″	″	51.00%	Hyundai Rotem 51.00%
Hyundai Auto Electronics Company Ltd.	R&D	″	60.00%	
Hyundai Partecs Co., Ltd.	Manufacturing	″	56.00%	
Hyundai NGV	Engineering	″	53.66%	
Maintrans Company	Services	″	80.00%	Hyundai Rotem 80.00%
Jeonbuk Hyundai Motors FC Co., Ltd.	Football club	″	100.00%	
Hyundai Motor America (HMA)	Sales	USA	100.00%	
Hyundai Capital America (HCA)	Financing	″	80.00%	HMA 80.00%
Hyundai Motor Manufacturing Alabama, LLC (HMMA)	Manufacturing	″	100.00%	HMA 100.00%
Hyundai Translead, Inc. (HT)	″	″	100.00%	
Stamped Metal American Research Technology, Inc. (SMARTI)	Holding company	″	72.45%	HMA 72.45%
Stamped Metal American Research Technology LLC	Manufacturing	″	100.00%	SMARTI 100.00%
Hyundai America Technical Center, Inc. (HATCI)	R&D	″	100.00%	
Genesis Motor America LLC	Sales	″	100.00%	HMA 100.00%
Hyundai Rotem USA Corporation	Manufacturing	″	100.00%	Hyundai Rotem 100.00%
Moceanlab Inc.	Mobility service	″	100.00%	
Hyundai Auto Canada Corp. (HACC)	Sales	Canada	100.00%	HMA 100.00%
Hyundai Auto Canada Captive Insurance Inc. (HACCI)	Insurance	″	100.00%	″
Hyundai Capital Canada Inc. (HCCA)	Financing	″	70.00%	Hyundai Capital Services 20.00%
Hyundai Capital Lease Inc. (HCLI)	″	″	100.00%	HCCA 100.00%
HK Lease Funding LP	″	″	100.00%	HCLI 99.99%, HCCA Funding Inc. 0.01%
HCCA Funding Inc.	″	″	100.00%	HCLI 100.00%
HCCA Funding Two Inc.	″	″	100.00%	HCCA 100.00%
HK Retail Funding LP	″	″	100.00%	HCCA 99.99% HCCA Funding Two Inc 0.01%.
Hyundai Motor India Limited (HMI)	Manufacturing	India	100.00%	
Hyundai Motor India Engineering Private Limited (HMIE)	R&D	″	100.00%	HMI 100.00%
Hyundai Capital India Private Limited (HCI)	Financing	″	100.00%	Hyundai Capital Services 100.00%
Hyundai Motor Japan Co., Ltd. (HMJ)	Sales	Japan	100.00%	
Hyundai Motor Japan R&D Center Inc. (HMJ R&D)	R&D	″	100.00%	
Beijing Jingxian Motor Safeguard Service Co., Ltd. (BJMSS)	Sales	China	100.00%	

Name of subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
Beijing Jingxianronghua Motor Sale Co., Ltd.	〃	〃	100.00%	BJMSS 100.00%
Genesis Motor Sales(Shanghai) Co. Ltd.	〃	〃	100.00%	
Hyundai Millennium (Beijing) Real Estate Development Co., Ltd.	Real estate development	〃	99.00%	CMEs 99.00%
Rotem Equipments (Beijing) Co., Ltd.	Sales	〃	100.00%	Hyundai Rotem 100.00%
KEFICO Automotive Systems (Beijing) Co., Ltd.	Manufacturing	〃	100.00%	Hyundai KEFICO 100.00%
KEFICO Automotive Systems (Chongqing) Co., Ltd.	〃	〃	90.00%	Hyundai KEFICO 90.00%
HYUNDAI KEFICO VIETNAM COMPANY LIMITED	〃	Vietnam	100.00%	Hyundai KEFICO 100.00%
HYUNDAI THANH CONG VIETNAM AUTO MANUFACTURING CORPORATION (HTMV) (*1)	〃	〃	50.00%	
Hyundai Thanh cong Commercial Vehicle Joint Stock Company (HTCV) (*1)	〃	〃	50.00%	
Hyundai Motor Company Australia Pty Limited (HMCA)	Sales	Australia	100.00%	
PT. HYUNDAI MOTOR MANUFACTURING INDONESIA (HMMI)	Manufacturing	Indonesia	99.99%	
Hyundai Capital Australia Pty Limited	Financing	Australia	100.00%	Hyundai Capital Services 100.00%
HR Mechanical Services Limited	Services	New Zealand	100.00%	Hyundai Rotem 100.00%
Hyundai Motor Manufacturing Czech, s.r.o. (HMMC)	Manufacturing	Czech	100.00%	
Hyundai Motor Czech s.r.o (HMCZ)	Sales	〃	100.00%	
Hyundai Motor Europe GmbH (HME)	Marketing and Sales	Germany	100.00%	
Hyundai Motor Deutschland GmbH (HMD)	Sales	〃	100.00%	
Hyundai Motor Europe Technical Center GmbH (HMETC)	R&D	〃	100.00%	
Hyundai Motor Sport GmbH (HMSG)	Marketing	〃	100.00%	HME 100.00%
Hyundai Capital Europe GmbH	Financing	〃	100.00%	Hyundai Capital Services 100.00%
Hyundai Motor Commonwealth of Independent States B.V (HMCIS B.V)	Holding company	Netherlands	100.00%	HMMR 1.65%
Hyundai Motor Netherlands B.V. (HMNL)	Sales	〃	100.00%	
Hyundai Motor Manufacturing Rus LLC (HMMR)	Manufacturing	Russia	70.00%	
Hyundai Motor Commonwealth of Independent States (HMCIS)	Sales	〃	100.00%	HMCIS B.V 100.00%
Hyundai Mobility Lab (HML)	R&D	〃	100.00%	HMCIS 99.00%, HMMR 1.00%
Hyundai Capital Services Limited Liability Company	Financing	〃	100.00%	Hyundai Capital Europe 100.00%
Hyundai Truck And Bus Rus LLC (HTBR)	Sales	〃	100.00%	
Hyundai Assan Otomotiv Sanayi Ve Ticaret A.S. (HAOSVT)	Manufacturing	Turkey	70.00%	
Hyundai EURotem Demiryolu Araclari Sanayi ve Ticaret A.S	〃	〃	50.50%	Hyundai Rotem 50.50%
Hyundai Rotem Company – Hyundai EURotem Demiryolu Araclari SAN. VE TIC. A.S ORTAK GIRISIMI	Sales	〃	100.00%	Hyundai Rotem 65.00%, Hyundai EURotem A.S. 35.00%
Hyundai Rotem Company – Hyundai EUrotem Mahmutbey Projesi ORTAK GIRISIMI	〃	〃	100.00%	Hyundai Rotem 85.00%, Hyundai EURotem A.S. 15.00%
Hyundai Rotem Malaysia SDN BHD	〃	Malaysia	100.00%	Hyundai Rotem 100.00%
Hyundai Motor UK Limited (HMUK)	〃	UK	100.00%	
Hyundai Motor Company Italy S.r.l (HMCI)	〃	Italy	100.00%	
Hyundai Motor Espana, S.L.U. (HMES)	〃	Spain	100.00%	
Hyundai Motor France SAS (HMF)	〃	France	100.00%	
Hyundai Motor Poland Sp. Zo. O (HMP)	〃	Poland	100.00%	
Genesis Motor Europe Gmbh (GME)	〃	Germany	100.00%	
Genesis Motor UK Limited (GMUK)	〃	UK	100.00%	GME 100.00%
Hyundai Hydrogen Mobility AG (HHM)	〃	Switzerland	75.00%	

Name of subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
HYUNDAI MOTOR SINGAPORE PTE. LTD. (HMS)	Manufacturing	Singapore	100.00%	
Hyundai Motor DE Mexico S DE RL DE CV (HMM)	Sales	Mexico	100.00%	HT 0.01%
Hyundai de Mexico, SA DE C.V., (HYMEX)	Manufacturing	″	99.99%	HT 99.99%
HYUNDAI KEFICO MEXICO, S. DE R.L.DE C.V.	″	″	100.00%	Hyundai KEFICO 100.00%
Hyundai Rio Vista, Inc.	Real estate development	USA	100.00%	HT 100.00%
Hyundai Motor Brasil Montadora de Automoveis LTDA (HMB)	Manufacturing	Brazil	100.00%	
Hyundai Capital Brasil Servicos De Assistencia Financeira Ltda	Financing	″	100.00%	Hyundai Capital Services 100.00%
Hyundai Rotem Brasil Industria E Comercio De Trens Ltda.	Manufacturing	″	100.00%	Hyundai Rotem 100.00%
HMB Holding Participacoes Financeiras Ltda.	Holding company	″	99.99%	HMB 99.99%
China Millennium Corporations (CMEs)	″	Cayman Islands	59.60%	
China Mobility Fund, L.P.	Investment	″	73.76%	
KyoboAXA Private Tomorrow Securities Investment Trust No.12	″	Korea	100.00%	
Shinhan BNPP Private Corporate Security Investment Trust No.34	″	″	100.00%	
KB Leaders Private Securities Fund1(Bond Mixed)(*3)	″	″	100.00%	
Samsung ETF rotation Private Investment Trust 1(*3)	″	″	100.00%	
ZER01NE Accelerator Investment Fund No.1	″	″	99.00%	
Hydrogen Energy Industry Fund	″	Hong Kong	69.00%	
Autopia Fifty-seventh ~ Sixty-eighth Asset Securitization Specialty Company (*1)	Financing	Korea	0.50%	Hyundai Capital Services 0.50%
Super Series thrid ~ seventhSecuritization Specialty Co., Ltd. (*1)	″	″	0.50%	Hyundai Card 0.50%
Bluewalnut Co., Ltd.	″	″	100.00%	Hyundai Card 100.00%
MOCEAN Co.,Ltd	Mobility Service	″	80.00%	
Hyundai CHA Funding, LLC	Financing	USA	100.00%	HCA 100.00%
Hyundai Lease Titling Trust	″	″	100.00%	″
Hyundai HK Funding, LLC	″	″	100.00%	″
Hyundai HK Funding Two, LLC	″	″	100.00%	″
Hyundai HK Funding Three, LLC	″	″	100.00%	″
Hyundai HK Funding Four, LLC	″	″	100.00%	″
Hyundai ABS Funding, LLC	″	″	100.00%	″
HK Real Properties, LLC	″	″	100.00%	″
Hyundai Auto Lease Offering, LLC	″	″	100.00%	″
Hyundai HK Lease, LLC	″	″	100.00%	″
Extended Term Amortizing Program, LLC	″	″	100.00%	″
Hyundai Asset Backed Lease, LLC	″	″	100.00%	″
HCA Exchange, LLC	″	″	100.00%	″
Hyundai Protection Plan, Inc.	Insurance	″	100.00%	″
Hyundai Protection Plan Florida, Inc.	″	″	100.00%	″
Hyundai Capital Insurance Services, LLC	″	″	100.00%	″
Hyundai Capital Insurance Company	″	″	100.00%	″
Power Protect Extended Services, Inc.	″	″	100.00%	″
Power Protect Extended Services Florida, Inc.	″	″	100.00%	″

(*1) The Group is considered to have substantive control over the entities by virtue of an agreement or relationship with other investors, or relationship with structured entities.
(*2) Even though the shareholding ratio of ownership is less than half, the Group has de facto control over the entity due to the relative size of the voting rights held and the degree of share dispersion of other voting rights holders.
(*3) Name of company has been changed due to change of fund management for the year ended December 31, 2019.

(2) Summarized financial position and results of operations of major consolidated subsidiaries as of and for the year ended December 31, 2019 are as follows.

Name of subsidiaries	Assets	Liabilities	Sales	Profit (loss) for the year
		(In millions of Korean Won)		
Hyundai Capital Services, Inc. (*)	₩ 32,160,188	₩ 27,708,607	₩ 3,077,384	₩ 350,867
Hyundai Card Co., Ltd. (*)	17,447,394	14,140,768	2,370,761	167,620
Hyundai Rotem Company (*)	4,077,838	3,201,401	2,459,346	(362,130)
Hyundai KEFICO Corporation (*)	1,849,930	1,195,591	2,127,366	60,761
HCA (*)	41,744,129	36,905,351	10,850,856	237,856
HMA	7,573,638	6,334,102	18,593,212	(60,971)
HMMA	4,765,383	2,265,639	7,962,406	(228,162)
HMMC	3,571,959	1,503,799	6,268,520	400,227
HMI (*)	3,522,372	1,410,053	7,284,664	425,934
HME (*)	2,036,753	2,000,415	10,292,537	8,704
HMMR	1,578,910	746,323	3,264,093	172,960
HACC (*)	1,404,747	795,488	3,197,018	57,951
HAOSVT	1,342,139	906,259	2,639,797	47,640
HMB	1,174,980	837,555	2,248,610	(66,055)
HMCA	625,483	479,640	1,697,387	(4,529)

(*) Based on the subsidiary's consolidated financial statements.

Summarized financial position and results of operations of major consolidated subsidiaries as of and for the year ended December 31, 2018 are as follows.

Name of subsidiaries	Assets	Liabilities	Sales	Profit (loss) for the year
		(In millions of Korean Won)		
Hyundai Capital Services, Inc. (*)	₩ 30,528,329	₩ 26,371,459	₩ 3,087,935	₩ 311,281
Hyundai Card Co., Ltd. (*)	15,945,780	12,754,672	2,035,229	149,822
Hyundai Rotem Company (*)	4,002,150	2,894,156	2,411,924	(308,035)
Hyundai KEFICO Corporation (*)	1,772,026	1,161,039	1,963,196	52,890
HCA (*)	37,413,803	32,982,390	9,737,579	162,842
HMA	6,480,063	5,223,678	15,292,851	(330,134)
HMMA	4,511,215	1,878,332	6,861,578	11,682
HMMC	3,744,766	1,637,592	6,560,181	359,575
HMI (*)	3,516,547	1,395,005	6,791,938	408,097
HME (*)	1,825,365	1,798,150	9,627,777	4,975
HAOSVT	1,441,908	1,057,673	2,893,867	11,361
HMMR	1,415,554	852,727	2,954,780	120,979
HACC (*)	1,187,865	678,219	2,700,501	39,059
HMB	1,063,211	641,020	2,151,032	92,994
HMCA	671,059	524,866	1,837,191	(7,141)

(*) Based on the subsidiary's consolidated financial statements.

(3) The financial statements of all subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting periods as the Company's.

(4) Summarized cash flows of non-wholly owned subsidiaries that have material non-controlling interests to the Group and subsidiaries of finance segment for the year ended December 31, 2019 are as follows.

Description	Hyundai Capital Services, Inc	Hyundai Card Co., Ltd.	HCA	HCCA	Hyundai Rotem Company
			(In millions of Korean Won)		
Used in operating activities	₩ (2,167,469)	₩ (1,304,068)	₩ (2,689,416)	₩ (357,146)	₩ (203,260)
Provided by (used in) investing activities	(119,051)	(37,814)	178,448	(945)	(13,640)
Provided by financing activities	1,764,564	1,205,740	2,492,443	370,885	230,484
Effect of exchange rate changes on cash and cash equivalent	-	(228)	5,886	3,280	1,007
Net increase (decrease) in cash and cash equivalents	(521,956)	(136,370)	(12,639)	16,074	14,591
Beginning balance of cash and cash equivalents	873,041	866,456	162,238	39,193	367,895
Ending balance of cash and cash equivalents	₩ 351,085	₩ 730,086	₩ 149,599	₩ 55,267	₩ 382,486

Summarized cash flows of non-wholly owned subsidiaries that have material non-controlling interests to the Group and subsidiaries of finance segment for the year ended December 31, 2018 are as follows.

Description	Hyundai Capital Services, Inc	Hyundai Card Co., Ltd.	HCA	HCCA	Hyundai Rotem Company
			(In millions of Korean Won)		
Provided by (used in) operating activities	₩ (2,197,722)	₩ (284,813)	₩ 1,373,846	₩ (67,908)	₩ (14,193)
Provided by (used in) investing activities	(51,442)	(65,961)	819,600	(1,991)	(38,098)
Provided by (used in) financing activities	2,609,745	562,818	(3,480,444)	(18,560)	(19,499)
Effect of exchange rate changes on cash and cash equivalent	-	-	40,584	(1,934)	3,899
Transfer to assets classified as held for sale	(97,050)	-	-	-	-
Net increase (decrease) in cash and cash equivalents	263,531	212,044	(1,246,414)	(90,393)	(67,891)
Beginning balance of cash and cash equivalents	609,510	654,412	1,408,652	129,586	435,786
Ending balance of cash and cash equivalents	₩ 873,041	₩ 866,456	₩ 162,238	₩ 39,193	₩ 367,895

(5) Details of non-wholly owned subsidiaries of the Company that have material non-controlling interests as of December 31, 2019 are as follows.

Description	Hyundai Capital Services, Inc.	Hyundai Card Co., Ltd.	Hyundai Rotem Company
	(In millions of Korean Won)		
Ownership percentage of non-controlling interests	40.32%	63.04%	56.64%
Accumulated non-controlling interests	₩ 1,799,627	₩ 2,187,458	₩ 619,526
Profit (loss) attributable to non-controlling interests	139,538	105,669	(207,940)
Dividends paid to non-controlling interests	35,200	19,423	3,833

Details of non-wholly owned subsidiaries of the Company that had material non-controlling interests as of and for the year ended December 31, 2018 are as follows:

Description	Hyundai Capital Services, Inc.	Hyundai Card Co., Ltd.	Hyundai Rotem Company
	(In millions of Korean Won)		
Ownership percentage of non-controlling interests	40.32%	63.04%	56.64%
Accumulated non-controlling interests	₩ 1,676,205	₩ 2,119,846	₩ 689,977
Profit (loss) attributable to non-controlling interests	124,719	94,454	(177,600)
Dividends paid to non-controlling interests	34,319	19,099	4,120

(6) Financial support provided to consolidated structured entities

As of December 31, 2019, Hyundai Card Co., Ltd. and Hyundai Capital Services, Inc., subsidiaries of the Company, have agreements that provide counterparties with rights of recourse in the event of default on the derivatives relating to asset-backed securities issued by consolidated structured entities, Autopia Fifty-Seventh, Fifty-Ninth, Sixtieth, and Sixty-Eighth Asset Securitization Specialty Company, Super Series Third, Fourth, Fifth, and Sixth Securitization Specialty Co., Ltd..

(7) Nature and risks associated with interests in unconsolidated structured entities

1) Nature of interests in unconsolidated structured entities of the Group as of December 31, 2019 is as follows:

Description	Purpose	Nature of business	Method of funding	Total assets (*)
		(In millions of Korean Won)		
Asset securitization SPC	Fund raising through asset-securitization	Fund collection	Asset Backed Securities and others	₩ 3,798,951
Investment fund	Investment trust and others	Fund management and operation, distribution of operating profit and others	Beneficiary (Investment) certificates	10,538,516
Structured Finance	Fund raising through project financing	Project financing for construction project and ship investment	Project financing and others	10,697,742

(*) The financial information of unconsolidated structured entity includes unaudited amounts.

Nature of interests in unconsolidated structured entities of the Group as of December 31, 2018 is as follows:

Description	Purpose	Nature of business	Method of funding	Total assets (*)
		(In millions of Korean Won)		
Asset securitization SPC	Fund raising through asset-securitization	Fund collection	Corporate bond and others	₩ 2,579,738
Investment fund	Investment in beneficiary certificate and others, Development trust, Unspecified monetary trust, Principal unsecured trust, Operation of trust investment	Fund management and operation and others, Trust management and operation, Payment of trust fee, Distribution of trust benefit	Sales of beneficiary certificates, Sales of trust investment product	6,925,448
Structured Finance	Fund raising through project financing	Project financing for construction project and ship investment	Project financing and others	6,657,283

(*) The financial information of unconsolidated structured entity includes unaudited amounts.

2) Risks associated with interests in an unconsolidated structured entity of the Group as of December 31, 2019 are as follows:

Description	Book value in the structured entity (*)	Financial support provided to the structured entity		Maximum amount of exposure to loss of the structured entity
		Method	Purpose	
		(In millions of Korean Won)		
Asset securitization SPC	₩ 39,487	Loan obligations	Loan agreement (Credit line)	₩ 61,950
Investment fund	332,083	Beneficiary certificates, Investment trust	Invest agreement	332,083
Structured Finance	384,349	Loan obligations	Loan agreement (Credit line)	749,300

(*) Interest in structured entities is recognized as financial assets measured at FVPL and others according to K-IFRS 1109.

Risks associated with interests in an unconsolidated structured entity of the Group as of December 31, 2018 are as follows:

Description	Book value in the structured entity (*)	Financial support provided to the structured entity		Maximum amount of exposure to loss of the structured entity
		Method	Purpose	
	(In millions of Korean Won)			
Asset securitization SPC	₩ 64,867	Loan obligations	Loan agreement (Credit line)	₩ 124,550
Investment fund	248,254	Beneficiary certificates, Investment trust	Invest agreement	248,254
Structured Finance	525,929	Loan obligations	Loan agreement (Credit line)	908,750

(*) Interest in structured entities is recognized as financial assets measured at FVTPL and others according to K-IFRS 1109.

(8) Significant restrictions on the subsidiaries

As of December 31, 2019, Hyundai Card Co., Ltd., subsidiary of the Company, has significant restrictions that require it to obtain consent from nominated outside director recommended by non-controlling shareholders in the event of acquiring a company, entry into new business, guarantee, investment in stocks or contracts beyond a certain amount and others.

(9) Changes in consolidated subsidiaries

Subsidiaries newly included in or excluded from consolidation for the year ended December 31, 2019 are as follows.

Changes	Name of subsidiaries	Description
Included	Super Series Sixth Securitization Specialty Co., Ltd	Acquisition
″	Super Series Seventh Securitization Specialty Co., Ltd	″
″	Autopia Sixty-Sixth Asset Securitization Specialty Company	″
″	Autopia Sixty-Seventh Asset Securitization Specialty Company	″
″	Autopia Sixty-Eighth Asset Securitization Specialty Company	″
″	MOCEAN Co.,Ltd	Establishment
″	Genesis Motor UK Limited (GMUK)	″
″	Hyundai Hydrogen Mobility AG (HHM)	″
″	HYUNDAI MOTOR SINGAPORE PTE. LTD. (HMS)	″
″	HCCA Funding Two Inc.	″
″	HK Retail Funding LP	″
″	Moceanlab Inc.	″
″	Hydrogen Energy Industry Fund	″
″	PT. HYUNDAI MOTOR MANUFACTURING INDONESIA (HMMI)	″
″	Genesis Motor Europe Gmbh (GME)	″
″	Hyundai Mobility Lab (HML)	″
Excluded	Autopia Fifty-Fifth Asset Securitization Specialty Company	Liquidation
″	Autopia Fifty-Sixth Asset Securitization Specialty Company	″
″	Super Series First Securitization Specialty Co., Ltd	″
″	Super Series Second Securitization Specialty Co., Ltd	″
″	Hyundai Capital Bank Europe GmbH	Disposition

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of consolidated financial statements preparation

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audit of Stock Companies, Etc in the Republic of Korea.

The consolidated financial statements were approved by the Board of Directors on March 3, 2020 and are expected to be submitted for the Company's annual general meeting of shareholders.

The significant accounting policies used for the preparation of the consolidated financial statements are summarized below. These accounting policies are consistent with those applied to the consolidated financial statements for the year ended December 31, 2018, except for the adoption effect of the new accounting standards and interpretations described below.

1) New and revised standards that have been applied from the year beginning on January 1, 2019 are as follows:

The Group applied K-IFRS 1116 for the first time on January 1, 2019. There are other accounting standards effective from January 1, 2019, but those standards did not have a material impact on the Group's consolidated financial statements.

K-IFRS 1116 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under K-IFRS 2104 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under K-IFRS 1116, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to K-IFRS 1116, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied K-IFRS 1116 only to contracts that were previously identified as leases. Contracts that were not identified as leases under K-IFRS 1017 and K-IFRS 2104 were not reassessed. Therefore, the definition of a lease under K-IFRS 1116 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

B. As a lessee

The Group leases many assets, including land, buildings and others. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under K-IFRS 1116, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The carrying amounts of right-of-use assets are as below.

Description	Land	Buildings and others	Total
	(In millions of Korean Won)		
Balance at December 31, 2019	₩ 20,487	₩ 714,055	₩ 734,542

The Group presents right-of-use assets and lease liabilities separately in the consolidated statements of financial position.

① Significant accounting policies

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

② Transition

At transition, for leases classified as operating leases under K-IFRS 1017, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019.

Right-of-use assets are measured at an amount equal to the lease liability (prepaid or accrued lease payments are adjusted). The Group applied this approach to all leases. The comparative financial information has not been restated and is presented in accordance with K-IFRS 1017 as previously reported.

The Group used the following practical expedients when applying K-IFRS 1116 to leases previously classified as operating leases under K-IFRS 1017.

- Applied the exemption not to recognize the right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Not to recognize the right-of-use assets and lease liabilities for leases of low-value assets
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under K-IFRS 1017. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. The Group is not required to make any adjustments on transition to K-IFRS 1116 for leases in which it acts as a lessor.

D. Impacts on consolidated financial statements

① Impacts on consolidated financial statements as at the transition date

On transition to K-IFRS 1116, the Group recognized right-of-use assets, lease liabilities and others. There is no impact on retained earnings. The recognized amount of right-of-use assets when transitioning to K-IFRS 1116 is as follows.

Description	January 1, 2019
	(In millions of Korean Won)
Right-of-use assets	
Lease liabilities	₩ 685,018
Lease incentive received	(19,497)
Prepaid lease expenses	20,564
Deferred lease expenses	(11,032)
Others	(357)
	₩ 674,696

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied is 3.91%.

Description	January 1, 2019
	(In millions of Korean Won)
Operating lease commitments at December 31, 2018	₩ 955,351
Amount discounted using incremental borrowing rate at January 1, 2019	704,925
Recognition exemption for leases of low-value assets and leases with less than 12 months of lease term at transition	(19,907)
Lease liabilities recognized at January 1, 2019	685,018

② Impacts on consolidated financial statements for 2019

As a result of initially applying K-IFRS 1116, in relation to the leases that were previously classified as operating leases, the Group recognized ₩734,542 million of right-of-use assets and ₩767,984 million of lease liabilities as at December 31, 2019. Also in relation to those leases, under K-IFRS 1116, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2019, the Group recognized ₩179,654 million of depreciation expenses and ₩29,404 million of interest costs from these leases.

2) A number of new standards are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The Group is currently evaluating the effect of the following new or amended standards and interpretations, if any, to the consolidated financial statements, however, those standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework.
- Definition of a Business (Amendments to K-IFRS 1103 *'Business Combinations'*)
- Definition of Material (Amendments to K-IFRS 1001 *'Presentation of Financial Statements'* and K-IFRS 1008 *'Accounting Policies, Changes in Accounting Estimates and Errors'*)
- K-IFRS 1117 *'Insurance Contracts'*

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as otherwise stated in the accounting policies below. Historical cost is usually measured at the fair value of the consideration given to acquire the assets.

(3) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (or its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intragroup transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the Group. The carrying amount of non-controlling interests consists of the amount of those non-controlling interests at the initial recognition and the changes in shares of the non-controlling interests in equity since the date of the acquisition. Total comprehensive income is attributed to the owners of the Group and to the non-controlling interests even if the non-controlling interest has a deficit balance.

Changes in the Group's ownership interests in subsidiaries, without a loss of control, are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. The amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings as specified by applicable K-IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under K-IFRS 1109 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(4) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The consideration includes any asset or liability resulting from a contingent consideration arrangement and is measured at fair value.

Acquisition-related costs are recognized in profit or loss as incurred. When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at its fair value at the acquisition date (i.e., the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Prior to the acquisition date, the amount resulting from changes in the value of its equity interest in the acquiree that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were directly disposed of.

(5) Revenue recognition

In accordance with K-IFRS 1115, all types of contracts recognize revenues by the 5-step revenue recognition model (1) identification of contract → (2) identification of performance obligations → (3) calculation of transaction price → ④ allocation of transaction price to performance obligations → (5) recognition of revenue when performance obligation is implemented.

1) Identification of performance obligations

The Group operates businesses such as the manufacture and sale of automobiles and auto parts. In the automobile sales contracts with customers, services other than automobile sales are separately identified as performance obligations.

2) Performance obligations satisfied at a point in time

Revenue is recognized when obligations under the terms of a contract with the Group’s customer are satisfied, which generally occurs with the transfer of control of goods or services.

3) Performance obligations satisfied over time

In assessing whether the control over goods or services is transferred over time, the Group evaluates whether the customer simultaneously obtains and consumes the benefits provided by the Group’s performance, whether the assets are controlled by the customer, and whether the assets created by the Group have no substitute purpose, and whether the Group is entitled to reimbursement of costs incurred to date, including a reasonable margin.

4) Allocation of transaction price

The Group allocates the transaction price to each of the performance obligations identified in a single contract in proportion to its stand-alone selling price. When the stand-alone selling price is not directly observable, the Group estimates the stand-alone selling price using the adjusted market assessment approach, or the expected cost plus a margin approach.

5) Variable consideration

The Group estimates the amounts of consideration using whichever method (the expected value or the most likely amount) that best predict the amount of consideration to which it will be entitled.
Variable consideration is included in the transaction price only to the extent that it is probable or highly probable that a significant reversal in the cumulative amount of revenue recognized will not occur in the future periods.

6) Significant financing element

If the period between the transfer of the goods or services promised to the customer and the payment from the customer is within one year, the Group does not adjust the promised amount of consideration for the effects of a significant financing component, as a practical expedient.

7) Construction contracts

Where the outcome of a construction contract can be estimated reliably, the contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the end of reporting period.

The percentage of completion of a contract activity is reliably measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, by surveys of work performed or by completion of a physical proportion of the contract work. Variations in contract work, claim and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

(6) Foreign currency translation

The individual financial statements of each entity in the Group are prepared and presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions occurring in currencies other than their functional currency (foreign currencies) are recorded using the exchange rate on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated using the exchange rate at the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences resulting from settlement of assets or liabilities and translation of monetary items denominated in foreign currencies are recognized in profit or loss in the period in which they arise except for some exceptions.

Foreign exchange gains or losses are classified in finance income (expenses) or other income (expenses) by the nature of the transaction or event.

For the purpose of presenting the consolidated financial statements, assets and liabilities in the Group's foreign operations are translated into Won, using the exchange rates at the end of reporting period. Income and expense items are translated at the average exchange rate for the period, unless the exchange rate during the period has significantly fluctuated, in which case the exchange rates at the dates of the transactions are used. The exchange differences arising, if any, are recognized in equity as other comprehensive income. Upon the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the end of reporting period.

(7) Financial Assets

The Group classifies financial assets as financial assets measured at fair value through profit or loss, financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income according to the terms and purpose of acquisition. The Group determines the classification of a financial asset at initial recognition.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

1) Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch

1-1) Amortization cost and effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance. Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI.

1-2) Debt instruments classified as at FVTOCI

Corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated in investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

1-3) Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

1-4) Financial assets measured at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are measured at FVTPL. Gains or losses arising from changes in the fair value of FVTPL, dividends and interest income from the financial assets are recognized in profit or loss.

2) Foreign exchange gain / loss

The carrying amount of a financial asset designated as a foreign currency is determined in foreign currencies and is translated at the spot exchange rate at the end of the reporting period.

(8) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime expected credit losses (ECL) for trade receivables, contract assets and lease receivables. The ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience and valuation of individual assets, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of forecast on present and future conditions reflecting time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

1) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- other significant increases in credit risk;

2) Definition of default

The Group believes that, based on past experience, if the debtor violates the terms of the contract, it is considered to constitute a default event for internal credit risk management purposes.

3) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event as defined by the Group's internal policy;

4) Measurements and recognition of expected credit losses

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECLs are estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECLs in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECLs are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECLs at the current reporting date, except for financial assets for which a simplified approach is used.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(9) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

(10) Inventory

Inventory is measured at the lower of cost or net realizable value. Inventory cost, including the fixed and variable manufacturing overhead cost, is calculated, using the moving average method, except for the cost for inventory in transit, which is determined by the specific identification method.

(11) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence, but not a joint venture or a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The investment in an associate or a joint venture is initially recognized at cost and accounted for using the equity method. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or the joint venture.

When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or the joint venture), the Group discontinues recognizing its share of further losses. Additional losses

are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture.

Investment in associate or joint venture is accounted for using the equity method from the date that the investee becomes the associate or joint venture. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of K-IFRS 1028 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When there is any indication of impairment, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1109. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

Unrealized gains from transactions between the Group and its associates or joint ventures are eliminated up to the shares in associate (joint venture) stocks. Unrealized losses are also eliminated, unless evidence of impairment in assets transferred is produced. If the accounting policy of associates or joint ventures differs from the Group, financial statements are adjusted accordingly before applying equity method of accounting.

(12) Property, plant and equipment

Property, plant and equipment is recognized if, and only if it is probable that future economic benefits associated with the asset will flow to the Group, and the cost of the asset can be measured reliably. After the initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost includes any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. In addition, in case the recognition criteria are met, the subsequent costs will be added to the carrying amount of the asset or recognized as a separate asset, and the carrying amount of what was replaced is derecognized.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. The representative useful lives are as follows:

	Representative useful lives (years)
Buildings and structures	12 – 50
Machinery and equipment	6 – 15
Vehicles	6 – 15
Dies, mold and tools	4 – 6
Office equipment	3 – 15
Other	2 – 30

The Group reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

(13) Investment properties

Investment properties are property held to earn rentals or for capital appreciation or both. Investment properties are measured initially at its cost and transaction costs are included in the initial measurement. After initial recognition, the book value of investment properties is presented at the cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized as the carrying amount of the asset when, and only when it is probable that future economic benefits associated with the asset will flow to the Group, and the cost of the asset can be measured reliably, or recognized as a separate asset if appropriate. The carrying amount of what was replaced is derecognized.

Land is not depreciated, and other investment properties are depreciated using the straight-line method over the period from 20 to 50 years. The Group reviews the depreciation method, the estimated useful lives and residual values at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

(14) Intangible assets

1) Goodwill

Goodwill arising from a business combination is recognized as an asset at the time of obtaining control (the acquisition date). Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the Group's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the Group's previously held equity interest in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortized, but tested for impairment at least annually. For purposes of impairment tests, goodwill is allocated to those cash-generating units ("CGU") of the Group expected to have synergies from the business combination. CGU that goodwill has been allocated is tested for impairment every year or when an event occurs that indicates impairment. If the recoverable amount of a CGU is less than its carrying amount, the impairment will first decrease the goodwill allocated to that CGU and the remaining impairment will be allocated among other assets relative to its carrying value. Impairment recognized for goodwill may not be reversed. When disposing a subsidiary, related goodwill will be included in gain or loss from disposal.

2) Development costs

The expenditure on research is recognized as an expense when it is incurred. The expenditure on development is recognized as an intangible asset, and amortization is computed using the straight-line method based on the estimated useful lives of the assets since the asset is available for use or sale.

Research and development activities are conducted in phases of preceding research, development approval, product development and mass production. The Group generally recognizes intangible assets as development activities after the development approval phases which product specification, release schedule, and sales plan are established. Expenditure incurred at the previous phase is recognised as an expense as it is considered as research activities when it is incurred.

3) Intangible assets acquired separately

Intangible assets are measured initially at cost, and are subsequently measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized by the straight-line method based on estimated useful lives from the date of availability. The Group reviews the estimated useful life and amortization method at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate. Intangible assets assessed as having indefinite useful life such as club membership are subjected to impairment test at least once a year without amortization.

The representative useful lives are as follows:

	Representative useful lives (years)
Development costs	3, 7
Industrial property rights	5 – 10
Software	3 – 7
Other	5 – 40

(15) Impairment of tangible and intangible assets

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use.

If the cash inflows of an individual asset are largely independent from other assets or group of assets, the recoverable amount is measured for that individual asset; otherwise, it is measured for the cash generating unit (CGU) to which the asset belongs. An impairment loss in respect of goodwill is not reversed. For other assets, impairment loss is reversed if the recoverable amount increases in subsequent years, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Intangible assets with indefinite useful lives or intangible assets not yet available for use are not amortized, but tested for impairment annually.

(16) Non-current assets classified as held for sale

The Group classifies a non-current asset (or disposal group) as held for sale, if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. The management must be committed to a plan to sell the asset (or disposal group), and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal group) classified as held for sale are measured at the lower of their carrying amount and fair value, less costs to sell.

(17) Lease – From January 1, 2019

At contract inception, the Group assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. When assessing whether the contract conveys a right to control the use of an identified asset, definition of a lease under K-IFRS 1116 has been applied.

1) As a lessee

At inception or effective date of change, the Group allocates the consideration in the contract to each lease on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

The right-of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2) As a lessor

The accounting policies applicable in the same period to the Group as a lessor are not different from those under K-IFRS 1116. When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease. To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease interest income is allocated to accounting periods so as to reflect an effective interest rate on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the carrying amount of investments in operating leases and recognized as expense on a straight-line basis over the lease term.

(18) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets, until they are ready for their intended use or sale. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(19) Retirement benefit plans

The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation, less the fair value of plan assets. Defined benefit obligations are calculated by an actuary using the Projected Unit Credit Method.

The present value of the defined benefit obligations is measured by discounting estimated future cash outflows by the interest rate of high-quality corporate bonds, with similar maturity as the expected post-employment benefit payment date. In countries where there is no deep market in such bonds, the market yields at the end of the reporting period on government bonds are used.

The remeasurements of the net defined benefit liabilities (assets) comprising actuarial gain or loss from changes in actuarial assumptions or differences between actuarial assumptions and actual results, the effect of the changes to the asset ceiling and return on plan assets, excluding amounts included in net interest on the net defined benefit liabilities (assets), are recognized in other comprehensive income of the consolidated statements of comprehensive income, which is immediately recognized as retained earnings. Those recognized in retained earnings will not be reclassified in profit or loss. Past service costs are recognized in profit and loss when the plan amendment occurs, and net interest is calculated by applying the discount rate determined at the beginning of the annual reporting period to the net defined benefit liabilities (assets). Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on settlements), net interest expense (income), and remeasurements.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Contributions to defined contribution retirement benefit plans are recognized as expenses when employees provide services eligible for payment.

(20) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the present value of the cash flows estimated to settle the present obligation. The increase in provision due to passage of time is recognized as interest expense.

The Group recognizes provisions for costs expected to be incurred in the future for the repair of regular parts within the warranty period based on historical experience and compensation for accidents caused by defects in the exported products or parts of the product when such amounts are probable of payment. Also, the Group recognizes provisions for the probable losses of unused loan commitment, construction contracts, pre-contract sale or service contract due to legal or constructive obligations. In addition, the Company recognizes provisions expected to be paid in the future with regard to long-term employee benefits payable to long-term employees.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(21) Taxation

Income tax expense is composed of current and deferred tax.

1) Current tax

The current tax is computed based on the taxable profit for the current year. The taxable profit differs from the profit before income tax as reported in the consolidated statements of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets shall be generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities shall not be recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except when the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that taxable profit will be available against which the temporary difference can be utilized and they are expected to be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority. Also, they are offset when different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3) Recognition of current and deferred taxes

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, or items arising from initial accounting treatments of a business combination. The tax effect arising from a business combination is included in the accounting for the business combination.

(22) Treasury stock

When the Group repurchases its equity instruments (treasury stock), the incremental costs and net of tax effect are deducted from equity and recognized as other capital item deducted from the total equity in the consolidated statements of financial position. In addition, profits or losses from purchase, sale or retirement of treasury stocks are directly recognized in equity and not in current profit or loss.

(23) Financial liabilities and equity instruments

Debt instruments and equity instruments issued by the Group are recognized as financial liabilities or equity depending on the contract and the definitions of financial liability and equity instrument.

1) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2) Financial guarantee liability

A financial guarantee contract is a contract that the issuer must pay a certain amount of money to compensate for losses incurred by the holder due to the failure of a specific debtor to pay the due date on the original contract or modified terms of the debt instrument. Financial guarantee liabilities are measured initially at fair value and subsequently measured at the greater of the following, unless they are designated as at fair value through profit or loss or arising from the transfer of assets.

- Loss provision calculated in accordance with K-IFRS 1109
- The amount recognized less the accumulated profits recognized in accordance with K-IFRS 1115

3) Financial liabilities measured at FVTPL

Financial liabilities are classified as at FVPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVPL as of the date of initial recognition.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability. Gains or losses on financial guarantee contracts issued by the Group that are designated by the Group as at FVTPL are recognized in profit or loss.

4) Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVPL as of the date of initial recognition, are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

5) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(24) Derivatives

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in such case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedges) and the risk of changes in cash flow of a highly probable forecast transaction and the risk of changes in foreign currency exchange rates of firm commitment (cash flow hedges).

1) Fair value hedges

The Group recognizes the changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it is no longer qualified for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. If the forecast transaction results in the recognition of a non-financial asset or liability, the related gain and loss recognized in other comprehensive income and accumulated in equity are transferred from equity to the initial cost of related non-financial asset or liability.

Cash flow hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for the criteria of hedging. Any gain or loss accumulated in equity at that time remains in equity, and is recognized as profit or loss when the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(25) Fair value

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of K-IFRS 1116 *Leases*, and measurements that have some similarities to fair value, but are not fair value, such as net realisable value in K-IFRS 1002 *Inventories* or value in use in K-IFRS 1036 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 or 3, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described in Note 20.

(26) Accounting Treatment related to the Emission Rights Cap and Trade Scheme

The Group classifies the emission rights as intangible assets. Emission rights allowance the government allocated free of charge are measured at nil, and emission rights allowance purchased are measured at cost. No emission liability is recognized if the expected quantity of emission for the performing period does not exceed the emission allowance in possession. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

(27) Significant accounting estimates and key sources of estimation uncertainties

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that cannot be identified from other sources. The estimation and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimations. The estimates and underlying assumptions are continually evaluated. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about assumptions and estimation uncertainties at December 31, 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is as follows:

1) Impairment test for goodwill and non-financial assets

Determining whether goodwill and non-financial asset is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated and value in use of non-financial assets. The value in use calculation requires the management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

2) Warranty provision

The Group recognizes provisions for the warranties of its products as described in Note 2.(20). The amounts are recognized based on the best estimate of amounts necessary to settle the present and future warranty obligation.

3) Defined benefit plans

The Group operates defined retirement benefit plans. Defined benefit obligations are determined at the end of each reporting period using an actuarial valuation method that requires management assumptions on discount rates, rates of expected future salary increases and mortality rates. The characteristic of post-employment benefit plan that serves for the long term period causes significant uncertainties when the post-employment benefit obligation is estimated.

4) Taxation

The Group recognizes current tax and deferred tax based on the best estimates of income tax effect to be charged in the future as the result of operating activities until the end of the reporting period. However, actual final income tax to be charged in the future may differ from the relevant assets and liabilities recognized at the end of the reporting period and the difference may affect income tax charged or credited, or deferred tax assets and liabilities in the period in which the final income tax determined.

5) Fair value of financial instruments

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. The Group makes judgements on the choice of various valuation methods and assumptions based on the condition of the principal market at the end of the reporting period.

6) Measurement and useful lives of property, plant, equipment or intangible assets

If the Group acquires property, plant, equipment or intangible assets from business combination, it is required to estimate the fair value of the assets at the acquisition date and determine the useful lives of such assets for depreciation and amortization.

7) Credit loss allowance

The Group sets credit loss allowance upon evaluation of impairment relating to account receivables and financial services receivables as described in Note 2.(8). The precision in loss allowance is based on the estimation of expected cash flow and assumptions and variables of risk measurement model used for the estimation.

3. TRADE NOTES AND ACCOUNTS RECEIVABLE:

(1) Trade notes and accounts receivable as of December 31, 2019 and December 31, 2018 are as follows

Description	December 31, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Trade notes and accounts receivable	₩ 3,580,654	₩ 131,089	₩ 3,665,356	₩ 143,496
Loss allowance	(67,564)	-	(69,363)	-
Present value discount accounts	-	(3,659)	-	(6,719)
	₩ 3,513,090	₩ 127,430	₩ 3,595,993	₩ 136,777

(2) Aging analysis of trade notes and accounts receivable

As of December 31, 2019 aging analysis of total trade notes and accounts receivable that are past due, but not impaired are as follows.

Description	Not due	Overdue Within 90days	Overdue Within 180days More than 91days	Overdue More than 181 days	Total amounts	Amount of impaired receivables
	(In millions of Korean Won)					
Total trade note and accounts receivable	₩ 3,071,945	₩ 504,725	₩ 17,624	₩ 117,449	₩ 3,711,743	₩ 67,564

As of December 31, 2018, aging analysis of total trade notes and accounts receivable that are past due, but not impaired are as follows.

Description	Not overdue	Overdue Within 90days	Overdue Within 180days More than 91days	Overdue More than 181 days	Total amounts	Amount of impaired receivables
	(In millions of Korean Won)					
Total trade note and accounts receivable	₩ 3,460,604	₩ 219,070	₩ 41,207	₩ 87,971	₩ 3,808,852	₩ 69,363

(3) Transferred trade notes and accounts receivable that are not derecognized

As of December 31, 2019 and December 31, 2018, total trade notes and accounts receivable (including inter-company receivables within the Group) which the Group transferred to financial institutions but did not qualify for derecognition, amount to ₩2,898,539 million and ₩2,169,253 million, respectively. Cash and cash equivalents received as consideration for the transfer are recognized as short-term borrowings due to the fact that the risks and rewards were not transferred substantially.

(4) Changes in loss allowance for the years ended December 31, 2019 and December 31, 2018 are as follows

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Beginning of the year	₩ 69,363	₩ 65,167
Impairment loss (reversal)	(1,983)	4,453
Write-off	(3,133)	(205)
Effect of foreign exchange differences and others	3,317	(52)
End of the year	₩ 67,564	₩ 69,363

4. OTHER RECEIVABLES:

(1) Other receivables as of December 31, 2019 and December 31, 2018 are as follows

Description	December 31, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Accounts receivable – others	₩ 2,219,810	₩ 345,978	₩ 2,161,565	₩ 392,400
Due from customers for contract work	1,171,029	-	1,110,972	-
Lease and rental deposits	19,259	313,334	28,826	310,194
Deposits	2,626	41,139	2,591	42,381
Others	4,738	4,703	1,719	10,113
Loss allowance	(15,403)	-	(13,826)	-
	₩ 3,402,059	₩ 705,154	₩ 3,291,847	₩ 755,088

(2) The changes in other allowance for the years ended December 31, 2019 and December 31, 2018 are as follows:

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Beginning of the year	₩ 13,826	₩ 11,128
Impairment loss	2,573	3,567
Write-off	(1,005)	(853)
Effect of foreign exchange differences	9	(16)
End of the year	₩ 15,403	₩ 13,826

5. OTHER FINANCIAL ASSETS:

(1) Other financial assets as of December 31, 2019 are as follows.

Description	December 31, 2019	
	Current	Non-current
	(In millions of Korean Won)	
Financial assets measured at FVTPL	₩ 9,314,383	₩ 623,040
Financial assets measured at FVOCI	37,255	2,241,379
Financial assets measured at amortized cost	48,275	61,271
Derivative assets that are effective hedging instruments	50,000	133,836
	₩ 9,449,913	₩ 3,059,526

Other financial assets as of December 31, 2018 are as follows.

Description	December 31, 2018	
	Current	Non-current
	(In millions of Korean Won)	
Financial assets measured at FVTPL	₩ 9,644,865	₩ 286,286
Financial assets measured at FVOCI	9,683	1,901,038
Financial assets measured at amortized cost	96,322	8,641
Derivative assets that are effective hedging instruments	4,855	27,393
	₩ 9,755,725	₩ 2,223,358

(2) Financial assets measured at FVOCI as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019		December 31, 2018
	Acquisition cost	Book value	Book value
	(In millions of Korean Won)		
Debt instruments	₩ 349,026	₩ 361,138	₩ 236,031
Equity instruments (*)	1,824,163	1,917,496	1,674,690
	₩ 2,173,189	₩ 2,278,634	₩ 1,910,721

(*) The Group makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading at the date of initial application of K-IFRS 1109.

(3) Equity instruments classified into financial assets measured at FVOCI as of December 31, 2019 and December 31, 2018 are as follows.

Name of the company	Ownership percentage	December 31, 2019		December 31, 2018
		Acquisition cost	Book value	Book value
	(%)	(In millions of Korean Won)		
Hyundai Steel Company (*1)	6.87	₩ 903,897	₩ 358,697	₩ 516,090
Hyundai Oilbank Co., Ltd.	4.35	53,734	276,152	204,392
Hyundai Glovis Co., Ltd.	4.88	210,688	261,824	236,191
Korea Shipbuilding & Offshore Engineering Co., Ltd. (*2)	2.31	42,443	206,557	209,823
Korea Aerospace Industries, Ltd. (*3)	-	73,331	161,092	150,920
Hyundai Heavy Industries Holdings Co., Ltd.	2.13	9,018	117,270	120,046
Hyundai Green Food Co., Ltd.	2.36	15,005	27,346	33,000
NICE Information Service Co., Ltd.	2.25	3,312	19,055	14,957
NICE Holdings Co., Ltd.	1.30	3,491	10,275	8,825
Hyundai M Partners Co., Ltd.	9.29	9,888	9,704	12,119
KT Corporation	0.09	8,655	6,482	7,155
Hyundai Asan Corporation	1.40	22,500	2,117	2,117
Hyundai Merchant Marine Co., Ltd	0.03	9,161	351	366
Others		459,040	460,574	158,689
		₩ 1,824,163	₩ 1,917,496	₩ 1,674,690

(*1) The Group entered into a total return swap agreement to transfer 2,231,716 shares out of total 11,405,311 shares with a third party.
(*2) Hyundai Heavy Industries Co., Ltd. was split into Korea Shipbuilding & Offshore Engineering Co., Ltd. and Hyundai Heavy Industries Co., Ltd. during the year ended December 31, 2019
(*3) The Group entered into a total return swap agreement to transfer total shares with a third party.

6. INVENTORIES:

Inventories as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Finished goods	₩ 6,828,461	₩ 6,486,616
Merchandise	45,235	52,717
Semifinished goods	550,146	515,084
Work in progress	424,261	400,850
Raw materials	1,468,306	1,363,298
Supplies	305,130	306,670
Materials in transit	690,342	665,246
Others(*1)	1,351,967	924,377
Total (*2)	₩ 11,663,848	₩ 10,714,858

(*1) As of December 31, 2019 and December 31, 2018, others include inventories provided by operating lease with repurchase agreement in the amount of ₩558,239 million and ₩284,042 million, respectively.

(*2) As of December 31, 2019 and December 31, 2018, the Group recognized a valuation allowance in the amount of ₩166,016 million and ₩130,989 million, respectively.

7. OTHER ASSETS:

Other assets as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Accrued income	₩ 329,909	₩ 1,257	₩ 318,306	₩ 1,293
Advanced payments	686,785	-	658,460	-
Prepaid expenses	427,780	780,503	445,601	672,814
Prepaid value-added tax and others	333,153	84,007	348,315	37,192
	₩ 1,777,627	₩ 865,767	₩ 1,770,682	₩ 711,299

8. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE:

Non-current assets classified as held for sale as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Land (*1)	₩ 8,169	₩ 3,454
Building (*1)	3,324	7,963
Vehicles (*2)	-	16,023
Subsidiary (*3)	-	839,752
Total	₩ 11,493	₩ 867,192
Non-current liabilities classified as held for sale (*3)	₩ -	₩ 719,396

(*1) Hyundai Card Co,, Ltd. and Hyundai Capital Services, Inc., which are subsidiaries of the Company completed the process of disposal for the office located in Gwang-ju and Hyundai Capital Services, Inc., is in the process of disposal for the office located in Dae-gu during the year ended December 31, 2019.

(*2) The Group completed the process of disposal during the year ended December 31, 2019. In prior year, the Group recognised an impairment loss of ₩13,045 million, the difference between the expected sale price and the book value.

(*3) The Company together with Hyundai Capital Services, Inc., a subsidiary of the Company, entered into a disposal contract for a portion of Hyundai Capital Bank Europe GmbH 's shares in August 2018. Accordingly, the Group classified the assets and liabilities related to the Hyundai Capital Bank Europe GmbH to the disposal groups as held for sale and completed the process of disposal of these shares in Hyundai Capital Bank Europe GmbH 's during the year ended December 31, 2019.

9. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipment ("PP&E") as of December 31, 2019 and 2018 are as follows.

Description	December 31, 2019			December 31, 2018		
	Acquisition cost	Accumulated depreciation (*)	Book value	Acquisition cost	Accumulated depreciation (*)	Book value
	(In millions of Korean Won)					
Land	₩ 12,039,472	₩ -	₩ 12,039,472	₩ 11,802,601	₩ -	₩ 11,802,601
Buildings	9,701,282	(3,471,456)	6,229,826	9,289,171	(3,151,813)	6,137,358
Structures	1,488,988	(739,417)	749,571	1,389,627	(662,606)	727,021
Machinery and equipment	16,246,503	(9,712,086)	6,534,417	15,558,786	(9,088,703)	6,470,083
Vehicles	368,948	(170,618)	198,330	363,338	(169,354)	193,984
Dies, molds and tools	10,995,970	(7,961,360)	3,034,610	9,820,613	(7,227,150)	2,593,463
Office equipment	1,754,531	(1,339,358)	415,173	1,655,978	(1,218,195)	437,783
Others	116,526	(73,209)	43,317	97,266	(51,840)	45,426
Construction in progress	3,586,808	-	3,586,808	2,137,889	-	2,137,889
	₩ 56,299,028	₩ (23,467,504)	₩ 32,831,524	₩ 52,115,269	₩ (21,569,661)	₩ 30,545,608

(*) Accumulated impairment losses are included.

(2) The changes in PP&E for the year ended December 31, 2019 are as follows.

Description	Beginning of the year	Acquisitions	Transfers within PP&E	Disposals	Depreciation	Transfer to assets classified as held for sale	Others (*)	End of the year
	(In millions of Korean Won)							
Land	₩ 11,802,601	₩ 182,249	₩ 60,010	₩ (4,303)	₩ -	₩ (8,169)	₩ 7,084	₩ 12,039,472
Buildings	6,137,358	1,646	346,878	(1,165)	(296,342)	(3,324)	44,775	6,229,826
Structures	727,021	12,481	71,105	(893)	(65,842)	-	5,699	749,571
Machinery and equipment	6,470,083	13,382	1,223,291	(149,553)	(986,467)	-	(36,319)	6,534,417
Vehicles	193,984	41,188	82,908	(54,933)	(56,089)	-	(8,728)	198,330
Dies, molds and tools	2,593,463	6,862	1,339,405	(1,715)	(936,809)	-	33,404	3,034,610
Office equipment	437,783	41,482	109,117	(1,169)	(170,977)	-	(1,063)	415,173
Others	45,426	5,884	11,529	(122)	(21,939)	-	2,539	43,317
Construction in progress	2,137,889	4,509,585	(3,244,243)	(782)	-	-	184,359	3,586,808
	₩ 30,545,608	₩ 4,814,759	₩ -	₩ (214,635)	₩ (2,534,465)	₩ (11,493)	₩ 231,750	₩ 32,831,524

(*) Others include the effect of foreign exchange differences, transfers from or to other accounts and impairment losses.

The changes in PP&E for the year ended December 31, 2018 are as follows.

Description	Beginning of the year	Acquisitions	Transfers within PP&E	Disposals	Depreciation	Transfer to assets classified as held for sale	Others (*)	End of the year
	(In millions of Korean Won)							
Land	₩ 11,794,842	₩ 536	₩ 43,888	₩ (35,186)	₩ -	₩ (3,454)	₩ 1,975	₩ 11,802,601
Buildings	5,979,344	10,957	466,495	(27,764)	(277,115)	(7,963)	(6,596)	6,137,358
Structures	655,732	6,513	125,295	(4,360)	(62,303)	-	6,144	727,021
Machinery and equipment	6,092,817	12,221	1,393,296	(60,561)	(924,923)	-	(42,767)	6,470,083
Vehicles	190,756	35,005	79,676	(48,019)	(52,324)	-	(11,110)	193,984
Dies, molds and tools	2,516,521	512	1,020,614	(65,972)	(837,721)	-	(40,491)	2,593,463
Office equipment	473,001	59,875	82,898	(1,422)	(175,959)	(2,299)	1,689	437,783
Others	47,223	4,639	11,914	(141)	(16,750)	-	(1,459)	45,426
Construction in progress	2,076,906	3,201,634	(3,224,076)	(6,015)	-	-	89,440	2,137,889
	₩ 29,827,142	₩ 3,331,892	₩ -	₩ (249,440)	₩ (2,347,095)	₩ (13,716)	₩ (3,175)	₩ 30,545,608

(*) Others include the effect of foreign exchange differences and transfers from or to other accounts.

10. INVESTMENT PROPERTIES:

(1) Investment properties as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019			December 31, 2018		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In millions of Korean Won)					
Land	₩ 56,046	₩ -	₩ 56,046	₩ 58,669	₩ -	₩ 58,669
Buildings	298,245	(194,127)	104,118	303,191	(184,262)	118,929
Structures	18,630	(7,300)	11,330	18,630	(6,894)	11,736
	₩ 372,921	₩ (201,427)	₩ 171,494	₩ 380,490	₩ (191,156)	₩ 189,334

(2) The changes in Investment properties for the year ended December 31, 2019 are as follows.

Description	Beginning of the year	Disposals	Depreciation	Effect of foreign exchange differences	End of the year
	(In millions of Korean Won)				
Land	₩ 58,669	₩ (2,623)	₩ -	₩ -	₩ 56,046
Buildings	118,929	(4,980)	(10,312)	481	104,118
Structures	11,736	-	(406)	-	11,330
	₩ 189,334	₩ (7,603)	₩ (10,718)	₩ 481	₩ 171,494

The changes in Investment properties for the year ended December 31, 2018 are as follows.

Description	Beginning of the year	Transfers(*)	Disposals	Depreciation	Effect of foreign exchange differences	End of the year
	(In millions of Korean Won)					
Land	₩ 58,669	₩ -	₩ -	₩ -	₩ -	₩ 58,669
Buildings	128,685	657	-	(10,384)	(29)	118,929
Structures	12,144	-	-	(408)	-	11,736
	₩ 199,498	₩ 657	₩ -	₩ (10,792)	₩ (29)	₩ 189,334

(*) Transferred amount from PP&E.

(3) The fair value of Investment properties as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Land	₩ 56,046	₩ 58,669
Buildings	314,506	316,215
Structures	15,496	15,496
	₩ 386,048	₩ 390,380

The fair value measurement of the Investment properties was performed by an independent third party. The Group deems the change in fair value from the fair value measurement performed at the initial recognition of the Investment properties is not material.

The fair value of the Investment properties is classified as Level 3, based on the inputs used in the valuation techniques. The fair value has been determined based on the cost approach and the market approach. The cost approach measures fair value as current replacement cost considering building structures and design, supplementary installation, depreciation period.

(4) Income and expenses related to Investment properties for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Rental income	₩ 50,308	₩ 47,907
Operating and maintenance expenses	16,943	17,091

11. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2019 and December 31, 2018 are as follows.

	December 31, 2019			December 31, 2018		
Description	Acquisition cost	Accumulated amortization (*)	Book value	Acquisition cost	Accumulated amortization (*)	Book value
	(In millions of Korean Won)					
Goodwill	₩ 296,095	₩ (34,570)	₩ 261,525	₩ 293,382	₩ (33,975)	₩ 259,407
Development costs	9,349,676	(5,273,333)	4,076,343	8,256,046	(4,471,703)	3,784,343
Industrial property rights	310,908	(177,633)	133,275	283,056	(154,193)	128,863
Software	1,242,304	(924,315)	317,989	1,105,754	(786,766)	318,988
Others	514,273	(264,325)	249,948	483,323	(237,692)	245,631
Construction in progress	249,787	(22,371)	227,416	212,933	(28,782)	184,151
	₩ 11,963,043	₩ (6,696,547)	₩ 5,266,496	₩ 10,634,494	₩ (5,713,111)	₩ 4,921,383

(*) Accumulated impairment losses are included.

(2) The changes in intangible assets for the year ended December 31, 2019 are as follows.

Description	Beginning of the year	Internal developments	External acquisition	Transfers within intangible assets	Disposals
	(In millions of Korean Won)				
Goodwill	₩ 259,407	₩ -	₩ -	₩ -	₩ -
Development Costs	3,784,343	1,514,478	18,177	58,275	(36)
Industrial property rights	128,863	42	1,958	24,748	(173)
Software	318,988	1,782	22,867	30,443	(2,041)
Others	245,631	-	4,059	19,932	(4,337)
Construction in progress	184,151	42,539	135,142	(133,398)	-
	₩ 4,921,383	₩ 1,558,841	₩ 182,203	₩ -	₩ (6,587)

Description	Amortization	Impairment loss/gain (*1)	Others (*2)	End of the year
	(In millions of Korean Won)			
Goodwill	₩ -	₩ -	₩ 2,118	₩ 261,525
Development Costs	(1,101,505)	(187,163)	(10,226)	4,076,343
Industrial property rights	(23,737)	-	1,574	133,275
Software	(139,908)	-	85,858	317,989
Others	(21,539)	31	6,171	249,948
Construction in progress	-	-	(1,018)	227,416
	₩ (1,286,689)	₩ (187,132)	₩ 84,477	₩ 5,266,496

(*1) Development costs and others were recognized as impairment losses due to the discontinued sales and development projects for the year ended December 31, 2019.
(*2) Others include the effect of foreign exchange differences and transfer from or to other accounts and others.

The changes in intangible assets for the year ended December 31, 2018 are as follows.

Description	Beginning of the year	Internal developments and separate acquisitions	External acquisition	Transfers within intangible assets	Disposals
			(In millions of Korean Won)		
Goodwill	₩ 291,429	₩ -	₩ -	₩ -	₩ -
Development Costs	3,582,114	1,455,817	19,234	73,977	(4,688)
Industrial property rights	113,400	57	2,268	33,115	(12)
Software	346,933	-	25,912	31,015	(818)
Others	276,075	-	3,679	2,798	(2,146)
Construction in progress	199,385	7,423	108,712	(140,905)	-
	₩ 4,809,336	₩ 1,463,297	₩ 159,805	₩ -	₩ (7,664)

Description	Amortization	Impairment loss/gain(*1)	Transfer to assets classified as held for sale	Others (*2)	End of the year
		(In millions of Korean Won)			
Goodwill	₩ -	₩ (32,125)	₩ -	₩ 103	₩ 259,407
Development Costs	(1,225,225)	(109,977)	-	(6,909)	3,784,343
Industrial property rights	(20,846)	-	-	881	128,863
Software	(134,905)	(1,687)	-	52,538	318,988
Others	(22,606)	69	(8,696)	(3,542)	245,631
Construction in progress	-	-	(1,987)	11,523	184,151
	₩ (1,403,582)	₩ (143,720)	₩ (10,683)	₩ 54,594	₩ 4,921,383

(*1) Development costs and others were recognized as impairment losses due to the discontinued sales and development projects for the year ended December 31, 2018.
(*2) Others include the effect of foreign exchange differences and transfer from or to other accounts and others.

(3) Development costs of intangible assets as of December 31, 2019 consist of as follows.

Description		Book value	Remaining amortization period (*)
		(In millions of Korean Won)	
Automobile	Developing	₩ 1,946,181	-
〃	Amortizing	1,528,805	34 months
Powertrain	Developing	182,753	-
〃	Amortizing	184,044	28 months
Others	Developing	30,870	-
〃	Amortizing	203,690	33 months
		₩ 4,076,343	

(*) Since the remaining amortization period differs for each project, the weighted average remaining useful lives of the development costs at the end of reporting period are disclosed.

Development costs of intangible assets as of December 31, 2018 consist of as follows.

Description		Book value	Residual useful lives (*)
		(In millions of Korean Won)	
Automobile	Developing	₩ 1,314,742	-
〃	Amortizing	1,851,453	38 months
Powertrain	Developing	195,715	-
〃	Amortizing	188,215	33 months
Others	Developing	3,190	-
〃	Amortizing	231,028	40 months
		₩ 3,784,343	

(*) Since the remaining amortization period differs for each project, the weighted average remaining useful lives of the development costs at the end of reporting period are disclosed.

(4) Research and development expenditures for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Development costs (intangible assets)	₩ 1,532,655	₩ 1,475,051
Research and development costs (*1)	1,489,028	1,267,327
Total (*2)	₩ 3,021,683	₩ 2,742,378

(*1) Presented in manufacturing costs, administrative expenses and other expenses.
(*2) Amortization of development costs is not included.

(5) Impairment test of goodwill

The allocation of goodwill amongst the Group's CGU as of December 31, 2019 and December 31, 2018 are as follows.

Segment	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Vehicle	₩ 160,563	₩ 158,955
Finance	482	482
Others	100,480	99,970
	₩ 261,525	₩ 259,407

The recoverable amounts of the Group's CGUs are measured as their value-in-use calculated based on cash flow projections of financial budgets for the next five years approved by management. The pre-tax discount rate applied to the cash flow projections for the years ended December 31, 2019 and 2018, are 12.5% and 13.8% respectively. Cash flow projections beyond the next five-year period are extrapolated by using the estimated growth rate which does not exceed the long-term average growth rate of the region and industry to which the CGU belongs. Impairment losses recognized for the years ended December 31, 2019 and 2018 are nil and ₩32,125 million, respectively.

12. LEASES (AS A LESSEE):

(1) The changes in right-of-use assets for the year ended December 31, 2019 are as follows.

Description	Beginning of the year	Impact on transition to K-IFRS 1116	Acquisitions	Disposals	Depreciation	Others(*)	End of the year
Land	₩ -	₩ 22,356	₩ 2,805	₩ (501)	₩ (4,437)	₩ 264	₩ 20,487
Buildings	-	620,661	217,028	(2,518)	(158,828)	13,220	689,563
Structures	-	3,445	1,831	(62)	(2,141)	14	3,087
Others		28,234	6,612	(18)	(14,248)	825	21,405
	₩ -	₩ 674,696	₩ 228,276	₩ (3,099)	₩ (179,654)	₩ 14,323	₩ 734,542

(*) Others include the effect of foreign exchange differences and others.

(2) Lease liabilities as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Undiscounted lease liabilities	₩ 979,101	₩ -
Discounted lease liabilities	767,984	-
Current	132,388	-
Non-current	635,596	-

(3) Expenses recognized in relation to leases for the years ended December 31, 2019 and 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Interest on lease liabilities	₩ 29,404	₩ -
Expenses in relation to leases of short-term and low-value assets	21,617	-

13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES:

(1) Investments in joint ventures and associates as of December 31, 2019 and December 31, 2018 are as follows.

Name of the companyf	Nature of business	Location	December 31, 2019		December 31, 2018
			Ownership percentage	Book value	Book value
			(%)	(In millions of Korean Won)	
Beijing-Hyundai Motor Company (BHMC) (*1)	Manufacturing	China	50.00	₩ 1,256,925	₩ 1,484,794
Beijing Hyundai Qiche Financing Company (BHAF) (*1,3)	Financing	China	53.00	577,810	530,161
Hyundai WIA Automotive Engine (Shandong) Company (WAE)	Manufacturing	China	22.00	154,136	151,248
Hyundai Capital Bank Europe GmbH (HCBE)(*6)	Financing	Germany	49.00	159,948	-
Kia Motors Corporation	Manufacturing	Korea	33.88	9,655,017	9,001,505
Hyundai Engineering & Construction Co., Ltd.	Construction	Korea	20.95	2,859,169	2,801,084
Hyundai Transys Inc. (Formerly. Hyundai Dymos Inc.) (*4)	Manufacturing	Korea	41.13	1,026,563	430,571
Hyundai WIA Corporation	Manufacturing	Korea	25.35	682,526	674,651
Hyundai Motor Securities Co., Ltd.	Securities brokerage	Korea	27.49	283,446	265,711
Hyundai Commercial Inc.	Financing	Korea	37.50	255,800	218,983
Eukor Car Carriers Inc. (*2)	Transportation	Korea	12.00	173,212	159,699
Hyundai Autoever Corp.	IT service	Korea	28.48	145,076	129,173
Haevichi Hotels & Resorts Co., Ltd.	Hotelkeeping	Korea	41.90	101,578	104,009
Hyundai Powertech Co., Ltd.(*4)	Manufacturing	Korea	-	-	561,688
Others (*5)				1,044,084	629,962
				₩ 18,375,290	₩ 17,143,239

(*1) Each of the joint arrangements in which the Group retains joint control is structured through a separate entity and there are no contractual terms stating that the parties retain rights to the assets and obligations for the liabilities relating to the joint arrangement or other relevant facts and circumstances. As a result, the Group considers that the parties that retain joint control in the arrangement have rights to the net assets and classifies the joint arrangements as joint ventures. Also, there are restrictions, which require consent from the director who is designated by the other investors, for certain transactions, such as payment of dividend.

(*2) As the Group is considered to be able to exercise significant influence by representation on the board of directors of the investee and other reasons, although the total ownership percentage is less than 20%, the investment is accounted for using the equity method.

(*3) The entity is categorized as a joint venture although the Group's total ownership percentage is a majority share of 53%, because the Group does not have control over the entity by virtue of an agreement with the other investors.

(*4) Hyundai Dymos Inc. merged with Hyundai Powertech Co., Ltd., and changed the name of company to Hyundai Transys Co., Ltd. as of January 1, 2019.

(*5) The Group has stopped recognising its share of losses of the Sichuan Hyundai Motor Company (CHMC) and unrecognized share of losses of a joint venture, after the capital increase in 2019, for the year ended December 31, 2019 and cumulatively as of December 31, 2019 are ₩35,692 million and ₩35,692 million, respectively.

(*6) The Group reclassified this former subsidiary to an associate due to the partial disposal of its shares which resulted in a loss of control during the year ended December 31, 2019.

(2) The changes in investments in joint ventures and associates for the year ended December 31, 2019 are as follows.

Name of the company	Beginning of the year	Acquisitions (disposals)	Share of profits (losses) for the period	Dividends	Others (*1)	End of the year
			(In millions of Korean Won)			
BHMC	₩ 1,484,794	₩ -	₩ (260,290)	₩ -	₩ 32,421	₩ 1,256,925
BHAF	530,161	-	41,008	-	6,641	577,810
WAE	151,248	10,138	121	(10,138)	2,767	154,136
HCBE(*3)	-	38,570	(7,178)	-	128,556	159,948
Kia Motors Corporation	9,001,505	-	596,660	(123,586)	180,438	9,655,017
Hyundai Engineering & Construction Co., Ltd.	2,801,084	-	66,070	(11,664)	3,679	2,859,169
Hyundai Transys Inc. (*2)	992,259	334	37,459	-	(3,489)	1,026,563
Hyundai WIA Corporation	674,651	-	9,646	(4,136)	2,365	682,526
Hyundai Motor Securities Co., Ltd.	265,711	-	20,043	(3,630)	1,322	283,446
Hyundai Commercial Inc.	218,983	-	33,381	-	3,436	255,800
Eukor Car Carriers Inc.	159,699	-	7,232	-	6,281	173,212
Hyundai Autoever Corp.	129,173	-	15,928	(4,126)	4,101	145,076
Haevichi Hotels & Resorts Co., Ltd.	104,009	-	(2,333)	-	(98)	101,578
Others(*4)	629,962	538,095	12,988	(12,412)	(124,549)	1,044,084
	₩ 17,143,239	₩ 587,137	₩ 570,735	₩ (169,692)	₩ 243,871	₩ 18,375,290

(*1) Others consist of changes in accumulated other comprehensive income (loss) and others.
(*2) Hyundai Dymos Inc. merged with Hyundai Powertech Co., Ltd. to become Hyundai Transys Co., Ltd. as of January 1, 2019.
(*3) Others include ₩98,179 million which represents the estimated fair value of the remaining interest in the investment after the partial disposal during the year ended December 31, 2019.
(*4) The changes in others include increase in capital of the Sichuan Hyundai Motor Company (CHMC), recognition of unrecognized cumulative loss and the impairment loss in the amount of ₩29,751 million for the year ended December 31, 2019.

The changes in investments in joint ventures and associates for the year ended December 31, 2018 are as follows.

Name of the company	Beginning of the year	Acquisitions (disposals)	Share of profits (losses) for the period	Dividends	Others (*1)	End of the year
			(In millions of Korean Won)			
BHMC	₩ 1,456,579	₩ -	₩ 37,495	₩ -	₩ (9,280)	₩ 1,484,794
BHAF	480,353	-	50,461	(6,211)	5,558	530,161
WAE	167,805	-	(15,994)	-	(563)	151,248
PTS	120,256		(19,270)	-	(232)	100,754
Kia Motors Corporation	8,882,325	-	365,561	(109,855)	(136,526)	9,001,505
Hyundai Engineering & Construction Co., Ltd.(*2)	2,959,910	-	58,357	(11,664)	(205,519)	2,801,084
Hyundai WIA Corporation (*3)	794,150	-	(16,133)	(4,136)	(99,230)	674,651
Hyundai Powertech Co., Ltd.	547,295	-	15,021	-	(628)	561,688
Hyundai Dymos Inc.	399,724	-	25,951	-	4,896	430,571
Hyundai Motor Securities Co., Ltd.	254,766	-	13,422	(3,226)	749	265,711
Hyundai Commercial Inc.	373,797	-	35,302	(10,000)	(180,116)	218,983
Eukor Car Carriers Inc.	160,255	-	3,010	(8,976)	5,410	159,699
Hyundai Autoever Corp.	119,162	-	15,634	(4,126)	(1,497)	129,173
Haevichi Hotels & Resorts Co., Ltd.	106,531	-	(2,435)	-	(87)	104,009
Others	429,430	61,772	33,140	(12,009)	16,875	529,208
	₩ 17,252,338	₩ 61,772	₩ 599,522	₩ (170,203)	₩ (600,190)	₩ 17,143,239

(*1) Others consist of changes in accumulated other comprehensive income (loss) and others.
(*2) The recoverable amount was less than the carrying amount and the impairment loss amounting to ₩ 103,459 million was recognized. The recoverable amount is determined based on the value of use, and the discount rate applied to measure the value of use is 8% per annum.
(*3) The recoverable amount was less than the carrying amount and the impairment loss amounting to ₩ 90,031 million was recognized. The recoverable amount is determined based on the value of use, and the discount rate applied to measure the value of use is 7.95% per annum.

(3) Summarized financial information of the Group's major joint ventures and associates as of and for the year ended December 31, 2019 is as follows.

Name of the company	Current assets	Non-current assets	Current liabilities	Non-current liabilities
		(In millions of Korean Won)		
BHMC	₩ 4,422,983	₩ 4,152,989	₩ 5,419,197	₩ 551,122
BHAF (*)	5,726,446	-	4,636,239	-
WAE	622,033	639,984	375,474	185,923
HCBE (*)	1,942,896	-	1,662,886	-
Kia Motors Corporation	21,555,416	33,789,382	17,276,646	9,090,014
Hyundai Engineering & Construction Co., Ltd.	13,324,399	4,902,573	6,770,867	2,741,123
Hyundai Transys Inc.	3,001,430	2,771,473	2,096,044	1,208,858
Hyundai WIA Corporation	3,569,098	3,205,241	1,861,396	1,821,134
Hyundai Motor Securities Co., Ltd (*)	7,030,730	-	6,041,487	-
Hyundai Commercial Inc. (*)	8,987,344	-	7,718,158	-
Eukor Car Carriers Inc.	251,544	3,206,206	421,384	1,595,119
Hyundai Autoever Corp.	739,052	287,644	398,794	112,892
Haevichi Hotels & Resorts Co., Ltd.	40,502	420,673	220,157	63,063

Name of the company	Sales	Profit (loss) for the period from continuing operations	Other comprehensive income (loss)	Total comprehensive income (loss)
		(In millions of Korean Won)		
BHMC	₩ 10,205,560	₩ (523,419)	₩ -	₩ (523,419)
BHAF (*)	220,102	78,067	-	78,067

Name of the company	Sales	Profit (loss) for the period from continuing operations	Other comprehensive income (loss)	Total comprehensive income (loss)
		(In millions of Korean Won)		
WAE	1,313,265	551	58,339	58,890
HCBE (*)	75,416	(11,175)	3,667	(7,508)
Kia Motors Corporation	58,145,959	1,826,659	268,853	2,095,512
Hyundai Engineering & Construction Co., Ltd.	17,278,792	573,331	(33,165)	540,166
Hyundai Transys Inc.	7,678,085	135,769	19,571	155,340
Hyundai WIA Corporation	7,314,626	55,207	15,608	70,815
Hyundai Motor Securities Co., Ltd. (*)	716,183	71,844	4,808	76,652
Hyundai Commercial Inc. (*)	477,666	87,760	26,654	114,414
Eukor Car Carriers Inc.	1,747,310	64,695	47,725	112,420
Hyundai Autoever Corp.	1,571,818	56,873	5,196	62,069
Haevichi Hotels & Resorts Co., Ltd.	126,935	2,025	(185)	1,840

(*) The companies operate financial business and their total assets (liabilities) are included in current assets (liabilities) as the companies do not distinguish current and non-current portion in their separate financial statements.

Summarized financial information of the Group's major joint ventures and associates as of and for the year ended December 31, 2018 is as follows.

Name of the company	Current assets	Non-current assets	Current liabilities	Non-current liabilities
		(In millions of Korean Won)		
BHMC	₩ 5,203,650	₩ 4,024,905	₩ 5,787,864	₩ 376,529
BHAF (*)	5,143,183	-	4,142,880	-
WAE	731,486	689,637	347,052	386,581
PTS	621,193	358,711	368,791	275,267
Kia Motors Corporation	19,711,791	32,074,814	14,834,739	9,708,402
Hyundai Engineering & Construction Co., Ltd.	13,336,768	4,717,841	6,860,875	2,901,878
Hyundai WIA Corporation	3,890,796	3,216,651	1,862,772	2,207,744
Hyundai Powertech Co., Ltd.	1,238,501	1,666,490	905,338	500,382
Hyundai Dymos Inc.	1,484,098	1,095,745	1,058,852	616,655
Hyundai Motor Securities Co., Ltd. (*)	6,686,423	-	5,799,504	-
Hyundai Commercial Inc. (*)	8,544,662	-	7,362,296	-
Eukor Car Carriers Inc.	341,809	2,574,091	462,933	1,124,327
Hyundai Autoever Corp.	689,504	139,568	367,985	9,498
Haevichi Hotels & Resorts Co., Ltd.	28,328	425,126	213,245	64,093

Name of the company	Sales	Profit (loss) for the period from continuing operations	Other comprehensive income (loss)	Total comprehensive income (loss)
		(In millions of Korean Won)		
BHMC	₩ 11,043,756	₩ 12,315	₩ -	₩ 12,315
BHAF (*)	238,694	95,210	-	95,210
WAE	1,346,039	(72,700)	(48,319)	(121,019)
PTS	1,108,875	(64,233)	-	(64,233)
Kia Motors Corporation	54,169,813	1,155,943	(452,911)	703,032
Hyundai Engineering & Construction Co., Ltd.	16,730,894	535,303	(207,137)	328,166
Hyundai WIA Corporation	7,880,481	(55,561)	(31,669)	(87,230)
Hyundai Powertech Co., Ltd.	2,953,249	30,704	(1,627)	29,077
Hyundai Dymos Inc.	4,266,845	52,914	(7,436)	45,478
Hyundai Motor Securities Co., Ltd. (*)	618,986	50,572	3,137	53,709
Hyundai Commercial Inc. (*)	466,766	68,648	8,497	77,145
Eukor Car Carriers Inc.	1,736,826	19,412	49,850	69,262
Hyundai Autoever Corp.	1,424,859	55,228	(4,956)	50,272
Haevichi Hotels & Resorts Co., Ltd.	117,067	1,711	(357)	1,354

(*) The companies operate financial business and their total assets (liabilities) are included in current assets (liabilities) as the companies do not distinguish current and non-current portion in their separate financial statements.

(4) Summarized additional financial information of the Group's major joint ventures as of and for the year ended December 31, 2019 is as follows.

Name of the company	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation and amortization	Interest income	Interest expenses	Income tax expense
			(In millions of Korean Won)				
BHMC	₩ 722,736	₩ 4,026,911	₩ 135,907	₩ 420,282	₩ 25,683	₩ 125,423	₩ (25)
BHAF(*)	849,360	4,150,917	-	5,358	413,321	188,151	25,974

(*) Operating finance business of which total assets (liabilities) are included in current financial liabilities as BHAF does not distinguish current and non-current portion in its separate financial statements.

Summarized additional financial information of the Group's major joint ventures as of and for the year ended December 31, 2018 is as follows.

Name of the company	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation and amortization	Interest income	Interest expenses	Income tax expense
			(In millions of Korean Won)				
BHMC	₩ 534,602	₩ 1,009,469	₩ 56,966	₩ 423,303	₩ 18,851	₩ 108,913	₩ (2,025)
BHAF(*)	834,118	3,674,564	-	4,948	427,317	190,968	30,963

(*) Operating finance business of which total assets (liabilities) are included in current financial liabilities as BHAF does not distinguish current and non-current portion in its separate financial statements.

(5) Reconciliation of the Group's share of net assets of the Group's major joint ventures and associates to their carrying amounts as of December 31, 2019 is as follows.

Name of the company	Group's share of net assets	Goodwill	Unrealised profit (loss) and others	Carrying amounts
		(In millions of Korean Won)		
BHMC	₩ 1,302,827	₩ -	₩ (45,902)	₩ 1,256,925
BHAF	577,810	-	-	577,810
WAE	154,136	-	-	154,136
HCBE	137,205	22,341	402	159,948
Kia Motors Corporation	9,544,369	197,089	(86,441)	9,655,017
Hyundai Engineering & Construction Co., Ltd. (*)	2,127,795	731,362	12	2,859,169
Hyundai Transys Inc.	1,011,928	-	14,635	1,026,563
Hyundai WIA Corporation	776,412	-	(93,886)	682,526
Hyundai Motor Securities Co., Ltd.	243,394	40,052	-	283,446
Hyundai Commercial Inc.	255,800	-	-	255,800
Eukor Car Carriers Inc.	172,950	-	262	173,212
Hyundai Autoever Corp.	145,076	-	-	145,076
Haevichi Hotels & Resorts Co., Ltd. (*)	98,002	3,576	-	101,578

(*) The difference between the carrying amount and the fair value of the investee's identifiable assets and liabilities as of the acquisition date is included in the amount of net assets.

Reconciliation of the Group's share of net assets of the Group's major joint ventures and associates to their carrying amounts as of December 31, 2018 is as follows.

Name of the company	Group's share of net assets	Goodwill	Unrealised profit (loss) and others	Carrying amounts
		(In millions of Korean Won)		
BHMC	₩ 1,531,042	₩ -	₩ (46,248)	₩ 1,484,794
BHAF	530,161	-	-	530,161
WAE	151,248	-	-	151,248
PTS	100,754	-	-	100,754
Kia Motors Corporation	8,874,379	197,089	(69,963)	9,001,505
Hyundai Engineering & Construction Co., Ltd. (*)	2,069,714	731,362	8	2,801,084
Hyundai WIA Corporation	767,679	-	(93,028)	674,651
Hyundai Powertech Co., Ltd.	562,551	-	(863)	561,688
Hyundai Dymos Inc.	432,944	-	(2,373)	430,571
Hyundai Motor Securities Co., Ltd.	225,659	40,052	-	265,711
Hyundai Commercial Inc.	218,983	-	-	218,983
Eukor Car Carriers Inc.	159,437	-	262	159,699
Hyundai Autoever Corp.	129,173	-	-	129,173
Haevichi Hotels & Resorts Co., Ltd. (*)	100,433	3,576	-	104,009

(*) The difference between the carrying amount and the fair value of the investee's identifiable assets and liabilities as of the acquisition date is included in the amount of net assets.

(6) The market price of listed equity securities as of December 31, 2019 is as follows.

Name of the company	Price per share	Total number of shares	Market value
	(In millions of Korean Won, except price per share)		
Kia Motors Corporation	₩ 44,300	137,318,251	₩ 6,083,199
Hyundai Engineering & Construction Co., Ltd.	42,300	23,327,400	986,749
Hyundai WIA Corporation	50,200	6,893,596	346,059
Hyundai Motor Securities Co., Ltd	10,050	8,065,595	81,059
Hyundai Autoever Corp.	50,400	5,980,000	301,392

14. FINANCIAL SERVICES RECEIVABLES:

(1) Financial services receivables as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Loans	₩ 46,523,263	₩ 40,075,564
Card receivables	15,266,417	13,311,195
Financial lease receivables	2,706,819	2,588,890
Others	36,217	43,775
	64,532,716	56,019,424
Loss allowance	(1,480,555)	(1,368,759)
Loan origination fee	(771,405)	(133,394)
Present value discount accounts	(22,130)	(15,607)
	₩ 62,258,626	₩ 54,501,664

(2) Transfer of financial services receivables

As of December 31, 2019 and December 31, 2018, the Group has issued asset-backed securities with loan obligations for which card receivables are underlying assets and related asset-backed securities have the right of recourse. As of December 31, 2019, the carrying amount of financial assets that were transferred but not derecognized (including inter-company bonds) amounted to ₩17,957,555 million and its fair value is ₩17,899,262 million. The carrying amount of related liabilities is ₩11,477,650 million and its fair value is ₩11,538,647 million, thus, net position of fair value is ₩6,360,615 million. As of December 31, 2018, the carrying amount of financial assets that were transferred but not derecognized (including inter-company bonds) amounted to ₩17,252,202 million and its fair value is ₩17,146,156 million. The carrying amount of related liabilities is ₩11,064,518 million and its fair value is ₩10,871,371 million, thus net position of fair value is ₩6,274,785 million.

(3) The changes in loss allowance of financial services receivables for the year ended December 31, 2019 are as follows.

Description	Loan Obligations			
	12-Month expected credit losses	Lifetime expected credit losses		Total loan obligations
		Not Impaired	Impaired	
	(In millions of Korean Won)			
Beginning of the year	₩ 359,176	₩ 225,981	₩ 312,493	₩ 897,650
Transfer to 12-Month expected credit losses	47,731	(44,546)	(3,185)	-
Transfer to lifetime expected credit losses	(30,242)	31,370	(1,128)	-
Transfer to credit-impaired financial assets	(4,653)	(9,278)	13,931	-
Impairment loss (reversal)	1,189	308,183	363,678	673,050
Collection (write-off)	(61)	(247,843)	(69,213)	(317,117)
Disposals and others	(21,577)	21,505	(297,160)	(297,232)
Effect of foreign exchange differences	4,719	4,092	303	9,114
End of the year	₩ 356,282	₩ 289,464	₩ 319,719	₩ 965,465

Description	Card receivables			
	12-Month expected credit losses	Lifetime expected credit losses		Total card receivables
		Not Impaired	Impaired	
	(In millions of Korean Won)			
Beginning of the year	₩ 144,556	₩ 142,490	₩ 112,245	₩ 399,291
Transfer to 12-Month expected credit losses	43,790	(43,637)	(153)	-
Transfer to lifetime expected credit losses	(12,540)	12,747	(207)	-
Transfer to credit-impaired financial assets	(17,948)	(8,163)	26,111	-
Impairment loss (reversal)	63,226	70,453	34,287	167,966
Collection (write-off)	-	-	(29,053)	(29,053)
Disposals and others	(55,382)	(27,998)	(12,029)	(95,409)
End of the year	₩ 165,702	₩ 145,892	₩ 131,201	₩ 442,795

Description	Others				
	12-Month expected credit losses	Lifetime expected credit losses		Total others	Total Allowances
		Not Impaired	Impaired		
	(In millions of Korean Won)				
Beginning of the year	₩ 16,903	₩ 8,764	₩ 46,151	₩ 71,818	₩ 1,368,759
Transfer to 12-Month expected credit losses	6,651	(3,136)	(3,515)	-	-
Transfer to lifetime expected credit losses	(1,701)	2,315	(614)	-	-
Transfer to credit-impaired financial assets	(290)	(815)	1,105	-	-
Impairment loss (reversal)	(5,984)	1,918	5,904	1,838	842,854
Collection (write-off)	-	-	(1,228)	(1,228)	(347,398)
Disposals and others	(71)	-	(62)	(133)	(392,774)
Effect of foreign exchange differences	-	-	-	-	9,114
End of the year	₩ 15,508	₩ 9,046	₩ 47,741	₩ 72,295	₩ 1,480,555

The changes in allowance for doubtful accounts of financial services receivables for the year ended December 31, 2018 are as follows.

	Loan Obligations			
	12-Month expected credit losses	Lifetime expected credit losses		Total loan obligations
Description		Not Impaired	Impaired	
	(In millions of Korean Won)			
Beginning of the year	₩	₩	₩	₩ 765,008
Impact on transition to K-IFRS 1109	-	-	-	84,519
Balances after adjustments	335,232	267,893	246,402	849,527
Transfer to 12-Month expected credit losses	45,247	(43,458)	(1,789)	-
Transfer to lifetime expected credit losses	(23,692)	26,100	(2,408)	-
Transfer to credit-impaired financial assets	(4,544)	(7,526)	12,070	-
Impairment loss (reversal)	21,247	329,125	255,393	605,765
Collection (write-off)	19,231	(303,200)	(79,605)	(363,574)
Transfer to the assets classified as held for sale	(3,143)	-	-	(3,143)
Disposals and others	(35,867)	(49,095)	(117,688)	(202,650)
Effect of foreign exchange differences	5,465	6,142	118	11,725
End of the year	₩ 359,176	₩ 225,981	₩ 312,493	₩ 897,650

	Card receivables			
	12-Month expected credit losses	Lifetime expected credit losses		Total card receivables
Description		Not Impaired	Impaired	
	(In millions of Korean Won)			
Beginning of the year	₩	₩	₩	₩ 297,155
Impact on transition to K-IFRS 1109	-	-	-	81,069
Balances after adjustments	138,377	156,080	83,767	378,224
Transfer to 12-Month expected credit losses	46,624	(46,467)	(157)	-
Transfer to lifetime expected credit losses	(13,622)	13,776	(154)	-
Transfer to credit-impaired financial assets	(436)	(803)	1,239	-
Impairment loss (reversal)	34,650	44,855	36,795	116,300
Collection (write-off)	(8,440)	(3,933)	(2,019)	(14,392)
Disposals and others	(52,597)	(21,018)	(7,226)	(80,841)
End of the year	₩ 144,556	₩ 142,490	₩ 112,245	₩ 399,291

Description	Others				Total Allowances
	12-Month expected credit losses	Lifetime expected credit losses		Total others	
		Not Impaired	Impaired		
	(In millions of Korean Won)				
Beginning of the year	₩	₩	₩	₩ 71,804	₩ 1,133,967
Impact on transition to K-IFRS 1109				3,285	168,873
Balances after adjustments	22,188	8,625	44,276	75,089	1,302,840
Transfer to 12-Month expected credit losses	7,571	(3,349)	(4,222)	-	-
Transfer to lifetime expected credit losses	(2,059)	2,332	(273)	-	-
Transfer to credit-impaired financial assets	(227)	(819)	1,046	-	-
Impairment loss (reversal)	(9,716)	2,294	5,517	(1,905)	720,160
Collection (write-off)	(60)	(319)	(182)	(561)	(378,527)
Transfer to the assets classified as held for sale	(757)	-	-	(757)	(3,900)
Disposals and others	(37)	-	(11)	(48)	(283,539)
Effect of foreign exchange differences	-	-	-	-	11,725
End of the year	₩ 16,903	₩ 8,764	₩ 46,151	₩ 71,818	₩ 1,368,759

(4) Gross investments in financial leases and their present value of minimum lease payment receipts as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019		December 31, 2018	
	Gross investments in financial leases	Present value of minimum lease payment receivable	Gross investments in financial leases	Present value of minimum lease payment receivable
	(In millions of Korean Won)			
Not later than one year	₩ 1,145,339	₩ 1,014,549	₩ 1,182,648	₩ 1,055,082
Later than one year and not later than five years	1,808,521	1,682,796	1,648,493	1,528,204
Later than five years	5,225	5,030	3,045	2,986
	₩ 2,959,085	₩ 2,702,375	₩ 2,834,186	₩ 2,586,272

(5) Unearned interest income of financial leases as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Gross investments in financial lease	₩ 2,959,085	₩ 2,834,186
Net lease investments:		
Present value of minimum lease payment receivable	2,702,375	2,586,272
Present value of unguaranteed residual value	4,444	2,618
	2,706,819	2,588,890
Unearned interest income	₩ 252,266	₩ 245,296

15. INVESTMENTS IN OPERATING LEASES (AS A LESSOR):

(1) Investments in operating leases as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Acquisition cost	₩ 25,143,563	₩ 24,686,189
Accumulated depreciation	(3,945,005)	(4,126,513)
Accumulated impairment loss	(130,218)	(133,910)
	₩ 21,068,340	₩ 20,425,766

(2) Future minimum lease payment receivable related to investments in operating leases as of December 31, 2019 and December 31, 2018 is as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Not later than one year	₩ 3,856,057	₩ 3,801,164
Later than one year and not later than five years	4,027,982	3,574,970
Later than five years	3	8
	₩ 7,884,042	₩ 7,376,142

16. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of December 31, 2019 and December 31, 2018 are as follows.

Description	Lender	Annual interest rate	December 31, 2019	December 31, 2018
		(%)	(In millions of Korean Won)	
Overdrafts	Citi Bank and others	0.10~3.30	₩ 256,616	₩ 271,814
General borrowings	Woori Bank and others	0.40~5.60	3,736,689	4,687,667
Borrowings collateralized by trade receivables	KEB Hana Bank and others	0.00001~2.48	2,898,539	2,169,253
Banker's Usance	KEB Hana Bank and others	0.13~3.59	504,769	210,398
Commercial paper	Shinhan Bank and others	1.80~2.65	4,429,668	4,332,409
Asset-backed securities	RBC and others	1.93~1.94	744,412	578,309
			₩ 12,570,693	₩ 12,249,850

(2) Long-term debt as of December 31, 2019 and December 31, 2018 is as follows.

Description	Lender	Annual interest rate	December 31, 2019	December 31, 2018
		(%)	(In millions of Korean Won)	
General borrowings	Mizuho Bank and others	0.34~14.20	₩ 7,088,777	₩ 5,814,705
Credit facilities	NH Bank and others	1.20~5.01	160,463	215,052
Commercial paper	KTB Investment & Securities and others	1.62~2.55	2,380,000	2,620,000
Asset-backed securities	HSBC and others	2.20~2.67	5,885,638	4,337,962
Others(*)	NH Investment & Securities and others		435,607	435,607
			15,950,485	13,423,326
Less: present value discounts			(106,883)	(112,977)
Less: current maturities			(4,626,514)	(3,325,099)
			₩ 11,217,088	₩ 9,985,250

(*) The Group transferred a portion of its voting shares to a third party with the total revenue swap agreement. However, the Group still recognizes it as the financial asset because the group still own to the majority of the risks and rewards of ownership of the transferred shares. Also the Group recognized the amount received from disposal as borrowing.

(3) Debentures as of December 31, 2019 and December 31, 2018 are as follows.

Description	Latest maturity date	Annual interest rate	December 31, 2019	December 31, 2018
		(%)	(In millions of Korean Won)	
Non-guaranteed public debentures	October 30, 2029	1.44~4.04	₩ 23,691,000	₩ 25,853,095
Non-guaranteed private debentures	August 29, 2027	1.83~4.30	17,872,007	10,901,475
Asset-backed securities	June 15, 2026	1.29~3.31	11,486,855	11,070,462
			53,049,862	47,825,032
Less: discount on debentures			(92,004)	(89,090)
Less: current maturities			(11,152,044)	(10,779,828)
			₩ 41,805,814	₩ 36,956,114

17. PROVISIONS:

(1) Provisions as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Warranty	₩ 5,447,307	₩ 5,177,128
Other long-term employee benefits	726,356	703,526
Others	971,266	919,250
	₩ 7,144,929	₩ 6,799,904

(2) The changes in provisions for the year ended December 31, 2019 are as follows.

Description	Warranty	Other long-term employee benefits	Others
	(In millions of Korean Won)		
Beginning of the year	₩ 5,177,128	₩ 703,526	₩ 919,250
Charged	2,477,648	90,939	711,615
Utilized	(2,261,010)	(68,092)	(704,813)
Effect of foreign exchange differences	53,541	(17)	45,214
End of the year	₩ 5,447,307	₩ 726,356	₩ 971,266

The changes in provisions for the year ended December 31, 2018 are as follows.

Description	Warranty	Other long-term employee benefits	Others
	(In millions of Korean Won)		
Beginning of the year	₩ 5,226,297	₩ 636,380	₩ 791,764
Changes in accounting standards (*)	-	-	128,266
Charged	1,703,173	129,038	535,054
Utilized	(1,765,815)	(61,827)	(539,716)
Effect of foreign exchange differences	13,473	(65)	3,882
End of the year	₩ 5,177,128	₩ 703,526	₩ 919,250

(*) The effect by reclassification of provision for construction loss from due to customers related to construction contract as a result of the adoption of K-IFRS 1115.

18. OTHER FINANCIAL LIABILITIES:

(1) Other financial liabilities as of December 31, 2019 are as follows.

Description	December 31, 2019	
	Current	Non-current
	(In millions of Korean Won)	
Financial liabilities measured at FVPL	₩ 4,532	₩ 31,625
Derivative liabilities that are effective hedging instruments	5,438	143,571
	₩ 9,970	₩ 175,196

(2) Other financial liabilities as of December 31, 2018 are as follows.

Description	December 31, 2018	
	Current	Non-current
	(In millions of Korean Won)	
Financial liabilities measured at FVPL	₩ 151	₩ 9,060
Derivative liabilities that are effective hedging instruments	44,137	288,446
	₩ 44,288	₩ 297,506

19. OTHER LIABILITIES:

Other liabilities as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Advances received	₩ 1,482,982	₩ 22,559	₩ 796,552	₩ 21,701
Withholdings	1,020,551	197,722	1,005,768	233,297
Accrued expenses	2,850,091	-	2,669,315	-
Unearned income	608,090	1,455,882	393,405	1,280,571
Due to customers for contract work	775,972	-	546,256	-
Others	523,143	876,656	384,897	1,264,941
	₩ 7,260,829	₩ 2,552,819	₩ 5,796,193	₩ 2,800,510

20. FINANCIAL INSTRUMENTS:

(1) Financial assets by categories as of December 31, 2019 are as follows.

Description	Financial assets measured at FVPL	Financial assets measured at amortised cost	Financial assets measured at FVOCI	Derivative assets that are effective hedging instruments	Book value	Fair value
	(In millions of Korean Won)					
Cash and cash equivalents	₩ -	₩ 8,681,971	₩ -	₩ -	₩ 8,681,971	₩ 8,681,971
Short-term and long-term financial instruments	-	8,095,888	-	-	8,095,888	8,095,888
Trade notes and accounts receivable	-	3,640,520	-	-	3,640,520	3,640,520
Other receivables	-	2,567,688	-	-	2,567,688	2,567,688
Other financial assets	9,937,423	109,546	2,278,634	183,836	12,509,439	12,509,439
Other assets	18,406	312,760	-	-	331,166	331,166
Financial services receivables	-	62,258,626	-	-	62,258,626	62,014,023
	₩ 9,955,829	₩ 85,666,999	₩ 2,278,634	₩ 183,836	₩ 98,085,298	₩ 97,840,695

Financial assets by categories as of December 31, 2018 are as follows.

Description	Financial assets measured at FVPL	Financial assets measured at amortised cost	Financial assets measured at FVOCI	Derivative assets that are effective hedging instruments	Book value	Fair value
	(In millions of Korean Won)					
Cash and cash equivalents	₩ -	₩ 9,113,625	₩ -	₩ -	₩ 9,113,625	₩ 9,113,625
Short-term and long-term financial instruments	-	8,048,713	-	-	8,048,713	8,048,713
Trade notes and accounts receivable	-	3,732,770	-	-	3,732,770	3,732,770
Other receivables	-	2,925,850	-	-	2,925,850	2,925,850
Other financial assets	9,931,151	104,963	1,910,721	32,248	11,979,083	11,979,083
Other assets	-	319,599	-	-	319,599	319,599
Financial services receivables	-	54,501,664	-	-	54,501,664	54,800,473
	₩ 9,931,151	₩ 78,747,184	₩ 1,910,721	₩ 32,248	₩ 90,621,304	₩ 90,920,113

(2) Financial liabilities by categories as of December 31, 2019 are as follows.

Description	Financial liabilities measured at FVPL	Financial liabilities measured at amortised cost	Derivative liabilities that are effective hedging instruments	Book value	Fair value
		(In millions of Korean Won)			
Trade notes and accounts payable	₩ -	₩ 7,669,424	₩ -	₩ 7,669,424	₩ 7,669,424
Other payables	-	5,300,043	-	5,300,043	5,300,043
Borrowings and debentures	-	81,372,153	-	81,372,153	81,912,936
Other financial liabilities	36,157	-	149,009	185,166	185,166
Lease liabilities	-	767,984	-	767,984	767,984
Other liabilities	-	2,432,607	-	2,432,607	2,432,607
	₩ 36,157	₩ 97,542,211	₩ 149,009	₩ 97,727,377	₩ 98,268,160

Financial liabilities by categories as of December 31, 2018 are as follows.

Description	Financial liabilities measured at FVPL	Financial liabilities measured at amortised cost	Derivative liabilities that are effective hedging instruments	Book value	Fair value
		(In millions of Korean Won)			
Trade notes and accounts payable	₩ -	₩ 7,655,630	₩ -	₩ 7,655,630	₩ 7,655,630
Other payables	-	5,445,779	-	5,445,779	5,445,779
Borrowings and debentures	-	73,296,141	-	73,296,141	73,296,748
Other financial liabilities	9,211	-	332,583	341,794	341,794
Other liabilities	-	2,723,827	-	2,723,827	2,723,827
	₩ 9,211	₩ 89,121,377	₩ 332,583	₩ 89,463,171	₩ 89,463,778

(3) Fair value estimation

The Group categorizes the assets and liabilities measured at fair value into the following three-level fair value hierarchy in accordance with the inputs used for fair value measurement.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Fair value measurements of financial instruments by fair value hierarchy levels as of December 31, 2019 are as follows.

Description	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(In millions of Korean Won)			
Financial assets:				
Financial assets measured at FVPL	₩ 94,656	₩ 9,288,555	₩ 572,618	₩ 9,955,829
Derivative assets that are effective hedging instruments	-	183,836	-	183,836
Financial assets measured at FVOCI	1,180,739	349,804	748,091	2,278,634
	₩ 1,275,395	₩ 9,822,195	₩ 1,320,709	₩ 12,418,299
Financial liabilities:				
Financial liabilities measured at FVPL	₩ -	₩ 36,157	₩ -	₩ 36,157
Derivative liabilities that are effective hedging instruments	-	149,009	-	149,009
	₩ -	₩ 185,166	₩ -	₩ 185,166

Fair value measurements of financial instruments by fair value hierarchy levels as of December 31, 2018 are as follows.

Description	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In millions of Korean Won)			
Financial assets:				
Financial assets measured at FVPL	₩ 90,292	₩ 9,612,287	₩ 228,572	₩ 9,931,151
Derivative assets that are effective hedging instruments	-	32,248	-	32,248
Financial assets measured at FVOCI	1,306,912	226,823	376,986	1,910,721
	₩ 1,397,204	₩ 9,871,358	₩ 605,558	₩ 11,874,120
Financial liabilities:				
Financial liabilities measured at FVPL	₩ -	₩ 9,211	₩ -	₩ 9,211
Derivative liabilities that are effective hedging instruments	-	332,583	-	332,583
	₩ -	₩ 341,794	₩ -	₩ 341,794

The changes in financial instruments classified as Level 3 for the year ended December 31, 2019 are as follows.

Description	Beginning of the period	Purchases	Disposals	Valuation	Transfers	Others	End of the period
			(In millions of Korean Won)				
Financial assets measured at FVPL	₩ 228,572	₩ 206,352	₩ (10,775)	₩ 73,227	₩ -	₩ 75,242	₩ 572,618
Financial assets measured at FVOCI	376,986	371,350	(506)	75,119	-	(74,858)	748,091

The changes in financial instruments classified as Level 3 for the year ended December 31, 2018 are as follows.

Description	Beginning of the period(*)	Purchases	Disposals	Valuation	Transfers	Transfer to the assets classified as held for sale	End of the period
			(In millions of Korean Won)				
Financial assets measured at FVPL	₩ 210,162	₩ 11,884	₩ (13,009)	₩ 19,535	₩ -	₩ -	₩ 228,572
Financial assets measured at FVOCI	273,883	77,044	(8,880)	35,008	-	(69)	376,986

(*) The beginning amount consists of AFS financial assets and financial assets measured at FVPL, due to changes in accounting standards.

(4) Financial assets and liabilities subject to offsetting, and financial instruments subject to an enforceable master netting arrangement or similar agreement as of December 31, 2019 are as follows.

Description	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set off in the consolidated statement of financial position	Net amounts of financial assets and liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position - financial instruments	Related amounts not set off in the statement of financial position - collateral received (pledged)	Net amounts
			(In millions of Korean Won)			
Financial assets:						
Trade notes and accounts receivable	₩ 3,821,865	₩ 181,345	₩ 3,640,520	₩ -	₩ -	₩ 3,640,520
Other receivables	2,631,465	63,777	2,567,688	-	-	2,567,688
Financial assets measured at FVTPL	258,505	-	258,505	-	-	258,505
Derivative assets that are effective hedging instruments (*)	183,836	-	183,836	71,764	-	112,072
	₩ 6,895,671	₩ 245,122	₩ 6,650,549	₩ 71,764	₩ -	₩ 6,578,785
Financial liabilities:						
Trade notes and accounts payable	₩ 7,738,185	₩ 68,761	₩ 7,669,424	₩ -	₩ -	₩ 7,669,424
Other payables	5,476,404	176,361	5,300,043	-	-	5,300,043
Financial liabilities measured at FVTPL	36,157	-	36,157	-	-	36,157
Derivative liabilities that are effective hedging instruments (*)	149,009	-	149,009	71,764	-	77,245
	₩ 13,399,755	₩ 245,122	₩ 13,154,633	₩ 71,764	₩ -	₩ 13,082,869

(*) These are derivative assets and liabilities that the Group may have the right to offset in the event of default, insolvency or bankruptcy of the counterparty although these do not meet the criteria of offsetting under K-IFRS 1032.

Financial assets and liabilities, subject to offsetting, and financial instruments subject to an enforceable master netting arrangement or similar agreement as of December 31, 2018 are as follows.

Description	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set off in the consolidated statement of financial position	Net amounts of financial assets and liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position - financial instruments	Related amounts not set off in the statement of financial position - collateral received (pledged)	Net amounts
			(In millions of Korean Won)			
Financial assets:						
Trade notes and accounts receivable	₩ 3,892,885	₩ 160,115	₩ 3,732,770	₩ -	₩ -	₩ 3,732,770
Other receivables	3,118,981	193,131	2,925,850	-	-	2,925,850
Financial assets measured at FVTPL	204,576	-	204,576	-	-	204,576
Derivative assets that are effective hedging instruments (*)	32,248	-	32,248	22,431	-	9,817
	₩ 7,248,690	₩ 353,246	₩ 6,895,444	₩ 22,431	₩ -	₩ 6,873,013
Financial liabilities:						
Trade notes and accounts payable	₩ 7,862,431	₩ 206,801	₩ 7,655,630	₩ -	₩ -	₩ 7,655,630
Other payables	5,592,224	146,445	5,445,779	-	-	5,445,779
Financial liabilities measured at FVTPL	9,211	-	9,211	-	-	9,211
Derivative liabilities that are effective hedging instruments (*)	332,583	-	332,583	22,431	-	310,152
	₩ 13,796,449	₩ 353,246	₩ 13,443,203	₩ 22,431	₩ -	₩ 13,420,772

(*) These are derivative assets and liabilities that the Group may have the right to offset in the event of default, insolvency or bankruptcy of the counterparty although these do not meet the criteria of offsetting under K-IFRS 1032.

(5) Interest income, dividend income and interest expenses by categories of financial instruments for the year ended December 31, 2019 are as follows.

Description	2019		
	Interest income	Dividend income	Interest expenses
	(In millions of Korean Won)		
Non-financial services:			
Financial assets measured at amortised cost	₩ 394,137	₩ -	₩ -
Financial assets measured at FVPL	118,459	-	-
Financial assets measured at FVOCI	-	32,504	-
Financial liabilities measured at amortised cost	-	-	291,041
	₩ 512,596	₩ 32,504	₩ 291,041
Financial services:			
Financial assets measured at amortised cost	₩ 3,786,608	₩ -	₩ -
Financial assets measured at FVPL	7,893	2,458	-
Financial assets measured at FVOCI	828	-	-
Financial liabilities measured at amortised cost	-	-	1,795,905
	₩ 3,795,329	₩ 2,458	₩ 1,795,905

Interest income, dividend income and interest expenses by categories of financial instruments for the year ended December 31, 2018 are as follows.

Description	2018		
	Interest income	Dividend income	Interest expenses
	(In millions of Korean Won)		
Non-financial services:			
Financial assets measured at amortised cost	₩ 339,182	₩ -	₩ -
Financial assets(liabilities) measured at FVPL	175,921	-	18,497
Financial assets measured at FVOCI	-	29,065	-
Financial liabilities measured at amortised cost	-	-	236,817
	₩ 515,103	₩ 29,065	₩ 255,314
Financial services:			
Financial assets measured at amortised cost	₩ 3,614,502	₩ -	₩ -
Financial assets measured at FVPL	32,886	7,949	-
Financial assets measured at FVOCI	2,310	-	-
Financial liabilities measured at amortised cost	-	-	1,587,053
	₩ 3,649,698	₩ 7,949	₩ 1,587,053

(6) The commission income (financial services revenue) arising from financial assets or liabilities other than financial assets or liabilities measured at FVPL for the years ended December 31, 2019 and 2018 are ₩841,525 million and ₩893,473 million, respectively. In addition, the fee expenses (cost of sales from financialservices) related to financial assets or liabilities other than financial assets or liabilities measured at FVPL for the years ended December 31, 2019 and 2018 are ₩409,039 million and ₩365,790 million, respectively.

(7) The Group recognizes transfers between levels of the fair value hierarchy at the date of the event or change in circumstances that caused the transfer. There are no significant transfers between Level 1 and Level 2 for the year ended December 31, 2019.

(8) Descriptions of the valuation techniques and the inputs used in the fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy are as follows.

- Currency forwards, options and swap

Fair value of currency forwards, options and swap is measured based on forward exchange rate quoted in the current market at the end of the reporting period, which has the same remaining period of derivatives to be measured. If the forward exchange rate, which has the same remaining period of currency forwards, options and swap, is not quoted in the current market, fair value is measured using estimates of similarperiod of forward exchange rate by applying interpolation method with quoted forward exchange rates.

As the inputs used to measure fair value of currency forwards, options and swap are supported by observable market data, such as forward exchange rates, the Group classifies the estimates of fair value measurements of the currency forwards, options and swap as Level 2 of the fair value hierarchy.

- Interest rate swap

The discount rate and forward interest rate used to measure the fair value of interest rate swap are determined based on an applicable yield curve derived from interest quoted in the current market at the end of the reporting period. The fair value of interest rate swap was measured as a discount on the estimated future cash flows of interest rate swap based on forward interest rates derived from the above method at an appropriate discount rate.

As the inputs used to measure fair value of interest rate swap are supported by observable market data, such as yield curves, the Group classifies the estimates of fair value measurements of the interest rate swap as Level 2 of the fair value hierarchy.

- Debt instruments including corporate bonds

Fair value of debt instruments including corporate bonds is measured applying discounted cash flow method. The rate used to discount cash flows is determined based on swap rate and credit spreads of debt instruments, which have the similar credit rating and period quoted in the current market with those of debt instruments including corporate bonds that should be measured. The Group classifies fair value measurements of debt instruments including corporate bonds as Level 2 of the fair-value hierarchy since the rate, which has significant effects on fair value of debt instruments including corporate bonds, is based on observable market data.

- Unlisted equity securities

Fair value of unlisted equity securities is measured using discounted cash flow projection and others, and certain assumptions not based on observable market prices or rate, such as sales growth rate, pre-tax operating income ratio and discount rate based on business plan and circumstance of industry are used to estimate the future cash flow. The discount rate used to discount the future cash flows, is calculated by applying the Capital Asset Pricing Model, using the data of similar listed companies. The Group determines that the effect of estimation and assumptions referred above affecting fair value of unlisted equity securities is significant and classifies fair value measurements of unlisted securities as Level 3 of the fair value hierarchy.

- Total return swap (Derivatives)

The fair value of total revenue swaps (derivatives) is measured based on the stock price volatility up to the fair value, exercise price, maturity and maturity of the underlying asset, using the binomial option pricing model. The discount rate used in the binomial option pricing model is based on the risk-free interest rate, which corresponds to the remaining maturity, and the stock price volatility up to maturity uses the historical volatility of the financial sector over the past one year. The fair value of the underlying assets is measured using the cash flow discount model. In order to estimate the future cash flows, assumptions reflecting the business plan and current industry such as sales growth rate, pre-tax operating profit margin or discount rates etc. and estimates such as observable market price or rates are partially used. The discount rate used to discount future cash flows was calculated by applying the capital asset pricing model (CAPM) using data from similar listed companies. The Group classifies the fair value measurement of total revenue swap (derivatives) as Level 3 in the fair value hierarchy based on the assumption that the effect of the above assumptions and estimates on the fair value of the total revenue swap classified.

(9) The quantitative information about significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy and the description of relationships of significant unobservable inputs to the fair value are as follows:

Description	Fair value at December 31, 2019	Valuation techniques	Unobservable inputs	Range	Description of relationship
	(In millions of Korean Won)				
Unlisted equity securities, total return swap and others	₩ 1,320,709	Discounted cash flow and others	Sales growth rate	-3.0% ~6.2%	If the sales growth rate and the pretax operating income margin ratio rise or the discount rate declines, the fair value increases.
			Pre-tax operating income margin ratio	2.3% ~ 12.2%	
			Discount rate	7.3% ~ 8.6%	

The Group does not expect changes in significant unobservable inputs that are used for reflecting alternative assumptions would have significant impact on the fair value.

21. CAPITAL STOCK:

The Company's number of shares authorized is 600,000,000 shares. Common stock and preferred stock as of December 31, 2019 and December 31, 2018 are as follows.

(1) Common stock

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won, except par value)	
Issued	213,668,187 shares	213,668,187 shares
Par value	₩ 5,000	₩ 5,000
Capital stock	1,157,982	1,157,982

The Company completed stock retirement of 10,000,000 common shares, 1,320,000 common shares and 6,608,292 common shares as of March 5, 2001, May 4, 2004 and July 27, 2018 respectively. Due to these stock retirements, the total face value of outstanding stock differs from the capital stock amount.

(2) Preferred stock

Description	Par value	Issued	Korean Won	Dividend rate
			(In millions of Korean Won)	
1st preferred stock	₩ 5,000	24,356,685 shares	₩ 125,550	Dividend rate of common stock + 1%
2nd preferred stock	″	36,485,451 shares	193,069	The lowest stimulated dividend rate : 2%
3rd preferred stock	″	2,428,735 shares	12,392	The lowest stimulated dividend rate : 1%
		63,270,871 shares	₩ 331,011	

As of March 5, 2001, the Company retired 1,000,000 second preferred shares and as of July 27, 2018, the Company retired 753,297 first preferred shares, 1,128,414 second preferred shares and 49,564 third preferred shares. Due to the stock retirement, the total face value of outstanding stock differs from the capital stock amount.

22. CAPITAL SURPLUS:

Capital surplus as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Paid-in capital in excess of par value	₩ 3,321,334	₩ 3,321,334
Others	875,681	879,880
	₩ 4,197,015	₩ 4,201,214

23. OTHER CAPITAL ITEMS:

Other capital items consist of treasury stocks purchased for the stabilization of stock price. Number of treasury stocks as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(Number of shares)	
Common stock	11,835,151	9,387,581
1st preferred stock	2,046,959	1,759,942
2nd preferred stock	1,142,140	696,445
3rd preferred stock	34,545	9,050

24. ACCUMULATED OTHER COMPREHENSIVE LOSS:

(1) Accumulated other comprehensive loss as of December 31, 2019 is as follows.

Description	December 31, 2019
	(In millions of Korean Won)
Gain on valuation of financial assets measured at FVOCI	₩ 489,235
Loss on valuation of financial assets measured at FVOCI	(419,160)
Gain on valuation of cash flow hedge derivatives	17,117
Loss on valuation of cash flow hedge derivatives	(45,500)
Gain on share of the other comprehensive income of equity-accounted investees	34,967
Loss on share of the other comprehensive income of equity-accounted investees	(714,955)
Loss on foreign operations translation, net	(1,714,726)
	₩ (2,353,022)

(2) Accumulated other comprehensive loss as of December 31, 2018 is as follows.

Description	December 31, 2018
	(In millions of Korean Won)
Gain on valuation of financial assets measured at FVOCI (*)	₩ 406,191
Loss on valuation of financial assets measured at FVOCI (*)	(309,690)
Gain on valuation of cash flow hedge derivatives	3,153
Loss on valuation of cash flow hedge derivatives	(66,106)
Gain on share of the other comprehensive income of equity-accounted investees (*)	22,632
Loss on share of the other comprehensive income of equity-accounted investees (*)	(979,050)
Loss on foreign operations translation, net	(2,128,206)
	(3,051,076)
Transfer from the assets classified as held for sale	(1,122)
	₩ (3,052,198)

(*) It is cumulative gain or loss excluding the amount reclassified to retained earnings at the time of disposal. In accordance with initial application of K- IFRS 1109, it reflects ₩340,268 million, the effect of adjustment in opening balance as of January 1, 2018 including the reclassification of the impairment recognized in the past.

25. RETAINED EARNINGS:

Retained earnings as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Legal reserve (*)	₩ 744,836	₩ 744,836
Discretionary reserve	46,591,396	48,328,847
Unappropriated	20,913,401	17,416,399
	₩ 68,249,633	₩ 66,490,082

(*) The Commercial Code of the Republic of Korea requires the Company to appropriate as a legal reserve, a minimum of 10% of annual cash dividends declared, until such reserve equals 50% of its capital stock issued. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

Appraisal gains, amounting to ₩1,852,871 million, derived from asset revaluation pursuant to the Asset Revaluation Law of Korea are included in retained earnings. It may be only transferred to capital stock or used to reduce accumulated deficit, if any.

(2) The computation of the interim dividends for the year ended December 31, 2019 is as follows.

Description	Common stock	1st Preferred stock	2nd Preferred stock	3rd Preferred stock
	(In millions of Korean Won, except per share amounts)			
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Shares, net of treasury stocks	202,714,520	22,413,258	35,496,735	2,404,448
Dividends per share	₩ 1,000	₩ 1,000	₩ 1,000	₩ 1,000
Dividend rate	20%	20%	20%	20%
Dividends declared	202,715	22,413	35,497	2,404

The computation of the interim dividends for the year ended December 31, 2018 is as follows.

Description	Common stock	1st Preferred stock	2nd Preferred stock	3rd Preferred stock
	(In millions of Korean Won, except per share amounts)			
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Shares, net of treasury stocks	204,916,661	22,663,998	35,873,010	2,429,482
Dividends per share	₩ 1,000	₩ 1,000	₩ 1,000	₩ 1,000
Dividend rate	20%	20%	20%	20%
Dividends declared	204,917	22,664	35,873	2,429

(3) The computation of the proposed dividends for the year ended December 31, 2019 is as follows.

Description	Common stock	1st Preferred stock	2nd Preferred stock	3rd Preferred stock
	(In millions of Korean Won, except per share amounts)			
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Shares, net of treasury stocks	201,853,036	22,312,726	35,346,311	2,394,390
Dividends per share	₩ 3,000	₩ 3,050	₩ 3,100	₩ 3,050
Dividend rate	60%	61%	62%	61%
Dividends declared	605,559	68,054	109,573	7,303

The computation of the dividends for the year ended December 31, 2018 is as follows.

Description	Common stock	1st Preferred stock	2nd Preferred stock	3rd Preferred stock
	(In millions of Korean Won, except per share amounts)			
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Shares, net of treasury stocks	204,280,606	22,596,743	35,789,006	2,419,685

Description	Common stock	1st Preferred stock	2nd Preferred stock	3rd Preferred stock
Dividends per share	₩ 3,000	₩ 3,050	₩ 3,100	₩ 3,050
Dividend rate	60%	61%	62%	61%
Dividends declared	613,016	68,929	110,973	7,383

26. HYBRID BOND:

(1) Hyundai Card Co., Ltd., a subsidiary of the Company, issued hybrid bond and the Group classified it as equity (non-controlling interests). As of December 31, 2019, hybrid bond is as follows.

Description	Issue date	Maturity date	Annual interest rate	December 31, 2019
			(%)	(In millions of Korean Won)
The 731st Hybrid Tier 1 (Private)	July 5, 2018	July 5, 2048	4.70	₩ 300,000
Issue cost				(760)
				₩ 299,240

Hyundai Rotem Company, a subsidiary of the Company, issued hybrid bond and the Group classified it as equity (non-controlling interests). As of December 31, 2019, hybrid bond is as follows.

Description	Issue date	Maturity date	Annual interest rate	December 31, 2019
			(%)	(In millions of Korean Won)
The 1st Hybrid Tier 1 (Private)	November 8, 2019	November 8, 2049	4.50	₩ 106,000
The 2nd Hybrid Tier 1 (Private)	December 23, 2019	December 23, 2049	4.50	45,000
Issue cost				(677)
				₩ 150,323

(2) As of December 31, 2019, the conditions of hybrid bond that Hyundai Card Co., Ltd., a subsidiary of the Company issued are as follows.

	Description
Maturity	Thirty years (Maturity extension is possible according to the issuer's decision upon maturity)
Interest rate	Issue date ~ July 5, 2023 : An annual fixed interest rate 4.7% Increase of 2% after five years in accordance with Step-up clause at one time only
Interest payment condition	Three months, optional postponement of payment
Others	Repayment before maturity by issuer is available after five years from issue date

As of December 31, 2019, the conditions of hybrid bond that H yundai Rotem Company, a subsidiary of the Company issued are as follows.

	Description
Maturity	Thirty years (Maturity extension is possible according to the issuer's decision upon maturity)
Interest rate	Issue date to two years : An annual fixed interest rate 4.5% Two to three years : Initial interest rate + 2.5 % + adjusted interest rate(*) After three years: Interest rate at the day before each anniversary + 0.5%
Interest payment condition	Three months, optional postponement of payment
Others	Repayment before maturity by issuer is available after two years from issue date

(*) The interest rates, which deducts the interest rate of two years maturity treasury bond at 2 working dates before the issue date (zero when it is minus) from the interest rate of two years maturity treasury bond at 2 working days before 2nd anniversary of the issue date.

27. SALES:

(1) Sales for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Sales of goods	₩ 89,820,812	₩ 81,502,831
Rendering of services	2,659,058	2,223,538
Royalties	96,935	104,813
Financial services revenue	10,529,505	10,236,363
Revenue related to construction contracts	2,218,890	2,360,807
Others	421,222	384,257
	₩ 105,746,422	₩ 96,812,609

(2) As of December 31, 2019, the aggregate transaction price allocated to the unrealized (or partially unrealized) performance obligation that is expected to be recognised as revenue in future periods is as follows.

Description	Within a year	After a year
	(In millions of Korean Won)	
Deferred revenue and others	₩ 986,734	₩ 1,360,682

28. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Selling expenses:		
Export expenses	₩ 77,962	₩ 88,246
Overseas market expenses	382,220	403,541
Advertisements and sales promotion	2,551,347	2,308,527
Sales commissions	801,798	726,265
Expenses for warranties	2,609,744	1,998,143
Transportation expenses	122,997	116,791
	6,546,068	5,641,513
Administrative expenses:		
Payroll	2,713,209	2,633,437
Post-employment benefits	183,357	171,504
Welfare expenses	428,622	403,564
Service charges	1,388,469	1,351,919
Research	1,289,715	1,125,603
Others	1,500,068	1,392,425
	7,503,440	7,078,452
	₩ 14,049,508	₩ 12,719,965

29. GAIN (LOSS) ON INVESTMENTS IN JOINT VENTURES AND ASSOCIATES:

Gain and loss on investments in joint ventures and associates for the years ended December 31, 2019 and 2018 is as follows.

Description	2019	2018
	(In millions of Korean Won)	
Gain on share of earnings of equity-accounted investees, net	₩ 570,735	₩ 599,522
Gain on disposals of investments in associates	14,266	(1,491)
Impairment loss on investments in associates	(42,175)	(193,490)
	₩ 542,826	₩ 404,541

30. FINANCE INCOME AND EXPENSES:

(1) Finance income for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Interest income	₩ 512,596	₩ 515,103
Gain on foreign exchange transactions	69,689	86,033
Gain on foreign currency translation	119,282	105,060
Dividend income	32,504	29,065
Gain on derivatives	85,663	69,227
Others	7,386	19,011
	₩ 827,120	₩ 823,499

(2) Finance expenses for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Interest expenses	₩ 316,979	₩ 307,070
Loss on foreign exchange transactions	32,142	51,310
Loss on foreign currency translation	100,282	229,497
Loss on derivatives and others	25,815	12,990
	₩ 475,218	₩ 600,867

31. OTHER INCOME AND EXPENSES:

(1) Other income for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Gain on foreign exchange transactions	₩ 404,363	₩ 329,399
Gain on foreign currency translation	184,211	159,899
Gain on disposals of PP&E	30,742	19,518
Commission income	108,154	119,920
Rental income	87,283	77,974
Others	306,205	260,571
	₩ 1,120,958	₩ 967,281

(2) Other expenses for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Loss on foreign exchange transactions	₩ 364,593	₩ 433,694
Loss on foreign currency translation	158,369	203,994
Loss on disposals of PP&E	159,484	163,594
Impairment loss on non-current assets classified as held for sale	-	13,045
Donations	65,807	85,482
Others	709,172	587,228
	₩ 1,457,425	₩ 1,487,037

32. EXPENSES BY NATURE:

Expenses by nature for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Changes in inventories	₩ (400,318)	₩ (310,180)
Raw materials and merchandise used	62,258,658	56,845,459
Employee benefits	9,396,921	8,893,878
Depreciation	2,545,183	2,357,887
Amortization	1,286,689	1,403,582
Others	28,511,209	26,686,855
Total (*)	₩ 103,598,342	₩ 95,877,481

(*) Sum of cost of sales, selling and administrative expenses and other expenses in the consolidated statements of income.

33. EARNINGS PER COMMON STOCK AND PREFERRED STOCK:

Basic earnings per common stock and preferred stock are computed by dividing profit available to common stock and preferred stock by the weighted-average number of common stock and preferred stock outstanding during the year. The Group does not compute diluted earnings per common stock for the years ended December 31, 2019 and 2018, since there are no dilutive items during the years.

Basic earnings per common stock and preferred stock for the years ended December 31, 2019 and 2018 are computed as follows.

	For the year ended December 31, 2019			For the year ended December 31, 2018		
Description	Profit attributable to share	Weighted-average number of shares outstanding (*1)	Basic earnings per share	Profit attributable to share	Weighted-average number of shares outstanding (*1)	Basic earnings per share
	(In millions of Korean Won, except per share amounts)					
Common stock	₩ 2,293,070	202,742,139	₩ 11,310	₩ 1,158,437	205,697,075	₩ 5,632
1st Preferred stock (*2)	254,581	22,420,995	11,355	129,272	22,753,974	5,681
2nd Preferred stock	405,077	35,511,588	11,407	206,532	36,008,052	5,736
3rd Preferred stock	27,321	2,404,883	11,360	13,843	2,438,169	5,677

(*1) Weighted-average number of shares outstanding includes the effects of treasury stock transactions.
(*2) 1st preferred stock meets the definition of 'ordinary shares' as defined in K-IFRS 1033 'Earnings per Share'.

34. INCOME TAX EXPENSE:

(1) The components of income tax expense for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Current tax expense	₩ 1,302,225	₩ 802,201
Adjustments recognized in the current year in relation to the prior years	1,684	475,666
Changes in deferred taxes relating to		
Temporary differences	133,459	(506,925)
Tax losses and tax credits	(444,494)	(129,864)
Items that are charged or credited directly to equity	1,937	225,581
Effect of foreign exchange differences and others	(16,691)	17,904
Income tax expense	₩ 978,120	₩ 884,563

(2) The reconciliation from profit before income tax to income tax expense for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Profit before income tax	₩ 4,163,766	₩ 2,529,582
Income tax expense calculated at the applicable tax rates of 33.8% in 2019 and 28.0% in 2018	1,406,867	707,993
Adjustments:		
Non-taxable income	(65,019)	(204,614)
Non-deductible expenses	141,309	150,243
Tax credits	(532,420)	(83,025)
Others	27,383	313,966
	(428,747)	176,570
Income tax expense	₩ 978,120	₩ 884,563
Effective tax rate	23.5%	35.0%

(3) The changes in deferred tax assets (liabilities) for the year ended December 31, 2019 are as follows.

Description	Beginning of the year	Changes	End of the year
	(In millions of Korean Won)		
Provisions	₩ 1,894,732	₩ 109,681	₩ 2,004,413
Financial assets measured at FVPL	3,287	(1,380)	1,907
Financial assets measured at FVOCI	(160,472)	35,974	(124,498)
Investment of subsidiaries, associates and joint ventures	(1,520,164)	(45,321)	(1,565,485)
Derivatives	(11,609)	(23,975)	(35,584)
PP&E	(4,816,432)	(349,176)	(5,165,608)
Accrued income	88,318	48,761	137,079
Gain (loss) on foreign currency translation, net	(4)	(15)	(19)
Others	795,016	91,992	887,008
	(3,727,328)	(133,459)	(3,860,787)
Carryforward of tax losses and tax credits	2,253,312	444,494	2,697,806
	₩ (1,474,016)	₩ 311,035	₩ (1,162,981)

The changes in deferred tax assets (liabilities) for the year ended December 31, 2018 are as follows.

Description	Beginning of the year	Changes	End of the year
	(In millions of Korean Won)		
Provisions	₩ 1,876,177	₩ 18,555	₩ 1,894,732
Financial assets measured at FVPL	-	3,287	3,287
Financial assets measured at FVOCI	-	(160,472)	(160,472)
AFS financial assets	(187,795)	187,795	-
Investment of subsidiaries, associates and joint ventures	(1,507,832)	(12,332)	(1,520,164)
Reserve for research and manpower development	(30,588)	30,588	-
Derivatives	(32,118)	20,509	(11,609)
PP&E	(4,503,211)	(313,221)	(4,816,432)
Accrued income	70,711	17,607	88,318
Gain (loss) on foreign currency translation, net	(59)	55	(4)
Others	80,462	714,554	795,016
	(4,234,253)	506,925	(3,727,328)
Carryforward of tax losses and tax credits	2,123,448	129,864	2,253,312
	₩ (2,110,805)	₩ 636,789	₩ (1,474,016)

(4) Income taxes relating to items that are charged or credited directly to equity for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Gain on disposal of treasury stocks	₩ (821)	₩ -
Loss on financial assets measured at FVOCI, net	16,770	43,432
Loss (gain) on valuation of cash flow hedge derivatives, net	(15,118)	39,557
Remeasurements of defined benefit plans	18,028	155,777
Changes in retained earnings of equity-accounted investees, net	(16,922)	(13,185)
	₩ 1,937	₩ 225,581

(5) The amount of temporary differences associated with investments in subsidiaries, joint ventures and associates, for which deferred tax liabilities are not recognized, are ₩ 6,852,098 million and ₩ 8,328,950 million as of December 31, 2019 and 2018, respectively.

35. RETIREMENT BENEFIT PLAN:

(1) Expenses recognized in relation to defined contribution plans for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Paid-in cash	₩ 10,103	₩ 8,322
Recognized liability	3,591	1,969
	₩ 13,694	₩ 10,291

(2) The significant actuarial assumptions used by the Group as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
Discount rate (*)	2.95%	3.39%
Rate of expected future salary increase	4.15%	4.29%

(*) The Group applied the market yields of high-quality corporate bonds (AA+) and others as the discount rate at December 31, 2019, to discount the defined benefit obligation to the present value, and the same discount rate was applied as the expected return rate when calculating interest income on plan assets.

Employee turnover and mortality assumptions used for actuarial valuation are based on the economic conditions and statistical data of each country where entities within the Group are located.

(3) The amounts recognized in the consolidated statements of financial position related to defined benefit plans as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Present value of defined benefit obligations	₩ 6,321,408	₩ 5,931,464
Fair value of plan assets	(5,913,514)	(5,508,329)
	₩ 407,894	₩ 423,135
Net defined benefit liabilities	412,598	433,247
Net defined benefit assets	(4,704)	(10,112)

(4) Changes in net defined benefit assets and liabilities for the year ended December 31, 2019 are as follows.

Description	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
	(In millions of Korean Won)		
Beginning of the year	₩ 5,931,464	₩ (5,508,329)	₩ 423,135
Current service cost	608,498	-	608,498
Interest expenses (income)	157,018	(150,606)	6,412
	6,696,980	(5,658,935)	1,038,045
Remeasurements:			
Return on plan assets	-	(20,121)	(20,121)
Actuarial gains and losses arising from changes in demographic assumptions	(47,602)	-	(47,602)
Actuarial gains and losses arising from changes in financial assumptions	232,237	-	232,237
Actuarial gains and losses arising from experience adjustments and others	(93,342)	-	(93,342)
	91,293	(20,121)	71,172
Contributions	-	(629,774)	(629,774)
Benefits paid	(489,495)	401,629	(87,866)
Transfers in (out)	1,967	(196)	1,771
Effect of foreign exchange differences and others	20,663	(6,117)	14,546
End of the year	₩ 6,321,408	₩ (5,913,514)	₩ 407,894

Changes in net defined benefit assets and liabilities for the year ended December 31, 2018 are as follows.

Description	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
	(In millions of Korean Won)		
Beginning of the year	₩ 5,321,580	₩ (5,179,426)	₩ 142,154
Current service cost	554,868	-	554,868
Interest expenses (income)	164,547	(159,013)	5,534
Past service cost	2,447	-	2,447
	6,043,442	(5,338,439)	705,003
Remeasurements:			
Return on plan assets	-	119,254	119,254
Actuarial gains and losses arising from changes in demographic assumptions	95,599	-	95,599
Actuarial gains and losses arising from changes in financial assumptions	200,651	-	200,651
Actuarial gains and losses arising from experience adjustments and others	179,780	-	179,780
	476,030	119,254	595,284
Contributions	-	(698,631)	(698,631)
Benefits paid	(610,301)	418,485	(191,816)
Transfers in (out)	5,099	(1,421)	3,678
Effect of foreign exchange differences and others	17,194	(7,577)	9,617
End of the year	₩ 5,931,464	₩ (5,508,329)	₩ 423,135

(5) The sensitivity analysis based on reasonably possible changes of the significant assumptions as of December 31, 2019 and December 31, 2018, while all the other assumptions are retained, are as follows.

	Effect on the net defined benefit liabilities			
	December 31, 2019		December 31, 2018	
Description	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	(In millions of Korean Won)		(In millions of Korean Won)	
Discount rate	₩ (488,706)	₩ 569,850	₩ (516,424)	₩ 604,045
Rate of expected future salary increase	522,318	(460,796)	571,913	(500,355)

(6) The fair value of the plan assets as of December 31, 2019 and December 31, 2018 is as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Insurance instruments	₩ 5,909,102	₩ 5,503,122
Others	4,412	5,207
	₩ 5,913,514	₩ 5,508,329

(7) The Group expects to pay contribution of approximately ₩ 722,190 million to the plan in 2020 and the weighted average duration of the defined benefit obligation as of December 31, 2019 is 8.67 years.

36. CASH GENERATED FROM OPERATIONS:

Cash generated from operations for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Profit for the year	₩ 3,185,646	₩ 1,645,019
Adjustments:		
Retirement benefit costs	618,501	564,830
Depreciation	2,545,183	2,357,887
Amortization of intangible assets	1,286,689	1,403,582
Provision for warranties	2,417,953	1,805,607
Income tax expense	978,120	884,563
Loss (gain) on foreign currency translation, net	(44,842)	168,532
Loss on disposals of PP&E, net	128,742	144,076
Interest income, net	(195,617)	(208,033)
Gain on share of earnings of equity-accounted investees, net	(570,735)	(599,522)
Cost of sales from financial services, net	6,832,433	6,623,857
Impairment loss on investments in associates	42,175	193,490
Others	1,107,393	697,607
	15,145,995	14,036,476
Changes in operating assets and liabilities:		
Decrease in trade notes and accounts receivable	240,973	144,965
Decrease (increase) in other receivables	20,004	(49,614)
Decrease (increase) in other financial assets	(156,683)	582,163
Increase in inventories	(1,107,426)	(686,275)
Increase in other assets	(208,333)	(232,079)
Increase (decrease) in trade notes and accounts payable	(277,383)	1,250,595
Increase in other payables	328,290	371,821
Increase (decrease) in other liabilities	1,600,044	(318,944)
Decrease in other financial liabilities	(11,946)	(5,774)
Changes in net defined benefit liabilities	(617,864)	(685,658)
Payment of severance benefits	(87,866)	(191,816)
Decrease in provisions	(3,033,915)	(2,367,358)
Changes in financial services receivables	(8,493,115)	(4,552,802)
Investment in operating leases	(3,812,572)	(2,920,535)
Others	(26,535)	68,502
	(15,644,327)	(9,592,809)
Cash generated from operations	₩ 2,687,314	₩ 6,088,686

(2) Major non-cash transactions not stated on the consolidated statements of cash flows from investing and financing activities for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Reclassification of the current portion of long-term debt and debentures	₩ 16,462,173	₩ 13,198,648
Reclassification of construction-in-progress to PP&E	3,244,243	3,224,076
Reclassification of construction-in-progress to intangible assets	133,398	140,905
Increase in long-term and short-term other payables for public contributions under the new construction project	950,745	-

(3) Changes in liabilities arising from financial activities for the year ended December 31, 2019 are as follows.

Description	Beginning of the year	Cash flows from financing activities	Changes from non-cash transactions: Reclassified to current portion	Changes from non-cash transactions: Effect of exchange rate changes	Changes from non-cash transactions: Present value discounts	Changes from non-cash transactions: Others(*)	End of the year
			(In millions of Korean Won)				
Short-term borrowings (including current portion)	₩ 26,354,777	₩ (15,027,248)	₩ 16,462,173	₩ 443,419	₩ 89,217	₩ 26,913	₩ 28,349,251
Long-term debts	9,985,250	6,212,410	(5,219,946)	224,316	15,039	19	11,217,088
Debentures	36,956,114	15,357,326	(11,242,227)	695,624	38,977	-	41,805,814

(*) Others include transfers from or to other accounts and others.

Changes in liabilities arising from financial activities for the year ended December 31, 2018 are as follows.

Description	Beginning of the year	Cash flows from financing activities	Changes from non-cash transactions: Reclassified to current portion	Changes from non-cash transactions: Effect of exchange rate changes	Changes from non-cash transactions: Present value discounts	Changes from non-cash transactions: Others(*)	End of the year
			(In millions of Korean Won)				
Short-term borrowings (including current portion)	₩ 23,058,201	₩ (10,137,072)	₩ 13,198,648	₩ 408,544	₩ 82,553	₩ (256,097)	₩ 26,354,777
Long-term debts	12,488,137	439,697	(2,669,011)	237,897	(5,242)	(506,228)	9,985,250
Debentures	36,454,192	10,198,316	(10,529,637)	794,741	38,502	-	36,956,114

(*) Others include liabilities classified as held for sale and others.

37. RISK MANAGEMENT:

(1) Capital risk management

The Group manages its capital to maintain an optimal capital structure for maximizing profit of its shareholder and reducing the cost of capital. Debt to equity ratio calculated as total liabilities divided by total equity is used as an index to manage the Group's capital. The overall capital risk management policy is consistent with that of the prior period. Debt to equity ratios as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Total liabilities	₩ 118,146,466	₩ 106,759,742
Total equity	76,365,754	73,896,010
Debt-to-equity ratio	154.7%	144.5%

(2) Financial risk management

The Group is exposed to various financial risks such as market risk (foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk related to its financial instruments. The purpose of risk management of the Group is to identify potential risks related to financial performance and reduce, eliminate and evade those risks to an acceptable level of risks to the Group. Overall, the Group's financial risk management policy is consistent with the prior period policy.

1) Market risk

The Group is mainly exposed to financial risks arising from changes in foreign exchange rates and interest rates. Accordingly, the Group uses financial derivative contracts to hedge and to manage its interest rate risk and foreign currency risk.

a) Foreign exchange risk management

The Group is exposed to various foreign exchange risks by making transactions in foreign currencies. The Group is mainly exposed to foreign exchange risk in USD, EUR, JPY and others

The Group manages foreign exchange risk by matching the inflow and the outflow of foreign currencies according to each currency and maturity, and by adjusting the foreign currency settlement date based on its exchange rate forecast. The Group uses foreign exchange derivatives, such as currency forward, currency swap, and currency option; as hedging instruments. However, speculative foreign exchange trade on derivative financial instruments is prohibited.

Sensitivity analysis for a 5% change in exchange rate of the functional currency against each foreign currency on profit before income tax as of December 31, 2019 is as follows.

	Foreign Exchange Rate Sensitivity	
Foreign Currency	Increase by 5%	Decrease by 5%
	(In millions of Korean Won)	
USD	₩ 1,315	₩ (1,315)
EUR	(20,852)	20,852
JPY	(8,319)	8,319

b) Interest rate risk management

The Group has borrowings with fixed or variable interest rates. Also, the Group is exposed to interest rate risk arising from financial instruments with variable interest rates. To manage the interest rate risk, the Group maintains an appropriate balance between borrowings with fixed and variable interest rates for short-term borrowings and has a policy to borrow funds with fixed interest rates to avoid the future cash flow fluctuation risk for long-term debt if possible. The Group manages its interest rate risk through regular assessments of the change in market conditions and the adjustments in nature of its interest rates.

Sensitivity analysis for a 1% change in interest rates on profit before income tax as of December 31, 2019 is as follows.

	Interest Rate Sensitivity	
Accounts	Increase by 1%	Decrease by 1%
	(In millions of Korean Won)	
Cash and cash equivalents	₩ 18,739	₩ (18,739)
Financial assets measured at FVPL	(6,606)	6,944
Short-term and long-term financial instruments	6,779	(6,779)
Borrowings and debentures	(128,245)	128,245

The Company's subsidiaries, Hyundai Card Co., Ltd. and Hyundai Capital Services, Inc., that are operating financial business, are managing interest rate risk by utilizing value at risk (VaR). VaR is defined as a threshold value which is a statistical estimate of the maximum potential loss based on normal distribution. As of December 31, 2019 and December 31, 2018, the amounts of interest rate risk measured at VaR are ₩159,980 million and ₩134,366 million, respectively.

c) Price risk

The Group is exposed to market price fluctuation risk arising from equity instruments. As of December 31, 2019, the amounts of financial assets measured at FVTPL and financial assets measured at FVOCI are ₩94,656 million and ₩1,917,496 million, respectively.

2) Credit risk

The Group is exposed to credit risk when a counterparty defaults on its contractual obligation resulting in a financial loss for the Group. The Group operates a policy to transact with counterparties who only meet a certain level of credit rating which was evaluated based on the counterparty's financial conditions, default history, and other factors. The credit risk in the liquid funds and derivative financial instruments is limited as the Group transacts only with financial institutions with high credit-ratings assigned by international credit-rating agencies. Except for the guarantee of indebtedness discussed in Note 39, the book value of financial assets in the consolidated financial statements represents the maximum amounts of exposure to credit risk. In addition, the Company's subsidiaries, Hyundai Card Co., Ltd. and Hyundai Capital Services, Inc., that are operating financial business, assesses their credit stability according to their internal credit ratings and manage credit risk concentrations by debtor. As of December 31, 2019, credit risk concentrations are 91% for households and 9% for companies.

3) Liquidity risk

The Group manages liquidity risk based on maturity profile of its funding. The Group analyses and reviews actual cash outflow and its budget to match the maturity of its financial liabilities to that of its financial assets.

The Group retains an appropriate level of deposit to cope with uncertainty caused by the inherent nature of the industry which is sensitive to economic fluctuation and to invest in R&D constantly.

In addition, the Group has agreements with financial institutions related to trade financing and overdraft to mitigate any significant unexpected market deterioration. Also, the Group continues to strengthen its credit rates to secure a stable financing capability.

The Group's maturity analysis of its non-derivative liabilities according to their remaining contract period before expiration as of December 31, 2019 is as follows.

	Remaining contract period			
Description	Not later than one year	Later than one year and not later than five years	Later than five years	Total
	(In millions of Korean Won)			
Non-interest-bearing liabilities	₩ 14,533,075	₩ 647,504	₩ 226,206	₩ 15,406,785
Interest-bearing liabilities	30,099,101	49,814,632	6,751,232	86,664,965
Financial guarantee	1,123,035	18,649	10,278	1,151,962

The maturity analysis is based on the non-discounted cash flows and the earliest maturity date at which payments, i.e. both principal and interest, should be made.

(3) Derivative instruments

The Group enters into derivative instrument contracts such as currency forwards, currency options, currency swaps and interest swaps to hedge its exposure to changes in foreign exchange rate.

As of December 31, 2019 and December 31, 2018, the Group recognized an accumulative net loss of ₩28,383 million and ₩62,953 million, respectively, in accumulated other comprehensive loss, for effective cash flow hedging instruments.

The longest period in which the forecasted transactions are expected to occur is within 117 months as of December 31, 2019.

For the years ended December 31, 2019 and 2018, the Group recognized a net profit of ₩240,206 million and ₩206,019 million in profit or loss (before tax), respectively, which resulted from the ineffective portion of its cash flow hedging instruments and changes in the valuation of its other non-hedging derivative instruments.

In addition, the Company's subsidiaries, Hyundai Card Co. Ltd. and Hyundai Capital Services, Inc., that are operating financial business, use interest rate swaps and currency swaps to hedge the risks of future cash flows, which related to borrowings, debentures and others, due to market interest rate fluctuations and exchange rate fluctuations. As of December 31, 2019, the average hedge ratio is 100%.

38. RELATED-PARTY AND OTHER TRANSACTIONS:

The transactions and balances of receivables and payables within the Group are wholly eliminated in the preparation of consolidated financial statements of the Group.

(1) For the year ended December 31, 2019, significant transactions arising from operations between the Group and related parties or affiliates by the Monopoly Regulation and Fair Trade Act of the Republic of Korea ("the Act") are as follows.

Description		Sales/proceeds		Purchases/expenses	
		Sales	Others	Purchases	Others
		(In millions of Korean Won)			
Entity with significant influence over the Company and its subsidiaries	Hyundai MOBIS Co., Ltd.	₩ 967,724	₩ 13,997	₩ 7,026,246	₩ 69,854
	Mobis Alabama, LLC	179,952	4,220	1,463,259	16,521
	Mobis Automotive Czech s.r.o.	-	514	1,499,675	7,228
	Mobis India, Ltd.	12,279	6,002	1,144,736	21,526
	Mobis Parts America, LLC	59,520	3,399	962,301	696
	Mobis Module CIS, LLC.	-	338	432,428	-
	Mobis Parts Europe N.V.	17,522	5,499	409,133	-
	Others	33,630	2,136	1,009,179	23,024
Joint ventures and associates	Kia Motors Corporation	1,090,223	667,705	168,907	688,919
	Kia Motors Russia LLC.	1,136,574	-	-	-
	Kia Motors Slovakia s.r.o.	122,710	252	488,346	-
	Kia Motors Mexico S.A de C.V.	97	12,876	528,950	-
	BHMC	452,376	31,523	144,335	-
	HMGC	2,994	16	59,639	44,847
	Hyundai WIA Corporation	139,092	2,314	1,258,211	48,576
	Others	965,766	57,385	3,833,178	1,901,640
Other related parties		8,124	5,894	98	5
Affiliates by the Act		1,158,010	182,994	7,559,328	1,148,542

For the year ended December 31, 2018, significant transactions arising from operations between the Group and related parties or affiliates by the Act are as follows.

Description		Sales/proceeds		Purchases/expenses	
		Sales	Others	Purchases	Others
		(In millions of Korean Won)			
Entity with significant influence over the Company and its subsidiaries	Hyundai MOBIS Co., Ltd.	₩ 855,899	₩ 11,882	₩ 5,779,338	₩ 63,730
	Mobis Alabama, LLC	150,932	-	1,170,562	11,510
	Mobis Automotive Czech s.r.o.	-	650	1,595,879	12,925
	Mobis India, Ltd.	9,309	2,547	1,089,584	5,076
	Mobis Parts America, LLC	36,758	3,091	784,401	647
	Mobis Module CIS, LLC	-	332	413,903	-
	Mobis Parts Europe N.V.	16,954	882	400,752	33
	Others	25,819	1,991	953,435	17,171
Joint ventures and associates	Kia Motors Corporation	1,232,262	648,081	179,658	505,812
	Kia Motors Russia LLC.	1,064,764	-	-	-
	Kia Motors Slovakia s.r.o.	119,781	79	563,662	-
	Kia Motors Mexico S.A de C.V.	1,048	4,359	658,066	-
	BHMC	461,444	46,526	36,535	-
	HMGC	3,032	-	12,886	14,654
	Hyundai WIA Corporation	265,199	2,622	1,368,294	3,870
	Others	896,981	51,195	3,425,538	1,775,624
Other related parties		2,454	6,307	114	5
Affiliates by the Act		948,967	162,448	7,017,992	1,357,505

(2) As of December 31, 2019, significant balances related to the transactions between the Group and related parties or affiliates by the Act are as follows.

Description		Receivables (*1,2)		Payables	
		Trade notes and accounts receivable	Other receivables and others	Trade notes and accounts payable	Other payables and others
		(In millions of Korean Won)			
Entity with significant influence over the Company and its subsidiaries	Hyundai MOBIS Co., Ltd.	₩ 180,627	₩ 8,774	₩ 1,240,307	₩ 260,458
	Mobis Alabama, LLC	6,835	-	112,964	12
	Mobis Automotive Czech s.r.o.	-	369	110,024	-
	Mobis India, Ltd.	3,381	-	118,413	2
	Mobis Parts America, LLC	14,033	89	85,048	-
	Mobis Module CIS, LLC	-	36	32,457	-
	Mobis Parts Europe N.V.	1,671	3,033	32,294	-
	Others	5,709	719	78,094	4,187
Joint ventures and associates	Kia Motors Corporation	467,458	325,290	46,735	175,515
	Kia Motors Russia LLC.	145,459	326	-	-
	Kia Motors Slovakia s.r.o.	8,312	1,028	30,354	89
	Kia Motors Mexico S.A de C.V.	33	4,645	77,306	366
	Kia Motors America, Inc.	-	84,127	1,275	20,455
	BHMC	156,728	76,174	6,215	820
	HMGC	16	19,894	6,957	37,188
	Hyundai WIA Corporation	28,289	14,729	151,717	55,728
	Others	302,208	115,063	492,506	695,803
Other related parties		87	520	10	1
Affiliates by the Act		214,074	78,281	845,699	344,282

(*1) The Group has recognized the loss allowance for the related parties' receivables in the amount of ₩26,889 million as of December 31, 2019 and the impairment loss is recognized in the amount of ₩1,895 million for the year ended December 31, 2019.

(*2) As of December 31, 2019, outstanding payment of ₩21,227 million of corporate purchase card agreement provided by Hyundai Card Co., Ltd. is included. For the year ended December 31, 2019, amount used and repayment of agreement are ₩307,706 million and ₩304,492 million, respectively.

As of December 31, 2018, significant balances related to the transactions between the Group and related parties or affiliates by the Act are as follows.

Description		Receivables (*1,2)		Payables	
		Trade notes and accounts receivable	Other receivables and others	Trade notes and accounts payable	Other payables and others
		(In millions of Korean Won)			
Entity with significant influence over the Company and its subsidiaries	Hyundai MOBIS Co., Ltd.	₩ 157,633	₩ 11,050	₩ 1,161,047	₩ 279,775
	Mobis Alabama, LLC	13,694	-	97,661	33
	Mobis Automotive Czech s.r.o.	2	210	128,210	-
	Mobis India, Ltd.	1,061	3	148,002	15
	Mobis Parts America, LLC	7,568	93	64,274	-
	Mobis Module CIS, LLC	-	33	39,281	-
	Mobis Parts Europe N.V.	1,671	3,317	42,412	-
	Others	4,152	143	61,323	4,770
Joint ventures and associates	Kia Motors Corporation	358,664	313,353	36,681	178,582
	Kia Motors Russia LLC	104,433	103	-	-
	Kia Motors Slovakia s.r.o.	9,253	131	20,711	282
	Kia Motors Mexico S.A de C.V.	80	13,981	123,784	827
	Kia Motors America, Inc.	-	77,713	1,212	19,478
	BHMC	170,547	62,236	-	30
	HMGC	-	13,021	8,716	6,619
	Hyundai WIA Corporation	34,382	17,306	189,044	71,059
	Others	230,506	106,395	393,649	738,903
Other related parties		404	558	9	2
Affiliates by the Act		223,834	25,370	928,550	333,227

(*1) The Group has recognised the loss allowance for the related parties' receivables in the amount of ₩24,993 million as of December 31, 2018 and the impairment loss is recognised in the amount of ₩2,974 million for the year ended December 31, 2018.

(*2) As of December 31, 2018, outstanding payment of ₩18,013 million of corporate purchase card agreement provided by Hyundai Card Co., Ltd. is included. For the year ended December 31, 2018, amount used and repayment of agreement are ₩283,929 million and ₩278,863 million, respectively.

(3) Significant fund transactions and equity contribution transactions for the year ended December 31, 2019, between the Group and related parties are as follows.

Description	Loans		Borrowings		Equity contribution
	Lending	Collection	Borrowing	Repayment	
	(In thousands of Chinese Yuan)				(In millions of Korean won)
Joint ventures and associates	CNY 40,000	-	-	-	₩ 588,541

Significant fund transactions and equity contribution transactions for the year ended December 31, 2018, between the Group and related parties are as follows.

Description	Loans		Borrowings		Equity contribution
	Lending	Collection	Borrowing	Repayment	
	(In thousands of Chinese Yuan)				(In millions of Korean won)
Joint ventures and associates	CNY 80,000	-		-	₩ 61,772

For the years ended December 31, 2019 and 2018, the Group received dividends of ₩182,613million and ₩168,811 million from related parties and affiliates by the Act, respectively and paid dividends of ₩277,504 million and ₩272,961 million to related parties, respectively. During 2019, the Group traded in other financial assets and others of ₩2,907,400 million with HYUNDAI MOTOR SECURITIES Co., Ltd., an associate of the Group. The Group has other financial assets of ₩1,120,000 million in the consolidated statement of financial position as of December 31, 2019.

(4) Compensation of registered and unregistered directors, who are considered to be the key management personnel for the years ended December 31, 2019 and 2018 are as follows.

Description	2019	2018
	(In millions of Korean Won)	
Short-term employee salaries	₩ 274,556	₩ 218,620
Retirement benefit costs	47,280	34,087
Other long-term benefits	1,147	606
	₩ 322,983	₩ 253,313

(5) For the year ended December 31, 2019, the Group offer payment guarantee to related parties and affiliates by the Act.

39. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2019, the debt guarantees provided by the Group, excluding the ones provided to the Company's subsidiaries are as follows.

Description	Domestic	Overseas (*)
	(In millions of Korean Won)	
To associates	₩ 128,050	₩ 195,831
To others	16,493	998,123
	₩ 144,543	₩ 1,193,954

(*) The guarantee amounts in foreign currencies are translated into Korean Won using the Base Rate announced by Seoul Money Brokerage Services, Ltd. as of December 31, 2019.

(2) As of December 31, 2019, the Group is involved in domestic and foreign lawsuits as a defendant. In addition, the Group is involved in lawsuits for product liabilities and others. The Group obtains insurance for potential losses which may result from product liabilities and other lawsuits. In addition, as of December 31, 2019, the Group is under investigation by related authorities in relation to the theta 2 engine recall, and its results and impacts are unpredictable. Meanwhile, as of December 31, 2019, the Group is currently involved in lawsuits for ordinary wage, which relates to disputes over whether certain elements of remuneration shall be included in the earnings used for the purposes of calculating overtime, allowances for unused annual paid leave and retirement benefits, and unable to estimate the outcome or the potential consolidated financial impact.

(3) As of December 31, 2019, a substantial portion of the Group's PP&E is pledged as collateral for various loans and leasehold deposits up to ₩765,375 million. In addition, the Group pledged certain bank deposits, checks and promissory notes, including 213,466 shares of Kia Motors Corporation, as collateral to financial institutions and others. Certain receivables held by the Company's foreign subsidiaries, such as financial services receivables are pledged as collateral for their borrowings.

(4) As of December 31, 2019, the Group has overdrafts, general loans, and trade-financing agreements with numerous financial institutions including Kookmin Bank, with a combined limit of up to USD 24,600 million, and ₩6,222,800 million.

(5) As of December 31, 2019, Hyundai Capital Services, Inc. and Hyundai Card Co., Ltd. have entered into agreements for certain borrowings including trigger clauses for the purpose of credit enhancement. If the credit rating of Hyundai Capital Services, Inc. and Hyundai Card Co., Ltd. falls below a certain level, this may result in early repayment of the borrowings or termination of the contracts.

(6) As of December 31, 2019, Hyundai Capital Services, Inc. and Hyundai Card Co., Ltd., the subsidiaries of the Company are able to exercise the priority purchasing rights for the leased office building when the lessor wants to sell the building or after 4 years and 5 months from the lease contract commencement date.

(7) As of December 31, 2019, the Company entered into a total return swap contract for stocks of Hyundai Capital Services, Inc., the subsidiary of the Company, held by other investors of a third parties.

(8) As of December 31, 2019, the Company has a shareholder agreement with investors of third parties regarding shares of Hyundai card Co., Ltd. and Hyundai Commercial Inc. This includes the Call options that allow the Company to buy shares from the investors and the Put options that allow the investors to dispose of the shares to the Company.

(9) The Company entered into an agreement to invest ₩1,408,220 million in the construction of new Global Business Centre (GBC). As of December 31, 2019, the Company has recognized relevant liability in the amount of ₩950,745 million in accordance with the agreement with the Seoul government to implement public contributions relating to the new construction project.

(10) Financial instruments with limited use as of December 2019 and 2018, are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Short-term and long-term financial instruments	₩ 959,783	₩ 936,606
Cash and cash equivalents	173,602	329,296
Other financial assets	7,963	7,770
	₩ 1,141,348	₩ 1,273,672

40. SEGMENT INFORMATION:

(1) The Group has vehicle segment, finance segment and other segments. The vehicle segment is engaged in the manufacturing and sale of motor vehicles. The finance segment operates vehicle financing, credit card processing and other financing activities. Others segment includes the R&D, train manufacturing and other activities.

(2) Sales and operating profit by operating segments for the years ended December 31, 2019 and 2018 are as follows.

	For the year ended December 31, 2019				
	Vehicle	Finance	Others	Consolidation adjustments	Total
	(In millions of Korean Won)				
Total sales	₩ 127,898,539	₩ 16,735,027	₩ 8,794,298	₩ (47,681,442)	₩ 105,746,422
Inter-company sales(*)	(45,411,843)	(708,571)	(1,561,028)	47,681,442	-
Net sales	82,486,696	16,026,456	7,233,270	-	105,746,422
Operating profit	2,618,009	887,983	99,471	42	3,605,505

(*) Inter-company sales include inter-segment sales within the Group.

	For the year ended December 31, 2018				
	Vehicle	Finance	Others	Consolidation adjustments	Total
	(In millions of Korean Won)				
Total sales	₩ 114,448,752	₩ 15,284,427	₩ 7,954,215	₩ (40,874,785)	₩ 96,812,609
Inter-company sales(*)	(39,183,338)	(326,223)	(1,365,224)	40,874,785	-
Net sales	75,265,414	14,958,204	6,588,991	-	96,812,609
Operating profit	1,062,241	746,612	105,295	508,017	2,422,165

(*) Inter-company sales include inter-segment sales within the Group.

(3) Assets and liabilities by operating segments as of December 31, 2019 are as follows.

	December 31, 2019				
	Vehicle	Finance	Others	Consolidation adjustments	Total
	(In millions of Korean Won)				
Total assets	₩ 107,555,519	₩ 93,803,198	₩ 8,541,669	₩ (15,388,166)	₩ 194,512,220
Total liabilities	42,249,145	80,509,835	5,579,715	(10,192,229)	118,146,466
Borrowings and debentures	7,628,244	72,788,608	2,776,867	(1,821,566)	81,372,153

Assets and liabilities by operating segments as of December 31, 2018 are as follows.

	December 31, 2018				
	Vehicle	Finance	Others	Consolidation adjustments	Total
	(In millions of Korean Won)				
Total assets	₩ 100,302,183	₩ 85,725,929	₩ 7,930,963	₩ (13,303,323)	₩ 180,655,752
Total liabilities	36,885,305	73,323,028	5,041,081	(8,489,672)	106,759,742
Borrowings and debentures	6,995,268	65,215,856	2,547,523	(1,462,506)	73,296,141

(4) Sales by region based on where the Group's entities are located in for the years ended December 31, 2019 and 2018 are as follows.

	For the year ended December 31, 2019						
	Korea	North America	Asia	Europe	Others	Consolidation adjustments	Total
	(In millions of Korean Won)						
Total sales	₩ 60,224,554	₩ 44,037,504	₩ 10,648,377	₩ 35,586,939	₩ 2,930,490	₩ (47,681,442)	₩ 105,746,422
Inter-company sales	(22,356,765)	(8,066,819)	(407,565)	(16,850,142)	(151)	47,681,442	-
Net sales	37,867,789	35,970,685	10,240,812	18,736,797	2,930,339	-	105,746,422

	For the year ended December 31, 2018						
	Korea	North America	Asia	Europe	Others	Consolidation adjustments	Total
	(In millions of Korean Won)						
Total sales	₩ 53,587,031	₩ 37,500,229	₩ 9,787,259	₩ 33,959,206	₩ 2,853,669	₩ (40,874,785)	₩ 96,812,609
Inter-company sales	(16,835,175)	(6,791,173)	(461,954)	(16,786,135)	(348)	40,874,785	-
Net sales	36,751,856	30,709,056	9,325,305	17,173,071	2,853,321	-	96,812,609

(5) Non-current assets by region where the Group's entities are located in as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Korea	₩ 32,022,342	₩ 30,267,888
North America	2,588,893	2,175,054
Asia	1,527,181	1,106,064
Europe	1,962,133	1,891,626
Others	449,771	410,601
	38,550,320	35,851,233
Consolidation adjustments	(280,806)	(194,908)
Total (*)	₩ 38,269,514	₩ 35,656,325

(*) Total amount is the same as summation of PP&E, intangible assets and Investment properties.

(6) There is no single external customer who represents 10% or more of the Group's revenue for the years ended December 31, 2019 and 2018.

41. CONSTRUCTION CONTRACTS:

(1) Cost, income and loss and claimed construction from construction in progress as of December 31, 2019 and December 31, 2018 are as follows.

Description	December 31, 2019	December 31, 2018
	(In millions of Korean Won)	
Accumulated cost	₩ 10,298,750	₩ 9,305,321
Accumulated income	271,874	591,321
Accumulated construction in process	10,570,624	9,896,642
Progress billing	10,175,567	9,331,926
Due from customers	1,171,029	1,110,972
Due to customers	775,972	546,256
Reserve (*)	95,404	71,729

(*) Reserve is recognised as long-term trade notes and accounts receivable in the consolidated financial statements.

(2) Effects on profit or loss of current and future periods, due from customers related to changes in accounting estimates of total contract revenue and total contract costs of ongoing contracts of Hyundai Rotem, a subsidiary of the Company, as of December 31, 2019 are as follows.

Description	December 31, 2019
	(In millions of Korean Won)
Changes in accounting estimates of total contract revenue	₩ 507,421
Changes in accounting estimates of total contract costs	837,223
Effects on profit or loss of current period	(325,794)
Effects on profit or loss of future periods	(4,008)
Changes in due from customers	(182,127)
Provision for construction loss	178,923

Effects on profit or loss of current and future periods were calculated with estimated total contract costs and estimated total contract revenue based on factors that are considered to be relevant from commencement of the contract to December 31, 2019. Total contract revenue and costs may change in future periods.

(3) There is no contract as of December 31, 2019, in which contract revenue has recognized by the proportion of contract costs incurred and has accounted for more than 5% of the Group's revenue in the prior period.

42. SUBSEQUENT EVENTS:

(1) In January 19, 2020, the Group acquired additional 50% of the share of the Sichuan Hyundai Motor Company (CHMC) which is classified as a joint ventures as of December 31, 2019. Accordingly, it is being reclassified as a subsidiary.

(2) Hyundai Rotem Company, a subsidiary, announced and executed a restructuring plan to improve management efficiency subsequent to December 31, 2019.

(3) In March 2020, the board of directors of Hyundai Rotem Company, a subsidiary, reached a resolution to enter into an agreement with Hyundai MOBIS Co., Ltd. for the disposal of land and buildings in Uiwang Research Institute.

$40,000,000,000
Hyundai Capital America
Medium-Term Notes, Series A

OFFERING MEMORANDUM
March 16, 2020

Barclays
BNP PARIBAS
BNY Mellon Capital Markets, LLC
BofA Securities
Citigroup
COMMERZBANK
Credit Agricole CIB
HSBC
J.P. Morgan
Lloyds Securities
Mizuho Securities
MUFG
RBC Capital Markets
Santander
SMBC Nikko
SOCIETE GENERALE
TD Securities
US Bancorp
Wells Fargo Securities