

**CNH CAPITAL CANADA RECEIVABLES TRUST**

**Financial Statements as at and for the years ended  
December 31, 2018 and 2017 and Independent Auditor's Report**

# CNH CAPITAL CANADA RECEIVABLES TRUST

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# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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### GENERAL

Management's Discussion and Analysis ("MD&A"), dated March 29, 2019, should be read in conjunction with the audited financial statements for the years ended December 31, 2018 and 2017. Management is responsible for the reliability and timeliness of the information disclosed in the MD&A.

### BUSINESS OF THE TRUST

CNH Capital Canada Receivables Trust (the "Trust") was established by the Computershare Trust Company of Canada (formerly, The Canada Trust Company), as Issuer Trustee (the "Issuer Trustee"), under the laws of the Province of Ontario by Declaration of Trust dated September 11, 2000. BNY Trust Company of Canada is the Indenture Trustee, with its principal office at 1 York Street, 6<sup>th</sup> Floor, Toronto, Ontario M5J 0B6.

The Trust's activities are limited to the securing and administration of retail installment contracts originated by CNH Industrial Capital Canada Ltd. ("CNH Industrial Capital Canada", "Administrator", "Servicer" or "Seller") to finance the purchase of new or used agricultural or construction equipment. The Trust issues asset-backed notes ("Notes") and subordinated loans in Series ("Series") with varying terms to finance the acquisition of the receivables and uses collections on the receivables to pay its obligations.

Pursuant to the Administration Agreement between the Issuer Trustee and the Administrator, and the Sale and Servicing Agreement between the Issuer Trustee and the Servicer, CNH Industrial Capital Canada carries out certain administrative and management activities for and on behalf of the Trust, including the administration, servicing, and collection of the receivables. The Trust pays a nominal fee to CNH Industrial Capital Canada for the performance of the activities and fulfillment of its responsibilities under the Administration Agreement. No fee is payable by the Trust to CNH Industrial Capital Canada for the servicing activities since the receivables are sold to the Trust on a fully serviced basis. The Trust has no employees.

The Trust has been structured to provide investors in the Class A and B Notes payments that amortize on a monthly basis concurrent with the principal collections activity on the underlying receivables.

Each Series of Notes benefits from Series-specific enhancements in the form of the deferred purchase price, excess spread and amounts deposited in a cash reserve account. The deferred purchase price ("deferred purchase price") represents the difference between the amount at which the Trust records the ownership interest in receivables and the amount payable to CNH Industrial Capital Canada for the purchase of the ownership interest in receivables. Excess spread is the monthly excess of all interest collections on the receivables after the Trust payment obligations are satisfied. The Due to Seller ("Due to Seller") includes both the deferred purchase price and the excess spread. The reserve accounts are Series-specific accounts funded at the time of issuance of the relevant Series from the proceeds of the issuance. Amounts on deposit in the reserve account for a Series are available to cover any shortfalls in funds available to meet specific payments for that Series as outlined in the related transaction documents and will not be released to the Seller until that Series is paid in full.

In February 2017, the Trust issued Series 2017-1 Receivables-Backed Notes, Class A and B Notes, which were privately placed with institutional investors.

In October 2017, a clean-up call was exercised by CNH Industrial Capital Canada with respect to Series 2013-2 whereby \$45,119,079 of retail installment contracts were sold at book value to CNH Industrial Capital Canada. Also related to this clean-up call, the Series 2013-2 Class A-2 Notes, the Series 2013-2 Class B Notes and the Series 2013-2 Subordinated loans were repaid in full.

In October 2017, the Trust issued Series 2017-2 Receivables-Backed Notes, Class A and B Notes, of which the Class A Notes were privately placed with an institutional investor and the Class B Notes were retained by CNH Industrial Capital Canada.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018 AND 2017

(In Canadian Dollars)

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In April 2018, the Trust issued Series 2018-1 Receivables-Backed Notes, Class A and B Notes, of which the Class A Notes were privately placed with institutional investors and the Class B Notes were retained by CNH Industrial Capital Canada.

In May 2018, a clean-up call was exercised by CNH Industrial Capital Canada with respect to Series 2014-1 whereby \$41,407,868 of retail installment contracts were sold at book value to CNH Industrial Capital Canada. Also related to this clean-up call, the Series 2014-1 Class A-2 Notes, the Series 2014-1 Class B Notes and the Series 2014-1 Subordinated loans were repaid in full.

In November 2018, a clean-up call was exercised by CNH Industrial Capital Canada with respect to Series 2015-1 whereby \$30,844,165 of retail installment contracts were sold at book value to CNH Industrial Capital Canada. Also related to this clean-up call, the Series 2015-1 Class A-2 Notes, the Series 2015-1 Class B Notes and the Series 2015-1 Subordinated loans were repaid in full.

In November 2018, the Trust issued Series 2018-2 Receivables-Backed Notes, Class A and B Notes, of which the Class A Notes were privately placed with an institutional investor and the Class B Notes were retained by CNH Industrial Capital Canada.

## RESULTS OF OPERATIONS

The Trust's ownership interest in receivables increased by \$174,620,285 from \$1,113,734,573 as at December 31, 2017 to \$1,288,354,858 as at December 31, 2018.

Interest income for the year ended December 31, 2018 totaled \$62,148,149 compared to \$59,466,037 for the year ended December 31, 2017. Total interest expense was \$62,128,682 and \$59,447,003 for the years ended December 31, 2018, and 2017, respectively.

Total credit losses incurred on the Trust's portfolio in 2018 and 2017 were \$831,185 and \$291,366, respectively. These credit losses are absorbed by CNH Industrial Capital Canada through the Due to Seller.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Trust's unaudited quarterly financial information for the years ended December 31, 2018 and 2017:

	2018				
	Q1	Q2	Q3	Q4	Total
Interest income.....	\$ 13,552,403	\$ 16,896,392	\$ 14,579,268	\$ 17,120,086	\$ 62,148,149
	2017				
	Q1	Q2	Q3	Q4	Total
Interest income.....	\$ 14,029,433	\$ 14,076,658	\$ 12,658,316	\$ 18,701,630	\$ 59,466,037

## TRANSACTIONS WITH RELATED PARTIES

For the years ended December 31, 2018 and 2017, the Trust's interest expense paid to CNH Industrial Capital Canada was \$36,613,303 and \$39,446,811, respectively, and the other expenses paid to CNH Industrial Capital Canada amounted to \$12,167 and \$11,834, respectively. The transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

The Due to Seller was \$53,660,129 and \$33,575,693 as at December 31, 2018 and 2017, respectively, and the subordinated loans payable to CNH Industrial Capital Canada were \$50,052,851 and \$47,299,874, respectively.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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### ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements, and revenue and expenses for the years reported. The key areas of estimation include the fair value of the ownership interest in receivables on acquisition, determining the effective interest rate on the ownership interest in receivables and the estimation of credit losses on the ownership interest in receivables. At period end, the fair value of the Trust's ownership interest in receivables is determined by discounting the contracts' future cash flows at current market rates. Actual results could differ from those estimates.

### RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Trust is exposed to the following risks as a result of holding financial instruments: market risk, credit risk and liquidity risk. The Trust's risk management policies are established by CNH Industrial Capital Canada and are reviewed regularly to reflect changes in market conditions and the Trust's activities.

#### *Market Risk*

Market risk is the possibility that changes in interest rates and foreign exchange rates will adversely affect the Trust's cash flow and/or fair value of the Trust's financial instruments.

Interest rate risk refers to the risk that the fair value or income and future cash flows of a financial instrument will vary as a result of changes in market interest rates. As all the Series' transactions only include fixed rate Notes and loans and the Trust receives a fixed rate of interest on its ownership interest in receivables, the Trust did not have any interest rate risk during the years ended December 31, 2018 and 2017. The Trust's exposure to interest rate risk on the cash accounts is not significant.

The Trust is not exposed to losses from foreign exchange rates as all of the Trust's transactions were denominated in Canadian dollars.

#### *Credit Risk*

Credit risk is the possibility of loss resulting from failure by a customer or counterparty to make payments according to contractual terms.

The Trust's ownership interest in receivables results in significant concentrations of credit risk in the agricultural and construction industries in Canada. Numerous factors can affect the future performance of the Trust. These factors include the general level of activity in the agricultural and construction industries, the rate of North American agricultural production and demand, weather conditions, commodity prices, consumer confidence, government subsidies for the agricultural sector and prevailing levels of construction (especially housing starts). The Trust manages this risk through amounts deposited in a cash reserve account and the deferred purchase price, which provide the Trust with overcollateralization designed to minimize its credit risk.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018 AND 2017

(In Canadian Dollars)

As at December 31, 2018, the Trust's ownership interest in receivables by annual yield, which exclude interest waiver periods, and by industry was as follows:

<u>Annual Yield</u>	<u>Agriculture</u>	<u>Construction</u>	<u>Total Portfolio</u>
0.00% – 2.99% .....	\$ 248,063,711	\$ 19,372,034	\$ 267,435,745
3.00% – 5.99% .....	778,990,024	45,194,839	824,184,863
6.00% – 8.99% .....	178,304,207	11,665,082	189,969,289
9.00% – 11.99% .....	6,301,415	422,025	6,723,440
≥12.00% .....	27,614	13,907	41,521
	<u>\$ 1,211,686,971</u>	<u>\$ 76,667,887</u>	<u>\$ 1,288,354,858</u>

As at December 31, 2017, the Trust's ownership interest in receivables by annual yield, which exclude interest waiver periods, and by industry was as follows:

<u>Annual Yield</u>	<u>Agriculture</u>	<u>Construction</u>	<u>Total Portfolio</u>
0.00% – 2.99% .....	\$ 232,689,459	\$ 15,394,499	\$ 248,083,958
3.00% – 5.99% .....	766,131,778	27,204,647	793,336,425
6.00% – 8.99% .....	65,821,229	3,004,018	68,825,247
9.00% – 11.99% .....	3,173,884	309,214	3,483,098
≥12.00% .....	5,845	—	5,845
	<u>\$ 1,067,822,195</u>	<u>\$ 45,912,378</u>	<u>\$ 1,113,734,573</u>

During the years ended December 31, 2018 and 2017, credit losses amounting to \$831,185 and \$291,366, respectively, were written off against the Due to Seller, which represents 0.06% and 0.03% of the Trust's portfolio, respectively. The principal balance of accounts greater than 30 days delinquent was \$866,172 and \$958,494, which represented 0.07% and 0.09% of the Trust's portfolio as at December 31, 2018 and 2017, respectively.

As at December 31, 2018 and 2017, the Trust's maximum credit exposure was \$1,296,417,384 and \$1,120,115,402, respectively, equal to the total of its assets recorded on the Statements of Net Assets less its restricted cash and cash equivalents.

### *Liquidity Risk*

Liquidity risk is the possibility that the Trust may be unable to meet all current and future obligations in a timely manner. The Trust is engaged in financing asset-backed securities. The Trust is not exposed to liquidity risk apart from the risk that the Trust will not be able to satisfy its obligations because of exposure to credit risks. The Trust's exposure to liquidity risk is managed primarily through the process of selecting receivables that are expected to generate cash flows sufficient to meet the payment schedule of the Notes. The Trust expects to generate more proceeds than are necessary to fulfill its obligations. In addition, the Trust has access to the cash reserve accounts in case of a shortfall in collections.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. Management of CNH Industrial Capital Canada assessed the design and operating effectiveness of the Trust's internal control over financial reporting as at December 31, 2018 and 2017 and based on that assessment determined that the Trust's internal control over financial reporting was effective.

# **CNH CAPITAL CANADA RECEIVABLES TRUST**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DECEMBER 31, 2018 AND 2017**

**(In Canadian Dollars)**

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No changes were made in the Trust's internal control over financial reporting during the years ended December 31, 2018 and 2017, which have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

### **ADDITIONAL INFORMATION**

Additional information regarding the Trust is available at [www.sedar.com](http://www.sedar.com).

## INDEPENDENT AUDITOR'S REPORT

To the Issuer Trustee of **CNH Capital Canada Receivables Trust**

### Opinion

We have audited the financial statements of **CNH Capital Canada Receivables Trust** (the Trust), which comprise the statements of net assets as at December 31, 2018 and 2017, and the statements of net income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, 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.

### Other Information

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.





## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 Canadian generally accepted auditing standards 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 financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Trust'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 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 Trust'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 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 Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Toronto, Canada  
March 29, 2019

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



# CNH CAPITAL CANADA RECEIVABLES TRUST

## STATEMENTS OF NET ASSETS AS AT DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>			
Restricted cash and cash equivalents .....	3	\$ 125,509,655	\$ 121,247,428
Accrued interest receivable.....		8,062,526	6,380,829
Ownership interest in receivables .....	4 & 6	1,288,354,858	1,113,734,573
<b>TOTAL</b> .....		<u>\$ 1,421,927,039</u>	<u>\$ 1,241,362,830</u>
<b>LIABILITIES</b>			
Deposits and other accrued liabilities .....		\$ 1,600	\$ 1,600
Accrued interest payable .....		1,449,977	1,102,658
Notes payable .....	5	1,316,762,472	1,159,382,995
Loans payable.....	5&7	50,052,851	47,299,874
Due to Seller .....	7	53,660,129	33,575,693
Total liabilities .....		1,421,927,029	1,241,362,820
<b>NET ASSETS</b> .....		<u>10</u>	<u>10</u>
<b>TOTAL</b> .....		<u>\$ 1,421,927,039</u>	<u>\$ 1,241,362,830</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

APPROVED BY CNH CAPITAL CANADA RECEIVABLES TRUST,  
by its Administrator,  
CNH INDUSTRIAL CAPITAL CANADA LTD.

/s/ Brett D. Davis

Brett D. Davis  
President

/s/ Robert Keating

Robert Keating  
Controller

# CNH CAPITAL CANADA RECEIVABLES TRUST

## STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Interest income .....		\$ 62,148,149	\$ 59,466,037
Interest expense:			
Interest expense to third parties.....		25,515,379	20,000,192
Interest expense to affiliate .....	7	36,613,303	39,446,811
Total interest expense .....		<u>62,128,682</u>	<u>59,447,003</u>
Other expenses.....	7	<u>12,167</u>	<u>11,834</u>
Total expenses .....		<u>62,140,849</u>	<u>59,458,837</u>
<b>TOTAL NET INCOME AND COMPREHENSIVE INCOME .....</b>		<u>\$ 7,300</u>	<u>\$ 7,200</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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	<u>2018</u>	<u>2017</u>
NET ASSETS, BEGINNING OF YEAR.....	\$ 10	\$ 10
Net income and comprehensive income for the year.....	7,300	7,200
Distribution to beneficiary.....	<u>(7,300)</u>	<u>(7,200)</u>
NET ASSETS, END OF YEAR.....	<u>\$ 10</u>	<u>\$ 10</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Net income and comprehensive income for the year .....	\$ 7,300	\$ 7,200
Working capital adjustments:		
Change in accrued interest receivable .....	(1,681,697)	(352,495)
Change in deposits and other accrued liabilities .....	—	267
Change in accrued interest payable .....	347,319	255,912
Cash from (used in) operating activities .....	<u>(1,327,078)</u>	<u>(89,116)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of ownership interest in receivables .....	(929,842,465)	(878,554,222)
Proceeds from sale of ownership interest in receivables .....	72,252,033	45,119,079
Collections on ownership interest in receivables .....	682,970,147	632,851,786
Change in restricted cash and cash equivalents .....	<u>(4,262,227)</u>	<u>(8,002,893)</u>
Cash from (used in) investing activities .....	<u>(178,882,512)</u>	<u>(208,586,250)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of notes and loans .....	894,869,780	857,847,441
Payment of notes and loans .....	(734,737,326)	(654,403,695)
Change in Due to Seller .....	20,084,436	5,238,820
Distribution to beneficiary .....	<u>(7,300)</u>	<u>(7,200)</u>
Cash from (used in) financing activities .....	<u>180,209,590</u>	<u>208,675,366</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS .....</b>	<b>—</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year .....	<u>—</u>	<u>—</u>
End of year .....	<u>—</u>	<u>—</u>
<b>CASH RECEIVED DURING THE YEAR FOR INTEREST .....</b>	<b><u>\$ 60,466,452</u></b>	<b><u>\$ 59,113,542</u></b>
<b>CASH PAID DURING THE YEAR FOR INTEREST .....</b>	<b><u>\$ 61,781,363</u></b>	<b><u>\$ 59,191,091</u></b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(In Canadian Dollars)

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### NOTE 1: NATURE OF OPERATIONS

CNH Capital Canada Receivables Trust (the “Trust”) was established by Computershare Trust Company of Canada (formerly, The Canada Trust Company), as Issuer Trustee, under the laws of the Province of Ontario by Declaration of Trust dated September 11, 2000. BNY Trust Company of Canada is the Indenture Trustee, with its principal office at 1 York Street, 6<sup>th</sup> Floor, Toronto, Ontario, M5J 0B6.

The Trust’s activities are limited to the securing and administration of retail installment contracts originated by CNH Industrial Capital Canada Ltd. (“CNH Industrial Capital Canada”, “Administrator”, “Servicer” or “Seller”) to finance the purchase of new or used agricultural or construction equipment. The Trust issues asset-backed notes (“Notes”) and subordinated loans in Series (“Series”) with varying terms to finance the acquisition of the receivables and uses collections on the receivables to pay its obligations. The beneficiaries of the Trust, after the payment of all obligations, are one or more designated charitable organizations.

CNH Industrial Capital Canada acts as the initial servicer and the collection agent for the Trust. The Trust has entered into an agreement with CNH Industrial Capital Canada as Administrator. The Administrator’s responsibilities include the day-to-day administration and operations of the Trust, structuring and managing portfolio purchases and monitoring the portfolios. Unless otherwise noted, defined terms within these financial statements are consistent with those of the offering documents pursuant to the Notes issued by the Trust. The Administrator has prepared these financial statements.

The Trust’s financial statements for the year ended December 31, 2018 were authorized for issue by CNH Industrial Capital Canada, as Administrator, on March 29, 2019.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Presentation*

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The financial statements are presented in Canadian dollars, which is the Trust’s functional currency.

The financial statements have been prepared on the historical cost basis, except for restricted cash and cash equivalents, which are measured at fair value.

#### *Classification of Financial Assets and Liabilities*

The Trust recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. Purchases of financial assets are recognized on the settlement date, which is the date the financial assets are received by the Trust. The Trust derecognizes financial assets when the rights to receive cash flows from the assets have expired or have been transferred and derecognizes the financial liabilities when the obligation specified in the contract is discharged or expires.

#### *Post-Adoption of IFRS 9, Financial Instruments (“IFRS 9”) on January 1, 2018*

Financial assets are classified as measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model for managing such financial assets and the asset’s contractual cash flow characteristics. Financial liabilities are classified as measured at amortized cost using the effective interest method. IFRS 9 eliminates the previous International Accounting Standards (“IAS”) 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”) categories of held to maturity, loans and receivables and available for sale.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The classification used previously under IAS 39 has been discontinued from January 1, 2018. In accordance with the transitional provisions of IFRS 9, the Trust has not restated prior periods but has classified the financial assets held at January 1, 2018 retrospectively, according to the business model and based on facts and circumstances under which the assets were held at that date.

The classification and measurement of financial liabilities remained unchanged for the Trust.

There were no changes in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 to new measurement categories under IFRS 9.

Financial assets acquired through a regular way purchase are recognized on the settlement date and, on initial recognition, are measured at fair value, including transaction costs. Subsequent measurement depends on the business model for managing the asset and the cash flow characteristics of the asset.

The following summarizes the new classification and measurement of the Trust's financial assets and financial liabilities:

- Restricted cash and cash equivalents are measured at fair value through profit or loss. Due to the short-term nature of this financial instrument, the fair value approximates carrying value. Changes in fair value are recorded in interest income.
- Ownership interest in receivables and accrued interest receivable are measured at amortized cost using the effective interest method as they are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest.
- Financial liabilities consist of notes payable, loans payable, Due to Seller, deposits and other accrued liabilities and accrued interest payable. These liabilities are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

#### *Prior to Adoption of IFRS 9 on January 1, 2018*

The following summarizes the previous classification and measurement of financial assets and financial liabilities under IAS 39:

- Financial Assets at Fair Value Through Profit or Loss consist of restricted cash and cash equivalents. Due to the short-term nature of this financial instrument, the fair value approximates carrying value. Changes in fair value are recorded in interest income.
- Loans and Receivables consist of ownership interest in receivables and accrued interest receivable. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.
- Financial Liabilities consist of notes payable, loans payable, Due to Seller, deposits and other accrued liabilities and accrued interest payable. These liabilities are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

#### ***Restricted Cash and Cash Equivalents***

Restricted cash and cash equivalents comprise cash and highly liquid investments with an original maturity of three months or less. Restricted cash includes principal and interest payments received by the Trust that are payable to the investors of the Notes and cash pledged as a credit enhancement to those same investors.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Accrued Interest Receivable*

Accrued interest receivable represents the interest income earned on the restricted cash accounts and the ownership interest in receivables during the year and not yet received by the Trust as at December 31.

#### *Ownership Interest in Receivables*

Ownership interest in receivables represent secured loans to CNH Industrial Capital Canada, for accounting purposes, secured by retail note contracts. As such, the Trust accounts for its ownership interest in receivables as a secured loan with the Seller. Principal collections and credit losses reduce the carrying amount of the ownership interest in receivables.

Credit losses are determined monthly by CNH Industrial Capital Canada in accordance with specified criteria. When a recoverable amount becomes impaired as a result of deterioration in credit quality and there is no longer reasonable assurance of timely collection of the full amount of the receivable and any outstanding interest, an impairment charge equal to the difference between the carrying amount and the net realizable amount is recognized in interest expense, offset by a corresponding adjustment to the Due to Seller. Losses incurred in excess of the Due to Seller are absorbed by the Trust.

For 2018, the credit losses were determined under IFRS 9 and reflect management's estimate of forward-looking expected credit losses. For 2017, the credit losses were determined using an incurred credit loss model. The change in methodology did not have a material impact on the Trust's financial statements upon adoption and the Trust continues to not recognize provisions for credit losses under IFRS 9.

#### *Due to Seller*

The Due to Seller represents the difference between the amount at which the Trust records the ownership interest in receivables and the amount payable to CNH Industrial Capital Canada for the purchase of the ownership interest in receivables ("deferred purchase price"). In addition, the Due to Seller includes the excess spread, which is the monthly excess of all interest collections on the receivables after the Trust payment obligations are satisfied.

#### *Income Taxes*

The Trust is subject to federal and provincial income tax under the *Income Tax Act* (Canada) on the amount of its taxable income for the year and is permitted a deduction in computing its income taxes for all amounts paid or payable to the Trust's beneficiary in determining income for tax purposes. No provision for income taxes has been reflected in these financial statements as the entire net income of the Trust is payable to the beneficiary.



# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Other Expenses*

Other expenses include administration and trustee fees, and other operating expenses, which are recorded on an accrual basis.

#### *Use of Estimates*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgment in the process of applying the Trust's accounting policies. The key areas of estimation include the fair value of the ownership interest in receivables on acquisition, determining the effective interest rate on the ownership interest in receivables and the estimation of credit losses on the ownership interest in receivables. At year-end, the fair value of the Trust's ownership interest in receivables is determined by discounting the contracts' future cash flows at current market rates. Actual results could differ from those estimates.

#### *New Accounting Pronouncements Adopted in 2018*

##### *IFRS 15, Revenue from Contracts with Customers ("IFRS 15")*

Effective January 1, 2018, the Trust retrospectively adopted IFRS 15. The new standard requires an entity to recognize revenue upon transfer of control of goods or services to a customer at an amount that reflects the consideration that the entity expects to receive. This new revenue recognition model defines a five-step process to achieve this objective. The new standard also requires additional disclosures to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption did not impact the timing or measurement of the Trust's revenue recognition as the standard does not apply to interest income earned on financial instruments.

##### *IFRS 9*

Effective January 1, 2018, the Trust retrospectively adopted IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 includes revised guidance on the classification and measurement of financial instruments using a principles-based approach based on an entity's business model and the instruments' cash flows, including a new expected credit loss model for calculating impairment on financial assets not at fair value through profit or loss, and the new general hedge accounting requirements that better align accounting for hedge relationships with an entity's risk management activities.

The adoption of this standard did not have a material impact nor result in transitional adjustments on the Trust's financial position or results of operations.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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### NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS

The Trust held restricted cash and cash equivalents in the following accounts as at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Collection accounts.....	\$ 56,263,810	\$ 50,937,472
Reserve accounts.....	50,076,808	47,308,003
Cash in transit .....	<u>19,169,037</u>	<u>23,001,953</u>
Total restricted cash and cash equivalents .....	<u>\$ 125,509,655</u>	<u>\$ 121,247,428</u>

As at December 31, 2018 and 2017, these amounts were maintained in bank balances or were invested in short-term highly liquid investments at an average rate of 0.63% and 0.33% with maturities on or before January 10, 2019 and January 11, 2018, respectively.

The Servicer is required to collect payments on the ownership interest in receivables and deposit these collections into the Series-specific collection accounts within two business days of receipt from the obligors and processing by the Servicer. These amounts are available to cover payments of principal and interest on the Notes and loans payable, pay the deferred purchase price or any operating expenses.

The reserve accounts are Series-specific accounts funded at the time of issuance of the relevant Series from the proceeds of the issuance. Amounts on deposit in the reserve account for a Series are available to cover any shortfalls in funds available to meet specific payments for that Series as outlined in the related transaction documents and will not be released until that Series is paid in full.

### NOTE 4: OWNERSHIP INTEREST IN RECEIVABLES

The ownership interest in receivables is secured by retail note contracts that bear interest at fixed rates. As at December 31, 2018 and 2017, the weighted-average interest rates on these contracts were 4.38% and 4.00%, respectively.

As at December 31, 2018, the maturities of the retail note contracts, assuming no prepayments, are as follows:

2019 .....	\$ 335,371,993
2020 .....	329,199,509
2021 .....	265,714,153
2022 .....	200,407,863
2023 .....	116,259,491
2024 and thereafter .....	<u>41,401,849</u>
Total ownership interest in receivables .....	<u>\$ 1,288,354,858</u>

It has been CNH Industrial Capital Canada's experience that substantial portions of retail note contracts are repaid before their contractual maturity dates. As a result, the above table should not be regarded as a forecast of future cash collections.

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that may cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. As at December 31, 2018 and 2017, all of the Trust's ownership interest in receivables represents exposure to the agricultural and construction industries.

During the years ended December 31, 2018 and 2017, credit losses of \$831,185 and \$291,366, respectively, were incurred. These credit losses were absorbed by CNH Industrial Capital Canada through the Due to Seller. Taking into

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

### NOTE 4: OWNERSHIP INTEREST IN RECEIVABLES (Continued)

consideration historic losses and forward-looking macroeconomic factors, credit losses are not expected to exceed the cash reserve accounts. As such, no allowance for credit losses is recorded and the ownership interest in receivables is subject to Stage 1 allowances under IFRS 9.

Receivables are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Delinquency is reported on receivables greater than 30 days past due. The principal balance of accounts greater than 30 days delinquent was \$866,172 and \$958,494, which represented 0.07% and 0.09% of the Trust's portfolio as at December 31, 2018 and 2017, respectively.

### NOTE 5: NOTES PAYABLE AND LOANS PAYABLE

The Notes and loans payable bear interest at fixed rates as determined at issuance. The payment of principal and interest on the Notes and loans payable is distributed in accordance with the prioritization outlined in the Sales and Servicing Agreement for each transaction based on total collections received. As a result, payments of principal on the Notes and loans payable will vary with the amount of collections and losses, which may reduce the principal to zero prior to the scheduled maturity date.

The Notes are secured by the Trust's Series-specific ownership interest in receivables and other Trust assets. Each Series of Notes benefits from Series-specific enhancement in the form of overcollateralization, excess spread, and amounts deposited in a reserve account.

Loans payable represent the Series-specific overcollateralization amounts funded by CNH Industrial Capital Canada. These loans are subordinated to the Notes issued by the Trust.

As at December 31, 2018, the notes payable consisted of the following:

Notes Description	Current Principal Amount	Annual Interest Rate	Scheduled Final Payment Date
2015-2 Class A-1 .....	54,731,166	1.54%	Sep 2021
2015-2 Class B.....	10,700,000	1.94%	Jan 2023
2016-1 Class A-1 .....	116,071,214	1.96%	Oct 2022
2016-1 Class B.....	11,047,000	3.09%	Dec 2023
2017-1 Class A-2 .....	143,651,672	1.71%	May 2023
2017-1 Class B.....	8,573,000	2.50%	Jul 2024
2017-2 Class A-1 .....	201,437,253	2.48%	Jan 2024
2017-2 Class B.....	9,061,000	3.47%	Feb 2025
2018-1 Class A-1 .....	67,272,072	2.08%	Mar 2021
2018-1 Class A-2 .....	217,467,000	2.75%	Aug 2024
2018-1 Class B.....	8,376,000	3.46%	Oct 2025
2018-2 Class A-1 .....	458,345,095	3.13%	May 2025
2018-2 Class B.....	10,030,000	3.50%	May 2026
Total notes payable.....	\$ 1,316,762,472		

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

### NOTE 5: NOTES PAYABLE AND LOANS PAYABLE (Continued)

As at December 31, 2017, the notes payable consisted of the following:

Notes Description	Current Principal Amount	Annual Interest Rate	Scheduled Final Payment Date
2014-1 Class A-2 .....	\$ 46,640,397	1.80%	Oct 2020 <sup>(1)</sup>
2014-1 Class B .....	8,944,000	2.56%	Nov 2021 <sup>(1)</sup>
2015-1 Class A-2 .....	56,288,534	1.35%	Apr 2021 <sup>(2)</sup>
2015-1 Class B .....	6,821,000	1.96%	Apr 2022 <sup>(2)</sup>
2015-2 Class A-1 .....	117,831,508	1.54%	Sep 2021
2015-2 Class B .....	10,700,000	1.94%	Jan 2023
2016-1 Class A-1 .....	224,735,666	1.96%	Oct 2022
2016-1 Class B .....	11,047,000	3.09%	Dec 2023
2017-1 Class A-1 .....	47,481,476	1.19%	Nov 2019
2017-1 Class A-2 .....	218,691,000	1.71%	May 2023
2017-1 Class B .....	8,573,000	2.50%	Jul 2024
2017-2 Class A-1 .....	392,568,414	2.48%	Jan 2024
2017-2 Class B .....	9,061,000	3.47%	Feb 2025
Total notes payable .....	<u>\$ 1,159,382,995</u>		

- (1) In May 2018, a clean-up call was exercised by CNH Industrial Capital Canada with respect to the Series 2014-1 ownership interest in receivables. Related to this clean-up call, the Series 2014-1 Class A-2 and Series 2014-1 Class B Notes were repaid in full.
- (2) In November 2018, a clean-up call was exercised by CNH Industrial Capital Canada with respect to the Series 2015-1 ownership interest in receivables. Related to this clean-up call, the Series 2015-1 Class A-2 and Series 2015-1 Class B Notes were repaid in full.

As at December 31, 2018, the loans payable consisted of the following:

Loans Description	Current Principal Amount	Annual Interest Rate	Scheduled Final Payment Date
2015-2 Subordinated loan .....	5,877,779	4.50%	Jan 2023
2016-1 Subordinated loan .....	7,897,148	4.75%	Dec 2023
2017-1 Subordinated loan .....	8,165,293	3.75%	Jul 2024
2017-2 Subordinated loan .....	9,277,851	4.00%	Feb 2025
2018-1 Subordinated loan .....	8,575,133	3.75%	Oct 2025
2018-2 Subordinated loan .....	10,259,647	4.25%	May 2026
Total loans payable .....	<u>\$ 50,052,851</u>		

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

### NOTE 5: NOTES PAYABLE AND LOANS PAYABLE (Continued)

As at December 31, 2017, the loans payable consisted of the following:

<u>Loans Description</u>	<u>Current Principal Amount</u>	<u>Annual Interest Rate</u>	<u>Scheduled Final Payment Date</u>
2014-1 Subordinated loan.....	\$ 4,897,554	5.00%	Nov 2021 <sup>(1)</sup>
2015-1 Subordinated loan.....	4,872,802	5.00%	Apr 2022 <sup>(2)</sup>
2015-2 Subordinated loan.....	8,944,446	4.50%	Jan 2023
2016-1 Subordinated loan.....	10,529,531	4.75%	Dec 2023
2017-1 Subordinated loan.....	8,777,690	3.75%	Jul 2024
2017-2 Subordinated loan.....	<u>9,277,851</u>	4.00%	Feb 2025
Total loans payable .....	<u>\$ 47,299,874</u>		

- (1) In May 2018, a clean-up call was exercised by CNH Industrial Capital Canada with respect to the Series 2014-1 ownership interest in receivables. Related to this clean-up call, the Series 2014-1 subordinated loan was repaid in full.
- (2) In November 2018, a clean-up call was exercised by CNH Industrial Capital Canada with respect to the Series 2015-1 ownership interest in receivables. Related to this clean-up call, the Series 2015-1 subordinated loan was repaid in full.

As at December 31, 2018, the maturities of the notes payable and loans payable, assuming no prepayments, are as follows:

2019 .....	\$ 354,603,909
2020 .....	348,506,072
2021 .....	282,277,327
2022 .....	213,498,293
2023 .....	123,819,785
2024 and thereafter .....	<u>44,109,937</u>
Total notes and loans payable .....	<u>\$ 1,366,815,323</u>

It has been CNH Industrial Capital Canada's experience that substantial portions of retail note contracts are repaid before their contractual maturity dates. As a result, the maturities of the related Notes and loans payable in the above table should not be regarded as a forecast of future repayments.

### NOTE 6: RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Trust is exposed to the following risks as a result of holding financial instruments: market risk, credit risk and liquidity risk. The Trust's risk management policies are established by CNH Industrial Capital Canada and are reviewed regularly to reflect changes in market conditions and the Trust's activities.

#### **Market Risk**

Market risk is the possibility that changes in interest rates and foreign exchange rates will adversely affect the Trust's cash flows and/or fair value of the Trust's financial instruments.

Interest rate risk refers to the risk that the fair value or income and future cash flows of a financial instrument will vary as a result of changes in market interest rates. As all the Series' transactions only include fixed rate Notes and subordinated loans and the Trust receives a fixed rate of interest on its ownership interest in receivables, the Trust did

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

### NOTE 6: RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

not have any interest rate risk during the years ended December 31, 2018 and 2017. The Trust's exposure to interest rate risk on the cash accounts is not significant.

The Trust is not exposed to losses from foreign exchange rates as all of the Trust's transactions were denominated in Canadian dollars.

#### *Credit Risk*

Credit risk is the possibility of loss resulting from failure by a customer or counterparty to make payments according to contractual terms.

The Trust's ownership interest in receivables results in significant concentrations of credit risk in the agricultural and construction industries in Canada. Numerous factors can affect the future performance of the Trust. These factors include the general level of activity in the agricultural and construction industries, the rate of North American agricultural production and demand, weather conditions, commodity prices, consumer confidence, government subsidies for the agricultural sector and prevailing levels of construction (especially housing starts). The Trust manages this risk through amounts deposited in a cash reserve account and the deferred purchase price, which provide the Trust with overcollateralization designed to minimize its credit risk.

As at December 31, 2018, the Trust's ownership interest in receivables by annual yield, which excludes interest waiver periods, and by industry was as follows:

<u>Annual Yield</u>	<u>Agriculture</u>	<u>Construction</u>	<u>Total Portfolio</u>
0.00% – 2.99% .....	\$ 248,063,711	\$ 19,372,034	\$ 267,435,745
3.00% – 5.99% .....	778,990,024	45,194,839	824,184,863
6.00% – 8.99% .....	178,304,207	11,665,082	189,969,289
9.00% – 11.99% .....	6,301,415	422,025	6,723,440
≥12.00% .....	27,614	13,907	41,521
	<u>\$ 1,211,686,971</u>	<u>\$ 76,667,887</u>	<u>\$ 1,288,354,858</u>

As at December 31, 2017, the Trust's ownership interest in receivables by annual yield, which excludes interest waiver periods, and by industry was as follows:

<u>Annual Yield</u>	<u>Agriculture</u>	<u>Construction</u>	<u>Total Portfolio</u>
0.00% – 2.99% .....	\$ 232,689,459	\$ 15,394,499	\$ 248,083,958
3.00% – 5.99% .....	766,131,778	27,204,647	793,336,425
6.00% – 8.99% .....	65,821,229	3,004,018	68,825,247
9.00% – 11.99% .....	3,173,884	309,214	3,483,098
≥12.00% .....	5,845	—	5,845
	<u>\$ 1,067,822,195</u>	<u>\$ 45,912,378</u>	<u>\$ 1,113,734,573</u>

During the years ended December 31, 2018 and 2017, credit losses amounting to \$831,185 and \$291,366, respectively, were written off against the Due to Seller, which represents 0.06% and 0.03% of the Trust's portfolio, respectively. The principal balance of accounts greater than 30 days delinquent was \$866,172 and \$958,494, which represented 0.07% and 0.09% of the Trust's portfolio as at December 31, 2018 and 2017, respectively.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

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### NOTE 6: RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

As at December 31, 2018 and 2017, the Trust's maximum credit exposure was \$1,296,417,384 and \$1,120,115,402, respectively, equal to the total of its assets recorded on the Statements of Net Assets less its restricted cash and cash equivalents.

#### *Liquidity Risk*

Liquidity risk is the possibility that the Trust may be unable to meet all current and future obligations in a timely manner. The Trust is engaged in financing asset-backed securities. The Trust is not exposed to liquidity risk apart from the risk that the Trust will not be able to satisfy its obligations because of exposure to credit risk. The Trust's exposure to liquidity risk is managed primarily through the process of selecting receivables that are expected to generate cash flows sufficient to meet the payment schedule of the Notes. The Trust expects to generate more proceeds than are necessary to fulfill its obligations. In addition, the Trust has access to the cash reserve accounts in case of a shortfall in collections.

#### *Measurement of Fair Values and Categorization of Financial Instruments*

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The Trust determines fair value using available market information or other appropriate valuation methodologies such as discounted cash flow analysis. Fair values using valuation models require the use of assumptions concerning the amount and timing of estimated cash flows and discount rates. In determining those assumptions, the Trust looks primarily to external observable market inputs including factors such as interest yield curves and price or rate volatilities, as applicable.

IFRS requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

The Trust uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1* – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Trust can access at the measurement date.
- Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets; quoted prices in inactive markets for identical or similar instruments; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based on the lowest level of input that is significant to the measurement of fair value.

The carrying amounts of restricted cash and cash equivalents, accrued interest receivable and accrued interest payable are assumed to approximate their fair values and the financial instruments listed are classified as Level 1. Notes payable measurements are classified as Level 2 and all other financial instruments measurements are

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017 (In Canadian Dollars)

### NOTE 6: RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

classified as Level 3. During the years ended December 31, 2018 and 2017, there were no transfers between the Level 1, Level 2 and Level 3 hierarchy levels.

#### *Financial Instruments Not Carried at Fair Value*

	2018		2017	
	Carrying Amount	Estimated Fair Value *	Carrying Amount	Estimated Fair Value *
Ownership interest in receivables .....	\$ 1,288,354,858	\$ 1,300,981,676	\$ 1,113,734,573	\$ 1,114,184,394
Notes payable .....	\$ 1,316,762,472	\$ 1,312,705,614	\$ 1,159,382,995	\$ 1,154,131,041
Loans payable .....	\$ 50,052,851	\$ 48,856,248	\$ 47,299,874	\$ 48,867,464
Due to Seller.....	\$ 53,660,129	\$ 54,153,697	\$ 33,575,693	\$ 33,871,882

\* Under the fair value hierarchy, notes payable measurements are classified as Level 2 and all other financial instruments measurements are classified as Level 3.

The fair value of the Trust's ownership interest in receivables is determined by discounting the contracts' future cash flows at current market rates.

As the Trust has nominal amount of equity, the Due to Seller represents the remaining net assets of the Trust due to CNH Industrial Capital Canada. The estimated fair value of the Due to Seller is based on the estimated fair value of the remaining net assets. Due to the uncertain nature of the cash flows and an illiquid market for this type of instrument, the fair value assigned could vary significantly.

The fair values of the notes payable and loans payable are based on current interest rates or market quotes for identical or similar borrowings.

### NOTE 7: RELATED PARTY TRANSACTIONS

For the years ended December 31, 2018 and 2017, the Trust's related party transactions are as follows:

	2018	2017
Interest expense to affiliate .....	\$ 36,613,303	\$ 39,446,811
Other expenses.....	12,167	11,834

The transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties. Interest expense paid to CNH Industrial Capital Canada includes interest on the loans payable and deferred purchase price payments. Other expenses represent the administration fee paid to CNH Industrial Capital Canada.

As at December 31, 2018 and 2017, the Due to Seller was \$53,660,129 and \$33,575,693, respectively, and the loans payable to CNH Industrial Capital Canada were \$50,052,851 and \$47,299,874, respectively.