

# **CNH CAPITAL CANADA RECEIVABLES TRUST**

**Financial Statements as at and for the years ended  
December 31, 2014 and 2013 and Independent Auditors' Report**

# CNH CAPITAL CANADA RECEIVABLES TRUST

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# **CNH CAPITAL CANADA RECEIVABLES TRUST**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)**

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### **GENERAL**

Management's Discussion and Analysis ("MD&A"), dated March 31, 2015, should be read in conjunction with the audited financial statements for the years ended December 31, 2014 and 2013. 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 320 Bay Street, Eleventh Floor, Toronto, Ontario, M5H 4A6.

The Trust's activities are limited to the securing and administration of retail installment contracts and finance lease contracts originated by CNH Industrial Capital Canada 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 January 2013, a clean-up call was exercised by CNH Industrial Capital Canada with respect to Series 2009-1 whereby \$40,380,534, of retail installment contracts were sold at book value to CNH Industrial Capital Canada. Also related to this clean-up call, the Series 2009-1 Class A Notes, the Series 2009-1 Class B Notes and the Series 2009-1 Subordinated loans were repaid in full.

In April 2013, the Trust issued Series 2013-1 Receivables-Backed Notes, Class A and B Notes, which were privately placed with institutional investors.

In November 2013, the Trust issued Series 2013-2 Receivables-Backed Notes, Class A-1, A-2 and B Notes, which were publicly placed pursuant to a prospectus.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENTS' DISCUSSION AND ANALYSIS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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In May 2014, a clean-up call was exercised by CNH Industrial Capital Canada with respect to Series 2010-1 whereby \$35,544,548, of retail installment contracts were sold at book value to CNH Industrial Capital Canada. Also related to this clean-up call, the Series 2010-1 Class A-2 Notes, the Series 2010-1 Class B Notes and the Series 2010-1 Subordinated loans were repaid in full. Also in May 2014, the Trust issued Series 2014-1 Receivables-Backed Notes, Class A-1, A-2 and B Notes, which were publicly placed pursuant to a prospectus.

### RESULTS OF OPERATIONS

The Trust's ownership interest in receivables decreased by \$203,959,208 to \$925,504,884 as at December 31, 2014 from \$1,129,464,092 as at December 31, 2013. The decrease is primarily attributable to collections during the year, partially offset by the acquisition of the Series 2014-1 receivables of \$443,865,769.

Interest income for the year ended December 31, 2014 totaled \$55,638,741 compared to \$45,953,076 for the year ended December 31, 2013. The increase in interest income in 2014 compared to 2013 is primarily due to higher average earning assets. Total interest expense was \$55,622,641 and \$45,940,376 for the years ended December 31, 2014, and 2013, respectively. The increase in interest expense in 2014 compared to 2013 is consistent with the higher average debt required to fund the Trust's ownership interest in receivables.

Total credit losses incurred on the Trust's portfolio in 2014 and 2013 were \$398,099 and \$194,147, 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, 2014 and 2013:

	2014				
	Q1	Q2	Q3	Q4	Total
Interest income	\$ 13,187,637	\$ 14,990,689	\$ 14,776,190	\$ 12,684,225	\$ 55,638,741

  

	2013				
	Q1	Q2	Q3	Q4	Total
Interest income	\$ 9,390,344	\$ 12,271,911	\$ 10,838,983	\$ 13,451,838	\$ 45,953,076

### TRANSACTIONS WITH RELATED PARTIES

For the years ended December 31, 2014 and 2013, the Trust's interest expense paid to CNH Industrial Capital Canada was \$34,440,043 and \$28,482,716, respectively, and the other expenses paid to CNH Industrial Capital Canada amounted to \$10,000 and \$8,000, 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 \$24,632,240 and \$37,150,495 as at December 31, 2014 and 2013, respectively, and the subordinated loans payable to CNH Industrial Capital Canada were \$41,920,980 and \$49,152,638, respectively.

### ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") 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

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENTS' DISCUSSION AND ANALYSIS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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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, 2014 and 2013. 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, 2014, 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%	\$ 281,812,278	\$ 34,640,610	\$ 316,452,888
3.00% – 5.99%	512,487,658	14,115,977	526,603,635
6.00% – 8.99%	66,449,436	10,031,445	76,480,881
9.00% – 11.99%	4,457,560	1,078,910	5,536,470
12.00% – 17.99%	348,310	82,700	431,010
	<u>\$ 865,555,242</u>	<u>\$ 59,949,642</u>	<u>\$ 925,504,884</u>

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENTS' DISCUSSION AND ANALYSIS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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As at December 31, 2013, 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%	\$ 334,347,239	\$ 40,877,998	\$ 375,225,237
3.00% – 5.99%	606,204,871	18,022,889	624,227,760
6.00% – 8.99%	107,896,415	12,606,856	120,503,271
9.00% – 11.99%	6,971,249	1,355,822	8,327,071
12.00% – 17.99%	997,548	183,205	1,180,753
	<u>\$ 1,056,417,322</u>	<u>\$ 73,046,770</u>	<u>\$ 1,129,464,092</u>

During the years ended December 31, 2014 and 2013, credit losses amounting to \$398,099 and \$194,147, respectively, were written off against the Due to Seller, which represents 0.04% and 0.02% of the Trust's portfolio, respectively. The principal balance of accounts greater than 30 days delinquent was \$636,193 and \$360,000, which represented 0.07% and 0.03% of the Trust's portfolio as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, the Trust's maximum credit exposure was \$1,045,315,396 and \$1,243,200,259, respectively, equal to the total of its assets recorded on the Statements of Net Assets.

### *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, 2014 and 2013, and based on that assessment determined that the Trust's internal control over financial reporting was effective. No changes were made in the Trust's internal control over financial reporting during the years ended December 31, 2014 and 2013, 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 AUDITORS' REPORT

To the Issuer Trustee of CNH Capital Canada Receivables Trust

We have audited the accompanying financial statements of CNH Capital Canada Receivables Trust, which comprise the statements of net assets as at December 31, 2014 and 2013, and the statements of net income and comprehensive income, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

### **Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of CNH Capital Canada Receivables Trust as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada  
March 31, 2015

*"Ernst & Young LLP"*  
Chartered Professional Accountants  
Licensed Public Accountants

# CNH CAPITAL CANADA RECEIVABLES TRUST

## STATEMENTS OF NET ASSETS AS AT DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>			
Restricted cash and cash equivalents	3	\$ 113,317,444	\$ 106,546,729
Accrued interest receivable		6,493,068	7,189,438
Ownership interest in receivables	4 & 6	<u>925,504,884</u>	<u>1,129,464,092</u>
<b>TOTAL</b>		<u>\$ 1,045,315,396</u>	<u>\$ 1,243,200,259</u>
<b>LIABILITIES</b>			
Deposits and other accrued liabilities		\$ 501,333	\$ 1,001,333
Accrued interest payable		1,036,597	1,042,869
Due to Seller	7	24,632,240	37,150,495
Notes payable	5	977,224,236	1,154,852,914
Loans payable	5	<u>41,920,980</u>	<u>49,152,638</u>
		1,045,315,386	1,243,200,249
<b>NET ASSETS</b>		<u>10</u>	<u>10</u>
<b>TOTAL</b>		<u>\$ 1,045,315,396</u>	<u>\$ 1,243,200,259</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, 2014 AND 2013 (In Canadian Dollars)

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	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Interest income		\$ 55,638,741	\$ 45,953,076
Interest expense:			
Interest expense to third party		21,182,598	17,457,660
Interest expense to affiliate	7	<u>34,440,043</u>	<u>28,482,716</u>
Total interest expense		55,622,641	45,940,376
Other expenses	7	<u>10,000</u>	<u>8,000</u>
Total expenses		<u>55,632,641</u>	<u>45,948,376</u>
<b>TOTAL NET INCOME AND COMPREHENSIVE INCOME</b>		<u>\$ 6,100</u>	<u>\$ 4,700</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, 2014 AND 2013 (In Canadian Dollars)

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	<u>2014</u>	<u>2013</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	\$ 10	\$ 10
Net income and comprehensive income for the year	6,100	4,700
Distribution to beneficiary	<u>(6,100)</u>	<u>(4,700)</u>
<b>NET ASSETS, END OF YEAR</b>	<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, 2014 AND 2013 (In Canadian Dollars)

	<u>2014</u>	<u>2013</u>
<b>OPERATING ACTIVITIES</b>		
Net income and comprehensive income for the year	\$ 6,100	\$ 4,700
Working capital adjustments:		
Change in accrued interest receivable	696,370	(1,836,615)
Change in deposits and other accrued liabilities	(500,000)	(499,734)
Change in accrued interest payable	<u>(6,272)</u>	<u>210,830</u>
Cash from (used in) operating activities	<u>196,198</u>	<u>(2,120,819)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of ownership interest in receivables	(443,865,769)	(915,310,560)
Proceeds from sale of ownership interest in receivables	35,544,548	40,380,534
Collections on ownership interest in receivables	612,280,429	515,288,146
Change in restricted cash and cash equivalents	<u>(6,770,715)</u>	<u>(9,610,928)</u>
Cash from (used in) investing activities	<u>197,188,493</u>	<u>(369,252,808)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of notes and loans	435,030,297	899,334,835
Payment of notes and loans	(619,890,633)	(544,361,641)
Change in Due to Seller	(12,518,255)	16,405,133
Distribution to beneficiary	<u>(6,100)</u>	<u>(4,700)</u>
Cash from (used in) financing activities	<u>(197,384,691)</u>	<u>371,373,627</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	--	--
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	--	--
End of year	\$ <u>--</u>	\$ <u>--</u>
<b>CASH RECEIVED DURING THE YEAR FOR INTEREST</b>	\$ <u>56,335,111</u>	\$ <u>44,116,461</u>
<b>CASH PAID DURING THE YEAR FOR INTEREST</b>	\$ <u>55,628,913</u>	\$ <u>45,729,546</u>

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, 2014 AND 2013 (In Canadian Dollars)

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### NOTE 1: NATURE OF OPERATIONS

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 320 Bay Street, Eleventh Floor, Toronto, Ontario, M5H 4A6.

On February 28, 2014, CNH Capital Canada Ltd. changed its name to CNH Industrial Capital Canada Ltd. (“CNH Industrial Capital Canada”, “Administrator”, “Servicer” or “Seller”).

The Trust’s activities are limited to the securing and administration of retail installment contracts and finance lease contracts originated by CNH Industrial Capital Canada 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, 2014 were authorized for issue by CNH Industrial Capital Canada, as Administrator, on March 31, 2015.

### 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 (“IASB”). 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.

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 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.

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

The Trust recognizes financial assets and financial liabilities when it becomes 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.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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The classification of financial assets and financial liabilities is determined at initial recognition. The classification of financial assets depends on the purpose for which they were acquired. The Trust classifies its assets at fair value through profit or loss or as loans and receivables. The Trust has not classified any financial assets as available for sale or held to maturity. The Trust classifies its financial liabilities as other financial liabilities which are recorded at amortized cost.

### *Financial Assets at Fair Value Through Profit or Loss*

This category consists of restricted cash and cash equivalents. Due to the short-term nature of this financial instrument, the fair value equals carrying value. Changes in fair value are recorded in interest income.

### *Loans and Receivables*

This category consists 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*

This category consists 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.

### *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*

The Trust does not recognize the receivables purchased from CNH Industrial Capital Canada as an asset because the transactions do not meet the transfer criteria of International Accounting Standards (“IAS”) 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”), and CNH Industrial Capital Canada continues to carry the receivables on its statements of financial position. 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.

### *Due to Seller*

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

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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receivables (“deferred purchase price”). In addition, 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 beneficiaries 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.

### *Other Expenses*

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

### *New Accounting Pronouncements to be Adopted*

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

In May 2014, the IASB issued the final version of IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and all prior guidance, and provides a more structured approach to measuring and recognizing revenue. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange of transferring goods or services. The Trust will be required to adopt IFRS 15 for annual periods beginning on or after January 1, 2017, with early application permitted. The Trust is in process of assessing the impact of the adoption of the standard on the financial position, results of operations and cash flows.

#### *IFRS 9 Financial Instruments: Classification and Measurement (“IFRS 9”)*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Trust is in process of assessing the impact of the adoption of the standard on the financial position, results of operations and cash flows.

### **NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS**

The Trust held restricted cash and cash equivalents in the following accounts as at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Collection accounts	\$ 55,602,045	\$ 44,708,202
Reserve accounts	41,938,231	49,170,044
Cash in transit	15,276,962	11,668,115
Other	<u>500,206</u>	<u>1,000,368</u>
Total restricted cash and cash equivalents	<u>\$ 113,317,444</u>	<u>\$ 106,546,729</u>

As at December 31, 2014 and 2013, these amounts were maintained in bank balances or were invested in short-term deposits with a financial institution at an average rate of 0.44% and 0.49%, with maturities on or before January 9, 2015 and January 4, 2014, respectively.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

(In Canadian Dollars)

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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 and finance lease contracts that bear interest at fixed rates. As at December 31, 2014 and 2013, the weighted-average contractual interest rates, which include interest waiver periods, on these contracts were 2.52% and 2.28%, respectively.

As at December 31, 2014, the maturities of the retail note and finance lease contracts, assuming no prepayments, are as follows:

2015	\$	265,202,372
2016		259,255,543
2017		202,967,858
2018		135,911,557
2019		48,430,895
2020 and thereafter		<u>13,736,659</u>
	\$	<u>925,504,884</u>

It has been CNH Industrial Capital Canada's experience that substantial portions of retail note and finance lease 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, 2014 and 2013, all of the Trust's ownership interest in receivables represents exposure to the agricultural and construction industries.

During the years ended December 31, 2014 and 2013, credit losses of \$398,099 and \$194,147, respectively, were incurred. These credit losses were absorbed by CNH Industrial Capital Canada through the Due to Seller. 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 \$636,193 and \$360,000, which represented 0.07% and 0.03% of the Trust's portfolio as at December 31, 2014 and 2013, 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.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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The Notes are secured by the Trust's Series-specific ownership interests 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, 2014, the notes payable consisted of the following:

<u>Notes Description</u>	<u>Current Principal Amount</u>	<u>Annual Interest Rate</u>	<u>Scheduled Final Payment Date</u>
2011-1 Class A-2	55,391,142	2.34%	Jul 2017
2011-1 Class B	10,818,000	3.44%	May 2018
2012-1 Class A-1	113,411,941	1.89%	Jun 2018
2012-1 Class B	12,211,349	3.00%	Nov 2019
2013-1 Class A-1	154,633,117	1.63%	Oct 2018
2013-1 Class B	10,917,000	2.73%	Nov 2019
2013-2 Class A-1	14,717,242	1.44%	Aug 2016
2013-2 Class A-2	260,238,000	1.94%	Oct 2019
2013-2 Class B	9,765,000	3.00%	May 2020
2014-1 Class A-1	89,247,445	1.39%	Mar 2017
2014-1 Class A-2	236,930,000	1.80%	Oct 2020
2014-1 Class B	8,944,000	2.56%	Nov 2021
	<u>\$ 977,224,236</u>		



# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

As at December 31, 2013, the notes payable consisted of the following:

Notes Description	Current Principal Amount	Annual Interest Rate	Scheduled Final Payment Date
2010-1 Class A-2	\$ 37,094,603	2.60%	May 2016 <sup>(1)</sup>
2010-1 Class B	8,730,000	3.99%	May 2017 <sup>(1)</sup>
2011-1 Class A-2	121,188,099	2.34%	Jul 2017
2011-1 Class B	10,818,000	3.44%	May 2018
2012-1 Class A-1	217,886,423	1.89%	Jun 2018
2012-1 Class B	12,211,349	3.00%	Nov 2019
2013-1 Class A-1	284,503,601	1.63%	Oct 2018
2013-1 Class B	10,917,000	2.73%	Nov 2019
2013-2 Class A-1	181,500,839	1.44%	Aug 2016
2013-2 Class A-2	260,238,000	1.94%	Oct 2019
2013-2 Class B	9,765,000	3.00%	May 2020
	<u>\$ 1,154,852,914</u>		

(1) In May 2014, a clean-up call was exercised by CNH Industrial Capital Canada with respect to Series 2010-1 ownership interest in receivables. Related to this clean-up call, the Series 2010-1 Class A-2 and Class B Notes were repaid in full.

As at December 31, 2014, the loans payable consisted of the following:

Loans Description	Current Principal Amount	Annual Interest Rate	Scheduled Final Payment Date
2011-1 Subordinated loan	5,408,962	7.00%	May 2018
2012-1 Subordinated loan	8,088,699	7.00%	Nov 2019
2013-1 Subordinated loan	9,269,442	7.00%	Nov 2019
2013-2 Subordinated loan	9,997,580	6.00%	May 2020
2014-1 Subordinated loan	9,156,297	5.00%	Nov 2021
	<u>\$ 41,920,980</u>		

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

As at December 31, 2013, the loans payable consisted of the following:

Loans Description	Current Principal Amount	Annual Interest Rate	Scheduled Final Payment Date
2010-1 Subordinated loan	\$ 4,365,273	7.00%	May 2017 <sup>(1)</sup>
2011-1 Subordinated loan	8,564,189	7.00%	May 2018
2012-1 Subordinated loan	13,866,340	7.00%	Nov 2019
2013-1 Subordinated loan	12,359,256	7.00%	Nov 2019
2013-2 Subordinated loan	9,997,580	6.00%	May 2020
	<u>\$ 49,152,638</u>		

(1) In May 2014, a clean-up call was exercised by CNH Industrial Capital Canada with respect to Series 2010-1 ownership interest in receivables. Related to this clean-up call, the Series 2010-1 subordinated loan was repaid in full.

As at December 31, 2014, the maturities of the notes payable and loans payable, assuming no prepayments, are as follows:

2015	\$ 291,394,074
2016	285,187,568
2017	223,667,160
2018	150,076,582
2019	53,596,975
2020 and thereafter	<u>15,222,857</u>
	<u>\$ 1,019,145,216</u>

It has been CNH Industrial Capital Canada's experience that substantial portions of retail note and finance lease 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 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 subordinated 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, 2014 and 2013. 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.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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### *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, 2014, 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%	\$ 281,812,278	\$ 34,640,610	\$ 316,452,888
3.00% – 5.99%	512,487,658	14,115,977	526,603,635
6.00% – 8.99%	66,449,436	10,031,445	76,480,881
9.00% – 11.99%	4,457,560	1,078,910	5,536,470
12.00% – 17.99%	348,310	82,700	431,010
	<u>\$ 865,555,242</u>	<u>\$ 59,949,642</u>	<u>\$ 925,504,884</u>

As at December 31, 2013, 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%	\$ 334,347,239	\$ 40,877,998	\$ 375,225,237
3.00% – 5.99%	606,204,871	18,022,889	624,227,760
6.00% – 8.99%	107,896,415	12,606,856	120,503,271
9.00% – 11.99%	6,971,249	1,355,822	8,327,071
12.00% – 17.99%	997,548	183,205	1,180,753
	<u>\$ 1,056,417,322</u>	<u>\$ 73,046,770</u>	<u>\$ 1,129,464,092</u>

During the years ended December 31, 2014 and 2013, credit losses amounting to \$398,099 and \$194,147, respectively, were written off against the Due to Seller, which represents 0.04% and 0.02% of the Trust's portfolio, respectively. The principal balance of accounts greater than 30 days delinquent was \$636,193 and \$360,000, which represented 0.07% and 0.03% of the Trust's portfolio as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, the Trust's maximum credit exposure was \$1,045,315,396 and \$1,243,200,259, respectively, equal to the total of its assets recorded on the Statements of Net Assets.

### *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

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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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 amount of cash and cash equivalents, restricted cash, accrued interest receivables and accrued interest payables is assumed to approximate its fair value 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 classified as Level 3. During the years ended December 31, 2014 and 2013, there were no transfers between Level 1, Level 2 and Level 3 hierarchy levels.

### *Fair Value of Other Financial Instruments*

The carrying amount of restricted cash and cash equivalents approximates its fair value.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013 (In Canadian Dollars)

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

	2014		2013	
	Carrying Amount	Estimated Fair Value *	Carrying Amount	Estimated Fair Value *
Ownership interest in receivables	\$ 925,504,884	\$ 932,079,102	\$ 1,129,464,092	\$ 1,141,527,003
Due to Seller	\$ 24,632,240	\$ 24,851,945	\$ 37,150,495	\$ 37,486,943
Notes payable	\$ 977,224,236	\$ 981,018,567	\$ 1,154,852,914	\$ 1,158,348,955
Loans payable	\$ 41,920,980	\$ 44,539,012	\$ 49,152,638	\$ 51,231,718

\* 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 PARTIES**

For the years ended December 31, 2014 and 2013, the Trust's related party transactions are as follows:

	2014	2013
Interest expense	\$ 34,440,043	\$ 28,482,716
Other expenses	\$ 10,000	\$ 8,000

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, 2014 and 2013, the Due to Seller was \$24,632,240 and \$37,150,495, respectively, and the loans payable to CNH Industrial Capital Canada were \$41,920,980 and \$49,152,638, respectively.

### **NOTE 8: SUBSEQUENT EVENT**

On February 26, 2015, the Trust issued Series 2015-1 Receivables-Backed Notes, Class A-1, A-2 and B Notes, having an aggregate principal amount of \$324,853,000 and were publicly placed pursuant to a prospectus.