

**CNH CAPITAL CANADA WHOLESALE TRUST**

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

# CNH CAPITAL CANADA WHOLESALE TRUST

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# CNH CAPITAL CANADA WHOLESALE 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 Wholesale Trust (the "Trust") was established by 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 April 30, 2004. 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 wholesale finance receivables originated by CNH Industrial Capital Canada Ltd. ("CNH Industrial Capital Canada", "Administrator", "Servicer" or "Seller") to finance the sale of goods to dealers and distributors of CNH Industrial Canada Ltd. The Trust issues asset-backed notes ("Notes") 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 benefits from Series-specific enhancements in the form of the Due to Seller and amounts deposited in a cash reserve account. The Due to Seller ("Due to Seller") represents the overcollateralization amounts funded by CNH Industrial Capital Canada. These amounts are the amounts by which the aggregate principal balance of the receivables, plus the balance of any restricted cash provided by CNH Industrial Capital Canada as a credit enhancement, exceeds the aggregate principal balance of the Notes. These interests are subordinated to the Notes issued by the Trust. Also included in Due to Seller is the excess spread due to CNH Industrial Capital Canada, which represents the monthly excess of all principal and interest collections on the receivables after the Trust's payment obligations are satisfied.

### RESULTS OF OPERATIONS

The Trust's ownership interest in receivables increased by \$143,823,878, from \$920,326,892 at December 31, 2017 to \$1,064,150,770 at December 31, 2018. The Trust acquired an ownership interest in receivables of \$2,655,775,670 and \$2,525,967,916, respectively, for the years ending December 31, 2018 and 2017, and principal collections were \$2,511,951,792 and \$2,537,620,697, respectively.

The Trust has no income other than scheduled interest income derived from the ownership interest in receivables and investment earnings from the restricted cash and cash equivalents. Interest income for the year ended December 31, 2018, totaled \$58,398,589 compared to \$51,933,358 for the year ended December 31, 2017.

In connection with the Notes and Due to Seller for the year ended December 31, 2018, the Trust incurred interest expense of \$58,391,389 compared to \$51,926,158 for the year ended December 31, 2017.

There were no credit losses incurred for the years ended December 31, 2018 and 2017.

# CNH CAPITAL CANADA WHOLESALE TRUST

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

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### 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.....	\$ 10,637,819	\$ 17,173,660	\$ 12,346,149	\$ 18,240,961	\$ 58,398,589

  

	2017				
	Q1	Q2	Q3	Q4	Total
Interest income.....	\$ 13,004,316	\$ 12,713,082	\$ 12,722,767	\$ 13,493,193	\$ 51,933,358

### 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 \$43,129,995 and \$40,855,059, respectively, and the other expenses paid to CNH Industrial Capital Canada amounted to \$6,000 and \$6,000, 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.

As at December 31, 2018 and 2017, the Due to Seller was \$514,318,092 and \$370,732,108, respectively.

### 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 that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements, and revenues and expenses for the years reported. The key areas of estimation include the fair value of the ownership interest in receivables on acquisition 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 approximates its fair value due to its short-term nature and floating interest rate. 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. Both the ownership interest in receivables and the Notes are impacted by floating interest rates. Interest rate risk can arise because the pricing bases are not identical and the spread over prime charged to customers is not fixed. Therefore, the differential between the rate earned on the Trust's ownership interest in receivables and paid on the debt can vary. CNH Industrial Capital Canada has the ability to raise rates on the underlying receivables so that CNH Industrial Capital Canada can offset any adverse increase in debt

# CNH CAPITAL CANADA WHOLESALE TRUST

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

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costs with an increase in the underlying receivables' income. However, if CNH Industrial Capital Canada chooses to allow net interest margin to narrow, a 1% increase or decrease applied to the Trust's ownership interest in receivables as at December 31, 2018 and 2017, with no change in the debt rate, would increase or decrease interest income by \$10,641,508 and \$9,203,269, respectively. A 1% increase or decrease in the rate on the Notes outstanding as at December 31, 2018 and 2017, with no change in interest rate of the ownership interest in receivables, would increase or decrease interest expense by \$5,857,500 and \$5,782,950, respectively.

CNH Industrial Capital Canada is required to maintain dealer interest rates at a level such that the amount paid by dealers and CNH Industrial Canada Ltd. equals or exceeds the rate of interest payable to investors of the Notes.

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 Due to Seller, which provides the Trust with overcollateralization designed to minimize its credit risk.

As at December 31, 2018, the Trust's ownership interest in receivables by product line and by industry was as follows:

<u>Product Line</u>	<u>Agriculture</u>	<u>Construction</u>	<u>Total Portfolio</u>
Dealer floorplan .....	\$ 843,017,572	\$ 157,347,638	\$ 1,000,365,210
Parts .....	27,016,423	2,342,720	29,359,143
Rental equipment .....	16,895,555	17,530,862	34,426,417
	<u>\$ 886,929,550</u>	<u>\$ 177,221,220</u>	<u>\$ 1,064,150,770</u>

As at December 31, 2017, the Trust's ownership interest in receivables by product line and by industry was as follows:

<u>Product Line</u>	<u>Agriculture</u>	<u>Construction</u>	<u>Total Portfolio</u>
Dealer floorplan.....	\$ 765,448,616	\$ 100,194,525	\$ 865,643,141
Parts.....	30,138,891	3,580,395	33,719,286
Rental equipment.....	12,560,375	8,404,090	20,964,465
	<u>\$ 808,147,882</u>	<u>\$ 112,179,010</u>	<u>\$ 920,326,892</u>

There were no credit losses incurred for the years ended December 31, 2018 and 2017. The principal balance of accounts greater than 30 days delinquent was \$1,931 and \$19,324 at December 31, 2018 and 2017, respectively, which represented Nil% and Nil%, respectively, of the Trust's portfolio. In addition, when a receivable is greater than 120 days delinquent, the receivable is not eligible for funding from the Notes, rather, the funding must be provided through the Due to Seller.

# **CNH CAPITAL CANADA WHOLESALE TRUST**

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

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As at December 31, 2018 and 2017, the Trust's maximum credit exposure was \$1,066,006,685 and \$924,825,637, 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. 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 AUDITORS' REPORT

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

### Opinion

We have audited the financial statements of **CNH Capital Canada Wholesale 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 WHOLESALE 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 .....		\$ 58,398,589	\$ 51,933,358
Interest expense:			
Interest expense to third parties .....	5	15,261,394	11,071,099
Interest expense to affiliate .....	7	43,129,995	40,855,059
Total interest expense .....		<u>58,391,389</u>	<u>51,926,158</u>
Other expenses .....	7	<u>6,000</u>	<u>6,000</u>
Total expenses .....		<u>58,397,389</u>	<u>51,932,158</u>
<b>TOTAL NET INCOME AND COMPREHENSIVE INCOME .....</b>		<b><u>\$ 1,200</u></b>	<b><u>\$ 1,200</u></b>

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

# CNH CAPITAL CANADA WHOLESALE 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 .....	\$ —	\$ —
Net income and comprehensive income for the year .....	1,200	1,200
Distribution to beneficiary .....	<u>(1,200)</u>	<u>(1,200)</u>
NET ASSETS, END OF YEAR .....	<u>\$ —</u>	<u>\$ —</u>

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

# CNH CAPITAL CANADA WHOLESALE 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 .....	\$ 1,200	\$ 1,200
Working capital adjustments:		
Change in accrued interest receivable .....	2,642,830	(687,669)
Change in accrued interest and other accrued payables .....	<u>96,762</u>	<u>128,607</u>
Cash from (used in) operating activities .....	<u>2,740,792</u>	<u>(557,862)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of ownership interest in receivables .....	(2,655,775,670)	(2,525,967,916)
Collections on ownership interest in receivables .....	2,511,951,792	2,537,620,697
Change in restricted cash and cash equivalents .....	<u>(9,956,698)</u>	<u>(75,837)</u>
Cash from (used in) investing activities .....	<u>(153,780,576)</u>	<u>11,576,944</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of notes payable and Due to Seller .....	360,683,193	183,864,522
Payment of notes payable and Due to Seller .....	(209,642,209)	(194,882,404)
Distribution to beneficiary .....	<u>(1,200)</u>	<u>(1,200)</u>
Cash from (used in) financing activities .....	<u>151,039,784</u>	<u>(11,019,082)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b> .....	—	—
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year .....	—	—
End of year .....	—	—
<b>CASH RECEIVED DURING THE YEAR FOR INTEREST</b> .....	<u>\$ 61,041,419</u>	<u>\$ 51,245,689</u>
<b>CASH PAID DURING THE YEAR FOR INTEREST</b> .....	<u>\$ 58,294,627</u>	<u>\$ 51,797,551</u>

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

# CNH CAPITAL CANADA WHOLESALE 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 Wholesale Trust (the “Trust”) was established by 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 April 30, 2004. 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 wholesale finance receivables originated by CNH Industrial Capital Canada Ltd. (“CNH Industrial Capital Canada”, “Administrator”, “Servicer” or “Seller”) to finance the sale of goods to dealers and distributors of CNH Industrial Canada Ltd. The Trust issues asset-backed notes (“Notes”) 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’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 WHOLESALE 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, Due to Seller, accrued interest payable and other accrued payables. 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, Due to Seller, accrued interest payable and other accrued payables. These liabilities are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

# CNH CAPITAL CANADA WHOLESALE 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)

#### *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*

Ownership interest in receivables represent secured loans to CNH Industrial Capital Canada, for accounting purposes, secured by wholesale 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 Series-specific overcollateralization amounts funded by CNH Industrial Capital Canada. These amounts are the amounts by which the aggregate principal balance of the receivables, plus the balance of any restricted cash provided by CNH Industrial Capital Canada as a credit enhancement, exceed the aggregate principal balance of the Notes. These interests are subordinated to the Notes issued by the Trust. In addition, the Due to Seller includes the excess spread, which is the monthly excess of all principal and 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 WHOLESALE 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 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 approximates its fair value due to its short-term nature and floating interest rate. 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 WHOLESALE 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>
Reserve accounts.....	\$ 26,369,776	\$ 20,243,803
Collection accounts.....	6,335,844	1,279,143
Cash in transit.....	<u>2,028,232</u>	<u>3,254,208</u>
Total restricted cash and cash equivalents .....	<u>\$ 34,733,852</u>	<u>\$ 24,777,154</u>

As at December 31, 2018 and 2017, these amounts were maintained in bank balances or were invested in highly liquid investments with a financial institution at an average rate of 1.1% and 0.71% 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 Due to Seller or any operating expenses.

The reserve accounts include amounts on deposit, which 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 wholesale contracts that bear interest at the Canadian prime rate plus a spread and have maturities of one year or less.

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.

There were no credit losses incurred for the years ended December 31, 2018 and 2017. Taking into 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 \$1,931 and \$19,324, which represented Nil% and Nil%, respectively, of the Trust's portfolio as at December 31, 2018 and 2017, respectively.

### NOTE 5: NOTES PAYABLE

The Notes bear interest at a commercial paper rate plus a spread as determined at issuance. The payment of principal and interest on the Notes is distributed in accordance with the prioritization outlined in the Sales and Servicing Agreement based on total collections received. As a result, payments of principal on the Notes 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 WHOLESALE TRUST

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

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### NOTE 5: NOTES PAYABLE (Continued)

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.

The following are the outstanding notes payable issued by the Trust as at December 31, 2018:

<u>Notes Description</u>	<u>Principal Amount</u>	<u>Annual Interest Rate</u>	<u>Scheduled Final Payment Date</u>
Series CW2010-1 VFN.....	\$ 550,000,000	Cost of funds rate plus 0.75%	December 15, 2020
Series CW2010-1 Class B-2 .....	35,750,000	Cost of funds rate plus 1.60%	December 15, 2020
Total notes payable.....	<u>\$ 585,750,000</u>		

The following are the outstanding notes payable issued by the Trust as at December 31, 2017:

<u>Notes Description</u>	<u>Principal Amount</u>	<u>Annual Interest Rate</u>	<u>Scheduled Final Payment Date</u>
Series CW2010-1 VFN.....	\$ 543,000,000	Cost of funds rate plus 0.75%	December 16, 2019
Series CW2010-1 Class B-2 .....	35,295,000	Cost of funds rate plus 1.60%	December 16, 2019
Total notes payable.....	<u>\$ 578,295,000</u>		

In December 2018, the Trust extended the Purchase Termination Date under the Note Purchase Agreements with respect to the Trust's Variable Funding Notes ("VFN"), Series CW2010-1 VFN and Class B-2 Notes from December 16, 2019 to December 15, 2020.

Interest expense to third parties on the outstanding Notes for the years ended December 31, 2018 and 2017 was \$15,261,394 and \$11,071,099, respectively.

### 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. Both the ownership interest in receivables and the Notes are impacted by floating interest rates. Interest rate risk can arise because the pricing bases are not identical and the spread over prime charged to customers is not fixed. Therefore, the differential between the rate earned on the Trust's ownership interest in receivables and paid on the debt can vary. CNH Industrial Capital Canada has the ability to raise rates on the underlying receivables so that CNH Industrial Capital Canada can offset any adverse increase in debt costs with an increase in the underlying receivables' income. However, if CNH Industrial Capital Canada chooses to allow net interest margin to narrow, a 1% increase or decrease applied to the Trust's ownership interest in receivables as at December 31, 2018 and 2017, with no change in the debt rate, would increase or decrease interest income by \$10,641,508 and \$9,203,269, respectively. A 1% increase or decrease in the rate on the Notes outstanding as at December 31, 2018 and

# CNH CAPITAL CANADA WHOLESALE TRUST

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

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

2017, with no change in interest rate of the ownership interest in receivables, would increase or decrease interest expense by \$5,857,500 and \$5,782,950, respectively.

CNH Industrial Capital Canada is required to maintain dealer interest rates at a level such that the amount paid by dealers and CNH Industrial Canada Ltd. equals or exceeds the rate of interest payable to investors of the Notes.

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 Due to Seller, 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 product line and by industry is as follows:

<u>Product Line</u>	<u>Agriculture</u>	<u>Construction</u>	<u>Total Portfolio</u>
Dealer floorplan .....	\$ 843,017,572	\$ 157,347,638	\$ 1,000,365,210
Parts.....	27,016,423	2,342,720	29,359,143
Rental equipment .....	16,895,555	17,530,862	34,426,417
	<u>\$ 886,929,550</u>	<u>\$ 177,221,220</u>	<u>\$ 1,064,150,770</u>

As at December 31, 2017, the Trust's ownership interest in receivables by product line and by industry is as follows:

<u>Product Line</u>	<u>Agriculture</u>	<u>Construction</u>	<u>Total Portfolio</u>
Dealer floorplan.....	\$ 765,448,616	\$ 100,194,525	\$ 865,643,141
Parts .....	30,138,891	3,580,395	33,719,286
Rental equipment .....	12,560,375	8,404,090	20,964,465
	<u>\$ 808,147,882</u>	<u>\$ 112,179,010</u>	<u>\$ 920,326,892</u>

There were no credit losses incurred for the years ended December 31, 2018 and 2017. The principal balance of accounts greater than 30 days delinquent was \$1,931 and \$19,324 as at December 31, 2018 and 2017, respectively, which represented Nil% and Nil%, respectively, of the Trust's portfolio. In addition, when a receivable is greater than 120 days delinquent, the receivable is not eligible for funding from the Notes, rather, the funding must be provided through the Due to Seller.

As at December 31, 2018 and 2017, the Trust's maximum credit exposure was \$1,066,006,685 and \$924,825,637, respectively, equal to the total of its assets recorded on the Statements of Net Assets less its restricted cash and cash equivalents.

# CNH CAPITAL CANADA WHOLESALE 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)

#### *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 approximate their fair values, and are classified as Level 1. The carrying amounts of ownership interest in receivables, notes payable and Due to Seller also approximate their fair values due to their short-term nature and floating interest rates, and are classified as Level 2. During the years ended December 31, 2018 and 2017, there were no transfers between the Level 1, Level 2 and Level 3 hierarchy levels.

# CNH CAPITAL CANADA WHOLESALE TRUST

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

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### NOTE 7: RELATED PARTY TRANSACTIONS

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

	<u>2018</u>	<u>2017</u>
Interest expense to affiliate .....	\$ 43,129,995	\$ 40,855,059
Other expenses .....	6,000	6,000

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 represents the interest on the residual indebtedness. Other expenses represent the administration fee paid to CNH Industrial Capital Canada.

As at December 31, 2018 and 2017, the amounts Due to Seller were \$514,318,092 and \$370,732,108, respectively.