

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012 AND 2011 (In Canadian Dollars)

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### GENERAL

Management's Discussion and Analysis ("MD&A"), dated April 1, 2013, should be read in conjunction with the audited financial statements for the years ended December 31, 2012 and 2011. 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 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.

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

Pursuant to the Administration Agreement between the Issuer Trustee and the Administrator, and the Sale and Servicing Agreement between the Issuer Trustee and the Servicer, CNH 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 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 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 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 November 2011, the Trust issued Series 2011-1 Receivables-Backed Notes, Class A and B Notes, which were publicly placed pursuant to a prospectus.

In September 2012, the Trust issued Series 2012-1 Receivables-Backed Notes, Class A and B Notes, which were privately placed with institutional buyers.

### RESULTS OF OPERATIONS

The Trust's ownership interest in receivables increased by \$79,485,016 to \$769,822,212 as at December 31, 2012 from \$690,337,196 as at December 31, 2011. This increase is primarily attributable to an acquisition of the Series 2012-1 receivables of \$478,308,940, offset by \$398,823,924 of cash collections. No clean-up calls were exercised by CNH Capital Canada during the year ended December 31, 2012.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENTS' DISCUSSION AND ANALYSIS

DECEMBER 31, 2012 AND 2011

(In Canadian Dollars)

---

Interest income for the year ended December 31, 2012 totaled \$35,416,231 compared to \$27,391,739 reported for the year ended December 31, 2011. Total interest expense was \$35,405,931 and \$27,385,706 for the years ended December 31, 2012, and 2011, respectively. The increase in interest income and expense in the current year is consistent with the timing of the new purchases in 2012.

Total credit losses incurred on the Trust's portfolio in 2012 and 2011 were \$128,555 and \$474,103, respectively. These credit losses are absorbed by CNH 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, 2012 and 2011:

	2012				
	Q1	Q2	Q3	Q4	Total
Interest income	\$ 8,656,585	\$ 7,413,177	\$ 8,392,714	\$ 10,953,755	\$ 35,416,231
	2011				
	Q1	Q2	Q3	Q4	Total
Interest income	\$ 6,883,102	\$ 6,066,588	\$ 4,815,742	\$ 9,626,307	\$ 27,391,739

### TRANSACTIONS WITH RELATED PARTIES

For the years ended December 31, 2012 and 2011, the Trust's interest expense paid to CNH Capital Canada was \$20,591,076 and \$15,571,876, respectively, and the other expenses paid to CNH Capital Canada amounted to \$6,500 and \$4,333, respectively. The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Due to Seller was \$20,745,362 and \$20,878,763 as at December 31, 2012 and 2011, respectively, and the subordinated loans payable to CNH Capital Canada were \$48,733,199 and \$40,337,901, 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 revenues and expenses for the year reported. The key areas of estimation include the fair value of the ownership interest in receivables on acquisition, determining the effective interest rate on the ownership interest in receivables and the estimation of credit losses on the ownership interest in receivables. 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 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 economic value.

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 the Series 2012-1, Series 2011-1, Series 2010-1 and the

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENTS' DISCUSSION AND ANALYSIS

DECEMBER 31, 2012 AND 2011

(In Canadian Dollars)

Series 2009-1 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, 2012 and 2011. 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, 2012, the Trust's ownership interest in receivables by annual yield, which exclude interest waiver periods, and by industry was as follows:

Annual Yield	Agriculture	Construction	Total Portfolio
0.00% – 2.99%	\$ 237,574,099	\$ 29,660,151	\$ 267,234,250
3.00% – 5.99%	353,685,215	12,320,866	366,006,081
6.00% – 8.99%	105,909,651	15,269,516	121,179,167
9.00% – 11.99%	10,384,516	2,203,844	12,588,360
12.00% – 17.99%	2,405,169	409,185	2,814,354
	<u>\$ 709,958,650</u>	<u>\$ 59,863,562</u>	<u>\$ 769,822,212</u>

As at December 31, 2011, the Trust's ownership interest in receivables by annual yield, which exclude interest waiver periods, and by industry was as follows:

Annual Yield	Agriculture	Construction	Total Portfolio
0.00% – 2.99%	\$ 246,007,725	\$ 21,386,353	\$ 267,394,078
3.00% – 5.99%	251,343,373	9,119,700	260,463,073
6.00% – 8.99%	126,793,974	13,346,858	140,140,832
9.00% – 11.99%	14,676,029	3,229,246	17,905,275
12.00% – 17.99%	3,927,814	506,124	4,433,938
	<u>\$ 642,748,915</u>	<u>\$ 47,588,281</u>	<u>\$ 690,337,196</u>

During the years ended December 31, 2012 and 2011, credit losses amounting to \$128,555 and \$474,103, respectively, were written off against the Due to Seller, which represents 0.02% and 0.07% of the Trust's portfolio, respectively. The principal balance of accounts greater than 30 days delinquent was \$352,073 and \$513,751, which represented 0.05% and 0.07% of the Trust's portfolio as at December 31, 2012 and 2011, respectively.

As at December 31, 2012 and 2011, the Trust's maximum credit exposure was \$872,110,836 and \$779,593,081, respectively, equal to the total of its assets recorded on the Statements of Net Assets.

# CNH CAPITAL CANADA RECEIVABLES TRUST

## MANAGEMENTS' DISCUSSION AND ANALYSIS

DECEMBER 31, 2012 AND 2011

(In Canadian Dollars)

---

### *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.

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

The fair value of a financial instrument is the amount for which the asset or liability could be exchanged between knowledgeable, willing parties in an arm's length transaction. 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 3* – Unobservable inputs for the asset or liability.

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.

As at December 31, 2012 and 2011, the Trust had no financial instruments classified in Level 1, other than restricted cash and cash equivalents. During the years ended December 31, 2012 and 2011, there were no financial instruments classified in Levels 2 or 3, nor were there any transfers between Levels 1, 2 or 3.

### **DISCLOSURE CONTROLS AND PROCEDURES**

The Trust's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Trust is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. As at December 31, 2012 and 2011, an evaluation was carried out, under the supervision of and with the participation of management of CNH Capital Canada, of the effectiveness of the Trust's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, management concluded that the design and operation of the Trust's disclosure controls and procedures were effective as at December 31, 2012 and 2011.

# **CNH CAPITAL CANADA RECEIVABLES TRUST**

## **MANAGEMENTS' DISCUSSION AND ANALYSIS DECEMBER 31, 2012 AND 2011 (In Canadian Dollars)**

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### **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 purposes in accordance with IFRS. Management of CNH Capital Canada assessed the design and operating effectiveness of the Trust's internal control over financial reporting as at December 31, 2012 and 2011, 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, 2012 and 2011, that 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).