Navistar Financial, S. A. de C. V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada y subsidiaria

Consolidated Financial Statements

December 31st; 2017 & 2016

Navistar Financial, S. A. de C. V.,
Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Consolidated balance sheet

December 31, 2017 and 2016

(Thousands of pesos)

Asset	2017	2016
Availabilities (note 6)	$ 150,804	740,806
Security investments (note 7):		
Held to maturity securities	14	8
Debtors for repurchase (note 8)	367,638	1,024,688
Trading derivatives (note 9)	17,687	35,320
Current loan portfolio (notes 10a and 18)		
Commercial loans	11,764,458	10,355,341
Non-performing loan portfolio (note 10a)		
Commercial loans	287,069	396,223
Total loan portfolio	12,051,527	10,751,564
Less:		
Preventive estimates for credit risks (note 10b)	(382,760)	(420,516)
Total loan portfolio, net	11,668,767	10,331,048
Other accounts receivable (note 11 and 18)	631,751	224,868
Awarded assets, net (note 13)	107,373	59,522
Transport equipment and real property intended for operating leasing (note 12)	2,034,309	1,939,338
Real property, furniture and equipment, net (note 12)	88,086	98,197
Deferred income tax and employee profit sharing, net (note 19)	6,578	49,157
Other assets, net (note 15)	124,573	156,011
$	15,197,58	14,658,963

Liability and shareholder's equity	2017	2016
Stock liabilities (note 15)	$ 2,942,415	2,976,875
Bank loans and loans from other institutions (note 16):		
Short-term	4,079,450	4,184,900
Long-term	3,429,414	3,810,445
	7,508,864	7,995,345
Other accounts payable:		
Income tax payable	1,708	30,256
Employee profit sharing payable	2,676	1,665
Sundry creditors and other accounts payable (17 and 18)	1,373,025	785,655
	1,377,409	817,576
Deferred loan (note 10g)	132,447	115,410
Total liabilities	11,961,135	11,905,206
Accounting capital (note 20):		
Contributed capital:		
Corporate equity	283,177	283,177
Additional paid-in capital	111,961	111,961
	395,138	395,138
Earned capital:		
Capital allowance	122,535	122,535
Previous years income	2,236,443	1,890,773
Employee benefit remediation, net	(1,095)	(372)
Net income	483,409	345,670
	2,841,292	2,358,606
Shareholder's equity- controlling sharing	3,236,430	2,753,744
Non-controlling sharing	15	13
Total shareholder's equity	3,236,445	2,753,757
Commitments and contingencies (note 28)		
	$15,197,580	14,658,963

Memorandum accounts

	2017	2016
Notional amounts on financial derivative instruments (note 9)	$ 3,662,455	3,679,183
Accrued non-collected rents derived from the transactions of operating lease	59,805	42,720
Accrued non-collected interest derived from the non-performing loan portfolio (note 10)	49,566	32,505
Lines of credit granted but not used by the dealers	6,193,722	6,874,028
Other collaterals received	13,672,235	11,555,698
Collaterals received for repurchases (note 8)	367,638	1,024,688
Other memorandum accounts	16,808	11,075

See notes attached to the consolidated financial statements.

"The historical capital as of December 31, 2017 and 2016 amounts to $242,503, in both years".

"This consolidated balance sheet was prepared as per the accounting criteria for the credit institutions, as well as the criteria regarding the basic financial statements for regulated multi-purpose financial companies issued by the National Banking Securities Commission, grounded on the provisions set forth in articles 99, 101 and 102 of the Act on Credit Institutions, which is mandatory and of general compliance. Such criteria were coherently applied, and all the transactions performed by the Company are reflected up to the aforementioned dates. These transactions were carried out and assessed as per healthy bank practices and applicable legal/administrative provisions."

"This consolidated balance sheet was approved by the Board of Directors under the responsibility of the Directors signing it".

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
José A. Chacón Pérez	Rafael M. Martínez Vila	Jorge Campos Bedolla	Claudia I. Montiel Olivares	Nancy H. Trejo González
Chief Executive Officer	Chief Financial Officer	Deputy Comptroller	Accounting Manager	Internal Control Manager

Navistar Financial, S. A. de C. V.,
Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Consolidated income statements

Years ended on December 31, 2017 and 2016 (Thousands of pesos)

	2017	**2016**
Interest income (note 21)	$1,484,381	1,339,698
Interest expenses (note 21)	(982,773)	(716,393)
Financial margin	501,608	623,305
Preventive estimates for credit risk(note 10b)	(116,737)	(241,481)
Credit-risk-adjusted financial margin	384,871	381,824
Collected fees and rates (note 22)	246,159	242,777
Paid fees and rates (note 23)	(12,526)	(11,622)
Intermediation income, net (note 24)	(14,759)	(58,169)
Operating lease income, net (note 25)	195,550	162,080
Other operation income, net(note 26)	129,270	72,688
Administrative Expenses	(301,688)	(243,481)
Operation income	626,877	546,097
Incurred income tax (note 19)	(99,494)	(128,503)
Deferred income tax, net (note 19)	(43,972)	(71,923)
Consolidated net income	483,411	345,671
Non-controlling sharing	(2)	(1)
Net controlling sharing income	$ 483,409	345,670

See notes attached to the consolidated financial statements.

"This consolidated income statements were prepared as per the accounting criteria for the credit institutions, as well as the criteria regarding the basic financial statements for regulated multi-purpose financial companies issued by the National Banking Securities Commission, grounded on the provisions set forth in articles 99, 101 and 102 of the Act on Credit Institutions, which is mandatory and of general compliance. Such criteria were coherently applied, and all the income and expenses derived from operations performed by the Company during the aforementioned years are reflected. These operations were carried out and assessed as per healthy bank practices and applicable legal/administrative provisions."

"This consolidated income statement was approved by the Board of Directors under the responsibility of the Directors signing it".

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Jorge Campos Bedolla
Deputy Comptroller

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Claudia I. Montiel Olivares
Accounting Manager

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Nancy H. Trejo González
Internal Control Manager

Navistar Financial, S. A. de C. V.,
Sociedad Financiera de Objeto Multiple, Entidad Regulada and subsidiary

Consolidated statements of variations in shareholder's equity

Years ended on December 31, 2017 and 2016

(Thousands of pesos)

	Contributed capital		**Earned capital**						
	Corporate equity	**Additional paid-in capital**	**Capital allowance**	**Previous years income**	**Employee benefit remediation**	**Net income**	**Controlling sharing**	**Non-controlling sharing**	**Total shareholder's equity**
Balances as of December 31, 2015	$ 283,177	111,961	122,535	1,538,104	-	352,669	2,408,446	12	2,408,458
Movement intrinsic to the shareholder's decisions									
Net income transfer	-	-	-	352,669	-	(352,669)	-	-	-
Movement intrinsic to comprehensive income recognition (not 20c):									
Net income	-	-	-	-	-	345,670	345,670	1	345,671
Net employee benefit remediations (notes 14 and 20)	-	-	-	-	(372)	-	(372)	-	(372)
	-	-	-	-	(372)	345,670	345,298	1	345,299
Balances as of December 31, 2016	283,177	111,961	122,535	1,890,773	(372)	345,670	2,753,744	13	2,753,757
Movement intrinsic to the shareholder's decisions									
Net income transfer	-	-	-	345,670	-	(345,670)	-	-	-
Movement intrinsic to comprehensive income recognition (not 20c):									
Net income	-	-	-	-	-	483,409	483,409	2	483,411
Net employee benefit remediations (notes 14 and 20)	-	-	-	-	(723)	-	(723)	-	(723)
	-	-	-	-	(723)	483,409	482,686	2	482,688
Balances as of December 31, 2017	$ 283,177	111,961	122,535	2,236,443	(1,095)	483,409	3,236,430	15	3,236,445

See notes attached to the consolidated financial statements.

"This consolidated statement of the variations in the shareholder's equity was prepared as per the accounting criteria for the credit institutions, as well as the criteria regarding the basic financial statements for regulated multi-purpose financial companies issued by the National Banking Securities Commission, grounded on the provisions set forth in articles 99, 101 and 102 of the Act on Credit Institutions, which is mandatory and of general compliance. Such criteria were coherently applied, and all the movements of the shareholder's equity accounts derived from the operations performed by the Company during the aforementioned years are reflected. These operations were carried out and assessed as per healthy bank practices and applicable legal/administrative provisions."

"This consolidated statement of the variations in shareholder's equity was approved by the Board of Directors under the responsibility of the Directors signing it".

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José A. Chacón Pérez Chief Executive Officer	Rafael M. Martínez Vila Chief Financial Officer	Jorge Campos Bedolla Deputy Comptroller	Claudia I. Montiel Olivares Accounting Manager	Nancy H. Trejo González Internal Control Manager

Navistar Financial, S. A. de C. V.,
Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Consolidated cash flow statement

Years ended on December 31, 2017 and 2016

(Thousands of pesos)

		2017	2016
Net controlling sharing income	$	483,409	345,670
Plus (less) items that does not yield (require) cash:			
Depreciation and amortization		344,690	291,095
Provisions		66,928	95,682
Incurred and deferred income tax		143,466	200,426
Incurred and deferred employee profit sharing		1,619	1,238
Valuation of derivatives		14,722	(17,851)
Adjustments by items that do not imply cash flow		1,054,834	916,260
Changes in assets and liabilities during the operation:			
Change in security investments		(6)	19,875
Change in debtors for repurchases		657,050	5,336
Change in derivatives (asset)		2,911	(10,691)
Change in loan portfolio, net		(1,188,087)	(550,433)
Change in transport equipment and furniture intended to operating lease		(568,681)	(774,431)
Change in awarded assets		(47,851)	4,495
Change in other operating assets, net		(381,836)	153,569
Change in stock liability		(34,460)	(780,497)
Change in bank and other institutions loans		(486,481)	1,738,975
Change in other operating liabilities		406,713	(339,844)
Net cash flows for operation activities		(585,894)	382,614
Investment activities:			
Property, furniture and equipment acquisition payments		(702)	(1,015)
Net Furniture and equipment sale		162	-
Intangible assets acquisition payments		(3,570)	-
Net cash flows for investment activities		(4,110)	(1,015)
Net cash flow of financing activities for non-controlling sharing increase		2	1
Net availabilities (reduction) increase		(590,002)	381,600
Availabilities at the beginning of the year		740,806	359,206
Availabilities at the end of the year	$	150,804	740,806

See notes attached to the consolidated financial statements.

"This consolidated cash flow statements were prepared as per the accounting criteria for the credit institutions, as well as the criteria regarding the basic financial statements for regulated multi-purpose financial companies issued by the National Banking Securities Commission, grounded on the provisions set forth in articles 99, 101 and 102 of the Act on Credit Institutions, which is mandatory and of general compliance. Such criteria were coherently applied, and all cash origins and applications derived from operations performed by the Company during the aforementioned years are reflected. These operations were carried out and assessed as per healthy bank practices and applicable legal/administrative provisions."

"This consolidated cash flow statement was approved by the Board of Directors under the responsibility of the Directors signing it".

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Navistar Financial, S. A. de C. V.,
Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Notes to the Consolidated Financial Statements

For the years ended on December 31, 2017 and 2016

(Thousands of pesos)

(1) Company's activity-

Activity-

Navistar Financial, S. A. de C. V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada (Navistar Financial, is a company incorporated under the Mexican law with address in Ejército Nacional 904, Colonia Polanco, Delegación Miguel Hidalgo, Mexico City. Its main activity is the granting of loans and financial leasing to individuals or entities for the purchase of automotive vehicles, auto parts, and services related thereto and transport equipment operating lease, mainly of the brand International, through its dealers network all over the Mexican Republic.

Navistar Financial is subsidiary of Navistar International Corporation and Navistar Comercial, S. A. de C. V., which own 90.63% and 9.37% of the Company's corporate equity, respectively. Servicios Corporativos NFC, S. de R. L. de C. V. (Servicios Corporativos, subsidiary of Navistar Financial) is a company incorporated under the Mexican law. The main activity of Servicios Corporativos is the provision of management services to its related parties. Such services are provided in Mexico City.

Navistar Financial and its subsidiary are hereinafter referred to as "the Company”.

(2) Authorization and presentation basis -

Authorization -

On February 26, 2018, José A. Chacón Pérez (Chief Executive Officer), Rafael M. Martínez Vila (Chief Financial Officer), Jorge Campos Bedolla (Deputy Comptroller), Claudia I. Montiel Olivares (Accounting Manager) y Nancy H. Trejo González (Internal Control Manager), authorized the issue of the attached consolidated financial statements and their notes.

According to the General Law on Business Corporations, the provisions of the National Banking and Securities Commission's (the Commission) and the bylaws of the Company, the shareholders and the Commission have the capacity to modify the consolidated financial statements after their issue. The non-consolidated financial statements of 2017 issued separately with this same date shall be submitted for its approval in the next Shareholder's Meeting of the Company.

Presentation bases

(Continued)

a) Compliance statement

On January 12, 2015, the resolution modifying the general provisions applicable to Regulated Multi-Purpose Financial Companies (SOFOMES) were published in the Official Gazette of the Federation (the Provisions), which set forth that those SOFOMES with debt securities registered in the National Security Registry, as it is the case of the Company (see note 15), for the registration of its transactions, will apply the accounting criteria for credit institutions in Mexico provided by the Commission in Exhibit 33 of the general provisions applicable to credit institutions, except for the series "D" of such criteria, since they shall apply series "D" criteria relative to the basic financial statements for SOFOMES, in force since 2015.

The accounting criteria indicated in the previous paragraph set forth that in case there are not specific accounting criteria issued by the Commission for the credit institutions, or in a context broader than the Mexican Financial Reporting Standards (FRS), the general complementary rule bases in FRS A-8 shall apply, and only in case the International Financial Reporting Standards (IFRS) referred to in FRS A-8 do not provide a solution to the accounting recognition, a complementary rule belonging to any other regulatory framework may be used, provided that it complies with all the requirements indicated in the aforementioned FRS, and the complementary rule shall be applied in the following order: generally accepted accounting principles in the United States of America (US GAAP) and any accounting standard that is part of a formal and recognized group of standards, as long as it complies with the requirements in the Commission's criterion A-4

b) Use of judgements and estimates

The preparation of the consolidated financial statements requires that Management carries out estimates and assumptions that affect the recorded amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities up to the date of the consolidated financial statements, in addition to the recorded amounts of income and expenses during the year. The significant headings, subject to these estimates and assumptions, include the evaluation of the security investments, repurchases and trading financial derivative instruments, preventive estimates for credit risk, residual value of the property in operating lease, estimate for non-recoverable accounts receivable and assets sold for income tax and employees' deferred profit sharing, as well as the determination of liabilities relative to employee benefits. The actual income may differ from these estimates and assumptions.

c) Functional and reporting currency

The consolidated financial statements aforementioned are shown in Mexican pesos reporting currency, which is equal to the registration currency and its functional currency.

For disclosure purposes in the notes to the consolidated financial statements, when referring to pesos “$”, it refers to thousands of Mexican pesos and, and when referring to dollars, it refers to US dollars.

(3) Summary of the main accounting policies-

The accounting policies set forth below have been applied uniformly when preparing the consolidated financial statements presented, and they have been consistently applied by the Company.

(Thousands of pesos)

(a) Recognition of the inflationary impact-

The attached consolidated financial statements were prepared in accordance with the accounting criteria for credit institutions which, considering that the Company operates in a non- inflationary economic environment since 2008 (the cumulative inflation in the last three years is less than 26%), include the recognition of the inflationary impact in the financial information as of December 31, 2007, based on Mexico's Investment Units (UDIs), an accounting unit which value is defined based on the inflation determined by the Banco de Mexico (Banxico).

The annual inflation percentage and the cumulative inflation percentage for the last three fiscal years, as well as the UDI value (in pesos) to determine the inflation, are shown below:

		Inflation	
December 31	**UDI**	**Of the year**	**Cumulative**
2017	5.9313	6.65%	10.25%
2016	5.5628	3.37%	9.97%
2015	5.3812	2.10%	10.39%
	=====	=====	======

(b) Consolidation bases-

The consolidated financial statement includes information of Navistar Financials and its subsidiary, Servicios Corporativos (which 99.97% of corporate equity is held by Navistar Financial). The important balances and transactions between Navistar Financial and Servicios Corporativos have been removed in the preparation of the consolidated financial statements.

(c) Availabilities-

These include peso or dollar deposits in bank accounts, as well as foreign exchange trading in spot transactions. As of the date of the consolidated financial statements, the interest is recognized in the income of the year as it is accrued.

(d) Investments in securities-

These are debt securities acquired with the purpose and capacity of holding them until maturity; they are recorded at their acquisition cost and assessed at amortized cost and its performance accrual is done based on the straight-line method.

(e) Debtor for repurchases-

The repurchase transactions are initially recorded as an account receivable at the agreed cost and are valued at their amortized cost by recognizing the premium in the income of the year, as per the effective interest method; the financial assets received as collateral are recorded in the memorandum accounts.

(f) Transactions with trading financial derivative instruments-

In order to mitigate the risks resulting from the fluctuations in the interest and exchange rates, the Company selectively uses trading financial derivative instruments, such as interest rate swaps, Cross Currency Swaps (CCS) and interest rate options (CAP).

Such instruments are initially and subsequently recognized at fair value; and their accounting treatment is described below:

Interest rate swaps and CSS–

The flow exchange or asset performance transactions (swaps and CCS) are recorded in the assets and the liabilities for the rights and obligations under the contract. Both the asset position and the liability position are valued at fair value, reflecting the swap net value in the consolidated balance sheet and the corresponding earnings or loss in the income under the heading "Intermediation Income, net".

Options-

The rights acquired (paid premium) from options are recorded in the consolidated balance sheet at their agreed value and adjusted at their fair value. The value fluctuations are recognized in the income under the heading "Intermediation Income, net".

(g) Loan portfolio-

It comprises the balance of commercial loans granted to individuals and entities, including the funded amount plus the accrued not-collected interest of the current portfolio, which are recognized in the income as they are accrued.

The Company grants simple, fixed asset and unsecured loans, as well as capitalizable lease, mainly to acquire vehicles of the brand International.

In the case of capitalizable lease, at the beginning of the agreement, the contract value of the leasing portfolio is recognized against the cash outflows and the corresponding financial income to be accrued, multiplied by the difference of the leased property and the leasing portfolio value. Such financial income to be accrued is recorded as a deferred loan, which is recognized according to the leasing portfolio outstanding balance, against the income of the year, under the heading "Interest Income".

Accounts receivable are recorded as direct funding, considering as account receivable the total of the outstanding rents, net of the corresponding interest to be earned.

Additionally, the Company classifies its portfolio in wholesale and retail trade. The wholesale trade portfolio corresponds to those loans grated to authorized dealers for the commercialization of the International-brand vehicles; the retail trade portfolio consists of loans granted to individuals and entities other than authorized dealers.

(h) Overdue loans and interest-

The loan and interest outstanding balance is classified as overdue, according to the criteria described below:

Loans with one sole principal and interest amortization – When 30 or more days have elapsed from the maturity date.

Loans which principal and interest amortization were agreed in installments – When the amortization of principal and interest has not been collected and 90 or more calendar days have elapsed from the maturity date.

Loans with one sole amortization of principal and interest paid in installments– When 90 or more calendar days have been elapsed from the maturity date of interest or the principal has 30 or more days overdue.

Additionally, a loan is classified as overdue when it is known that the debtor is declared bankrupt.

The recognition of interest in the consolidated income statement is suspended upon transferring the loan to the non-performing portfolio, and it is recorded in the memorandum account.

Those overdue loans in which the outstanding balance (principal and interest, among others) is fully settled or those restructured or renewed loans for which there is evidence of sustained payment (i.e. payment of three consecutive monthly payments of the original payment schedule) are transferred under the heading current portfolio.

The restructured or renewed overdue loans will remain in the non-performing portfolio as long as there is no evidence of sustained payment. Upon collection of the loan and interest, the accrued interest recorded in memorandum accounts are recognized under the heading “Interest Income”.

Charges to the allowance are done when the practical recovery impossibility is determined, charging off the corresponding amount in the non-performing portfolio; occasionally, the Company’s Management determines that a current credit must be considered non-recoverable, when in its opinion it is necessary.

(i) Operating lease-

In the case of operating leases, the due and payable rent amount that has not been fully settled is recognized as overdue at the 30 or more calendar days of default. The recognition of the rents in the consolidated income statement is suspended when these present three overdue monthly payments and they are recorded since the fourth rent in the memorandum account.

The assets to be leased are recorded at their purchase costs and account for the properties acquired by the Company that are in process of formalizations of the corresponding lease.

The depreciation is estimated based on the lease term, considering the difference between the property acquisition value and its estimated residual value.

(j) Securitization transactions-

The Company performs portfolio securitization transactions where it assesses whether such transaction complies with the asset transfer requirements, in accordance with the provisions of the accounting criteria. If such asset transfer does not comply with the requirements to be cancelled, the financial assets granted as guarantee or collateral are presented as restricted assets, the resources obtained by the securitization transaction are recognized under the heading "Availabilities", and the liabilities associated with this transaction due to the issue of the stock certificates are recognized as liabilities under the heading "Stock liabilities”.

(k) Preventive estimates for credit risk-

The Company determines the Preventive estimates for credit risk, which, under the Management judgement, are enough to cover any loss of the loan portfolio.

Beginning on March 31, 2017, the Management is based on studies that analyzes and classifies the total commercial portfolio, as per the "Provisions" for preventive credit risk estimates applicable to Credit Institutions set forth by the Commission, which are described below:

- In case of loans to entities and individuals with business activity, with income higher or equal in national currency to 14 million UDIs, the estimate is integrated as per the general methodology set in Exhibit 22 of the Provisions.

(Thousands of pesos)

– In case of loans to entities and individuals with business activity, with net income or net sales lower than the equivalent in national currency to 14 million UDIs, the estimate is integrated as per the implementation of the methodology described in Exhibit 21 of the Provisions.

The classification of the loan portfolio by risk level as of December 31, 2017 and 2016, is assembled as indicated below:

Level of risk	**Description of level of risk**	**Preventive allowance percentage ranges**		
A1	No risk	0	-	0.90%
A2	Minimum risk	0.901	-	1.50%
B1	Low risk	1.501	-	2.00%
B2	Moderate risk	2.001	-	2.50%
B3	Average risk	2.501	-	5.00%
C1	Risk with administrative focus	5.001	-	10.00%
C2	Partially potential risk	10.001	-	15.50%
D	Potential risk	15.501	-	45.00%
E	High risk	More than	-	45.00%

General methodology-

The Company classifies and records a provision per each loan with the amounts corresponding to the last known payment term, as well as the quantitative and qualitative variable of the debtor, considering the default probability, the severity of the loss and the non-performance exposure of the n-th loan, as per the formula indicated below:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri= Allowance amount to be integrated for the n-th loan.

PIi= Default probability of the n-th loan.

SPi= Severity of the loss of the n-th loan.

EIi= Non-performance exposure of the n-th loa

$$PI_i = \frac{1}{1+e^{-(500-Total\,credit\,rate)\times \frac{IIII(2)}{40}}}$$

Until December 31, 2016, the Company's Management performed its estimates according to the following internal methodology, considering the guidelines set forth in the Provisions of Credit Institutions required to use internal methodology, which determines that the severity of the loss and the default probability shall be estimated, and the non-performance exposure of each credit shall be obtained.

Internal methodology

The internal methodology consists of classifying and recording a provision per loan with the amount corresponding to the last known payment term, as per the formula mentioned below:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

R_i=Amount of the allowance to be comprised
P_i = Default probability
SPi= Severity of the loss
EI_i = Non-performance exposure

$$Pi = \frac{1}{1+e^z}$$

(l) Other accounts receivable-

The accounts receivable mainly account for debit balance in portfolio, different debtors, refundable taxes and accounts receivable from related companies. In the case of accounts receivable relative to identified debtors, whose balance has not been recovered within 90 calendar days (60 days for non-identified debtors), an estimate for the total debt balance is calculated. Such estimates are not performed with tax balance in favor.

(Thousands of pesos)

The Company's Management considers that the estimates for non-recoverable is enough to absorb losses according to the policy set forth in the Provisions issued by the Commission.

(m) Awarded assets-

The awarded assets are recorded at their awarding or accord and satisfaction value or at their fair value calculated from indispensable costs and expenses paid in their awarding, whichever is lower. The differences, in case the estimated values are lower than the amount of the portfolio to be cancelled, are considered losses, and the income of the year are recognized under the heading "Other operation revenues (expenses), net"; otherwise, the value of the latter will be adjusted to the net asset value. There are provisions created on a monthly basis to recognize the potential loss of value of assets due to the passage of time. The decrease in the value of the awarded assets and in provisions are reduced from the asset value and they are recognized as expenses in the consolidated income statement for the year.

The time elapsed and the allowance percentage for movable and real property is shown below:

Movable property

Time elapsed from the awarding or accord and satisfaction (months)	Allowance percentage
Up to 6	-
More than 6 and up to 12	10
More than 12 and up to 18	20
More than 18 and up to 24	45
More than 24 and up to 30	60
More than 30	100

Movable property

Time elapsed from the awarding or accord and satisfaction (months)	Allowance percentage
Up to 12	-
More than 12 and up to 24	10

(Thousands of pesos)

More than 24 and up to 30	15
More than 30 and up to 36	25
More than 36 and up to 42	30
More than 42 and up to 48	35
More than 48 and up to 54	40
More than 54 and up to 60	50
More than 60	100

(n) Real property, furniture and equipment-

The real property, furniture and equipment are recorded at their acquisition cost and up to December 31, 2007 were updated by means of factors derived from the National Consumer Price Index (INPC). The depreciation is estimated over the updated values with the straight-line method, based on the lifespans of the corresponding assets calculated by the Company Management.

The acquisition value of the property, furniture and equipment, includes all the costs initially incurred to acquire or develop them, as well as those incurred subsequently to replace them or increase their potential service. If a furniture and equipment item comprises different estimated lifespans, the major separate components are depreciated during their separate lifespans.

The depreciation annual rate of the main asset groups is shown below:

Building	2.3%
Furniture	10%
Transport equipment	25%
Computing equipment	33%

The expenses for maintenances and minor repairs are recorded in the income when incurred.

Furniture and equipment are written-off upon their sale or when it is not expected to obtain future economic benefits from its use or sale. Any earning or loss at the time of the asset cancellation (estimated as the difference between the net income from the asset sale and its book value), is included in the consolidated income statement.

The Company assesses periodically the net book value of its own property, furniture and equipment, as well as property intended for operating leasing in order to determine the existence of any sign that such value exceeds the recovery value. The recovery value accounts for the amount of net potential income which is reasonably expected to be obtained as a consequence of the asset use or sale. If it is determined that the net book value exceeds its estimated recovery value, the Company records the corresponding wear and tear.

(o) Other assets-

Other assets include debt allocation expenses that are amortized according to their term, the portfolio administration cost is amortized during the term set in the corresponding agreements, as well as the deferred charges for costs and expenses associated with the initial granting of a loan, which is amortized in straight line during the life of the loan.

(p) Stock liabilities, as well as bank loans and loans from other institutions-

The financial liabilities from the issue of financial debt instruments are recorded at the value of the obligation they represent based on the outstanding balance of the issue, and they are presented in the consolidated balance sheet under the heading "Stock liabilities”. The interest is recognized in income as it is accrued.

Bank and other institution loans, both national and foreign, are recorded based on the contract value of the obligation. Interest is recognized in income as it is accrued.

(q) Tax on earnings (ISR) and employee profit sharing (PTU)-

The ISR and PTU incurred during this year is determined according to the current tax provisions.

The deferred ISR and PTU (assets and liabilities) are recognized due to the future tax consequences, which are attributable to the temporary difference between the values reflected on the consolidated financial statements of the existing assets and liabilities, and their relative tax bases and, in the case of the income tax, for the tax loss to be amortized and other fiscal loans to be recovered. The assets and liabilities for deferred ISR and PTU are estimated using the rates provided in the corresponding law, rates that will be applied to the taxable earnings in the years when it is foreseen that the temporary differences will be reversed. The impact of the tax rate changes on the deferred ISR and PTU is recognized in the income statement of the year when such changes are approved.

The deferred and incurred ISR and PTU are shown and classified in the income of the period, except for those originated from a transaction recognized in the OCI or directly under a heading of the shareholder's equity.

(r) Deferred loans-

It includes the financial income to be earned from the financial leasing transactions and the fees charged for opening the loans, that are amortized against the income of the year under the heading “Interest Income", using the straight-line method during the life of the loan.

(s) Provisions-

The Company recognizes, based on Management estimates, liabilities provisions for those obligations present in which the transfer of assets or the service provision are virtually unavoidable, and resulting as a consequence of past events.

(t) Employee benefits-

Post-employment benefit

The Company's net obligation, corresponding to benefits determined by seniority premium and benefits for legal compensation, is estimated separately per each concept, by calculating the amount of future benefits earned by the employees in the current year and previous years, discounting such amount.

The estimate of the benefit obligations defined is carried out annually by actuaries, using the projected unit credit method. When the estimate results in a possible asset for the Company, the asset recognized is limited to the present value of the economic benefits available in the way of future reimbursements of the plan or reductions of future contributions. In order to estimate the present value of the economic benefits, any minimum funding requirement must be considered.

The labor cost of the current service, which accounts for the cost of the employee's benefit term for having achieved one more year of work life based on the benefits, is recognized in the operation expenses.

Any changes affecting the past service cost are immediately recognized in the income statement in the year when the change occurs, without possibility of deferring it in subsequent years. Likewise, the impact of settlement events or obligation reductions during the year, which significantly reduce the cost of future services and/or significantly reduce the population subject to the benefits, respectively, is recognized in the income statement of the year.

The remediations (previously, actuarial earnings and losses) resulting from the differences between the actuarial projected hypothesis and the actual situation at the end of the year are recognized in the year in which they are incurred, as part of the OCI in shareholder's equity.

Additionally, the Company has a determined contribution plan, where the employees with one year of seniority do voluntary contributions ranging from 2% to 6% of its base salary, and which depends on their age; the Company contributes an amount equivalent to 75% of the total contributions.

(u) Recognition of revenues-

The interest income derived from the loan portfolio and capitalizable leases, as well as the rents for operating lease, are recognized in the consolidated income statement as they are accrued.

Interest from the non-performing loan portfolio is recognized in income until effectively collected.

The placement service fees are recognized in the consolidated income statement when the sale of vehicles of the brand "International" funded by the Company is executed.

(v) Transactions in foreign currency-

Transactions in foreign currency are recorded at the current exchange rate on the date of execution or settlement. Assets and liabilities in foreign currency are translated at the current exchange rate on the date of the consolidated balance sheet. The differences in exchanges incurred in relation to the assets and liabilities hired in foreign currency are recorded in the income statement of the year.

(w) Contingencies-

The important obligations or losses related to contingencies are recognized when it is likely that their effect materializes and there are reasonable elements for their quantification. If there are no reasonable elements, their disclosure is qualitatively included in the notes to the consolidated financial statements. Contingent income, profits and assets are recognized until there is certainty about their realization.

(4) Implementation of accounting criteria and reclassifications-

Implementation of accounting criteria-

The Company, since March 2017, adapted its internal methodology to the methodology set forth by the Commission to borrowers with net income or net sales lower or equal to 14 million UDIs, to determine the preventive credit estimates of the consolidated balance sheet; the effect of this implementation was an increase in the preventive estimates of $49,443.

Reclassifications-

The consolidated financial statements as of and for the year ended on December 31, 2016, include certain reclassifications to be standardized with the presentation used in the consolidated financial statement as of and for the year ended on December 31, 2017, which are shown in below.

Navistar Financial, S. A. de C. V.,
Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Notes to the Consolidated Financial Statements

For the years ended on December 31, 2017 and 2016

(Thousands of pesos)

		Figures previously reported	Reclassification	Reclassified figures
Consolidated balance sheet as of December 31, 2016:				
Bank loans and loans from other institutions:				
Short-term	$	2,875,844	1,309,056	4,184,900
Long-term		5,119,501	(1,309,056)	3,810,445
		=======	=======	=======
Consolidated income statement for the year ended on December 31, 2016:				
Preventive estimates for credit risk	$	(229,020)	(12,461)	(241,481)
Other operation income, net		60,227	12,461	72,688
		======	=====	======
Consolidated cash flow statement for the year ended on December 31, 2016:				
Valuation of derivatives	$	-	(17,851)	(17,851)
Change in derivatives (assets)		(28,542)	17,851	(10,691)
		======	=====	======

(5) Transactions in foreign currency-

The monetary assets and liabilities, in foreign currency, as of December 31, 2017 and 2016, are shown below:

	Thousands of dollars	
	2017	**2016**
Assets, (mainly loan portfolio)	115,005	125,362
Liabilities, (mainly bank loans)	(120,927)	(159,195)
Net asset position	(5,922)	(33,833)
Notional covered by derivative transactions	-	35,000
	(5,922)	1,167
	======	======

As of December 31, 2017 and 2016, the Company has hired classified trading financial derivative instruments, which protects its exposure to exchange-rate risk (see note 9).

The dollar-peso exchange rate, as of December 31, 2017 and 2016, was $19.6629 and $20.6194 pesos per dollar, respectively. On February 26, 2018, the issue date of the consolidated financial statements, the exchange rate was $18.6456 pesos per dollar.

(6) Availabilities-

This heading is, as of December 31, 2017 and 2016, as shown below:

		2017	2016
National bank deposits	$	90,098	334,767
Foreign bank deposits		53,269	396,781
National bank restricted deposits[(1)]		7,437	9,258
	$	150,804	740,806
		======	======

[(1)] It corresponds to the balances in banks of the security trust (see note 10c).

(7) Investments in securities-

As of December 31, 2017 and 2016, the notes in the amount of $14 and $8 have a 4- and 3-day maturity, respectively, and a yield rate of 6.27% and 4.66%, respectively.

The interest earned by investments in securities amounted to $3,977 and $5,618, respectively, for the years ended on December 31, 2017 and 2016 (see note 21).

(8) Repurchases-

As of December 31, 2017 and 2016, the investments in repurchases for $367,638 (including $237,214 in restricted securities) and $1,024,688 (including $407,213 in restricted securities), respectively, are mainly constituted of government paper (Bonds and Unibonds), at 4- and 3-day terms, respectively, with a rate interest of 7%-7.05% and of 4.66%-5.70%, respectively. As of December 31, 2017, the restricted securities correspond to the investments of the Irrevocable Trust 2537, Irrevocable Trust 2844 and Irrevocable Trust 3290 (until December 31, 2016, the Irrevocable Trust 1455 was also included -see note 10(c)).

Interest earned by the investment in repurchase amounted to $34,272 in 2017, and $24,031 in 2016; which are reported in the consolidated income statement under the heading "Interest Income" (see note 21).

(9) Trading derivatives-

As of December 31, 2017 and 2016, the Company has hired financial derivative instruments of rate interest rate options, called Interest Rate Cap (IR CAP), referred to the Interbank Equilibrium Interest Rate (TIIE), which will allow the Company to receive the difference of the spot rate and the agreed rate. The IR CAP are amortized as the principal of the stock certificates is paid; however, the cash flows of the options are exercised only when the 28-day TIIE interest rate is above its 6% or 5% limit, as appropriate.

Additionally, as of December 31, 2016, the Company has hired financial derivative instruments that allowed exchange rate and currency flows (CCS) with the aim of optimizing their short-term yield in dollars. The difference between the paid exchange rate and the received exchange rate, as well as the fluctuation in the fair value, was recorded in the consolidated income statement under the heading "Intermediation Income". The CCS allows to receive TIIE in pesos and pay London InterBank Offered Rate (LIBOR) in dollars.

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Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Notes to the Consolidated Financial Statements

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(Thousands of pesos)

The quantity of the notional amounts and the book value of the transactions with financial derivative instruments as of December 31, 2017 and 2016 is shown below:

					2017		2016	
	Underlying	**Notional[(1)]**	**Maturity**	**Premium**	**Effect on income**	**Fair value**	**Effect on income**	**Fair value**
IR CAP	28-day TIIE	1,000,000	2018	$ 13,496	(3,839)	1,231	3,899	5,070
IR CAP	28-day TIIE	800,000	2018	12,150	(3,252)	708	3,062	3,960
IR CAP	28-day TIIE	616,550	2019	3,690	(5,010)	5,230	5,531	10,240
IR CAP	28-day TIIE	536,383	2020	4,630	(2,974)	7,015	5,359	9,989
IR CAP	28-day TIIE	709,522	2022	3,150	353	3,503	-	-
				$37,116	(14,722)	17,687	17,851	29,259
				=====	=====	=====	=====	=====

Type of instrument	**Notional amount[(1)]**	**Average term**	**Agreed exchange rate**	**Assets**
2016				
CCS-peso-dollar	$ 726,250	28 days	$ 20.75	$6,061
	======	=====	====	====

(1) The notional amounts of the agreements account for the reference on which the rates and exchange-rate set in the agreement of the financial derivative instruments shall be applied, rather than the loss or earning associated with the market risk or credit risk of the instruments. The notional amounts represent the amount at which the rate or the price is applied to determine the amount of cash flow to be exchanged. Regarding the IR CAP, the notional amount is the reference quantity to which the agreed interest rate will be applied. For the CCS, the notional amount is exchanged at the termination of the contract together with exchange rate fluctuation at the corresponding rates.

(Thousands of pesos)

For the years ended on December 31, 2017 and 2016, the loss for the trade of financial derivative instruments amounted to $60,672 and $50,210, respectively (see note 24).

(10) Loan portfolio-

(a) Classification of the loan portfolio-

The classification of the current and non-performing loans as of December 31, 2017 and 2016 is shown below:

	Current portfolio			Non-performing portfolio			
December 31, 2017:	**National currency**	**Appreciated dollars**	**Total**	**National currency**	**Appreciated dollars**	**Total**	**Total current and non-performing**
Commercial loans	$5,490,965	1,692,243	7,183,208	130,527	2,060	132,587	7,315,795
Capitalizable lease portfolio	3,476,985	71,303	3,548,288	120,035	172	120,207	3,668,495
Financial income to be accrued	(581,539)	(4,882)	(586,421)	(10,008)	-	(10,008)	(596,429)
Funded insurances	190,945	4,003	194,948	31,473	427	31,900	226,848
Commercial loans – restricted[1]	556,294	-	556,294	5,275	-	5,275	561,569
Restricted capitalizable lease portfolio[1]	999,438	-	999,438	7,904	-	7,904	1,007,342
Financial income to be accrued of restricted portfolio[1]	(131,297)	-	(131,297)	(796)	-	(796)	(132,093)
	$10,001,791	1,762,667	11,764,458	284,410	2,659	287,069	12,051,527
	========	=======	========	======	====	======	========
December 31, 2016:							
Commercial loans	$4,051,650	1,885,850	5,937,500	115,268	65,526	180,794	6,118,294
Capitalizable lease portfolio	2,432,306	127,664	2,559,970	100,015	2,738	102,753	2,662,723
Financial income to be accrued	(394,874)	(10,256)	(405,130)	-	-	-	(405,130)
Funded insurances	125,970	2,698	128,668	23,642	70	23,712	152,380
Commercial loans – restricted[1]	712,296	-	712,296	32,648	-	32,648	744,944
Restricted capitalizable lease portfolio[1]	1,631,214	-	1,631,214	56,316	-	56,316	1,687,530
Financial income to be accrued of restricted portfolio[1]	(209,177)	-	(209,177)	-	-	-	(209,177)
	$8,349,385	2,005,956	10,355,341	327,889	68,334	396,223	10,751,564
	=======	=======	========	======	=====	======	========

(1) See section (c) of this note.

(Thousands of pesos)

The average annual return rate of the loan portfolio in pesos as of December 31, 2017 and 2016, was 11.70% and 11.05%, respectively, and of the loan portfolio in dollars was 8.03% and 8.01%, respectively.

Non-performing portfolio:

The non-performing portfolio classification is presented below by seniority as of December 31, 2017 and 2016:

December 31		**Days**				
		1 - 180	**181 - 365**	**1 - 2 years**	**More than 2 years**	**Total**
2017	$	126,217	68,190	92,406	256	287,069
2016		286,011	59,559	50,474	179	396,223
		======	=====	=====	===	======

The analysis of the movements in the non-performing portfolio by the years ended as of December 31, 2017 and 2016 is shown below.

		2017	**2016**
Balance at the beginning of the year	$	396,223	300,421
Awards		(11,703)	(25,050)
Write-offs		(75,192)	(149,451)
Collection		(110,094)	(114,441)
Transfer from current to non-performing portfolio		285,780	461,932
Transfer from non-performing to current portfolio		(197,945)	(77,188)
Balance at the end of the year	$	287,069	396,223
		======	======

The accrued non-collected interest of the non-performing portfolio, which, according to accounting criteria, is recorded in memorandum accounts and shall be recognized in the year income until its collection, as of December 31, 2017 and 2016, amounted to $49,566 and $32,505, respectively.

The maturity by year of the loan portfolio are analyzed as follo

(Thousands of pesos)

Maturity year		**2017**	**2016**
2017	$	-	6,839,803
2018		7,852,401	1,757,409
2019		1,923,014	1,283,951
2020		1,307,294	644,654
2021		726,449	212,783
2022		233,154	12,964
2023		9,215	-
	$	12,051,527	10,751,564

Risk concentration:

As of December 31, 2017 and 2016, the Company's portfolio is comprised by the loans granted to individuals and medium-sized enterprises, and no debtor has a credit risk higher than 10% of the total portfolio, except for the loan granted during 2016 to a related company, which represents the 11% and 15% of the total portfolio as of December 31, 2017 and 2016 (see note 18).

The loan portfolio concentration by geographic zone as of December 31, 2017 and 2016, is detailed below:

(Thousands of pesos)

	2017		2016	
	Portfolio	**%**	**Portfolio**	**%**
Mexico City and the State of Mexico	$ 2,523,880	21%	2,598,169	25%
Center (1)	850,332	7%	781,408	7%
North (2)	5,309,233	44%	4,104,419	38%
West (3)	2,729,039	23%	2,604,384	24%
South (4)	639,043	5%	663,184	6%
	$ 12,051,527	100%	10,751,564	100%
	========	====	========	====

(1) It includes the states of Querétaro, Tlaxcala, Puebla, Hidalgo, Morelos, and Guerrero.

(2) It includes the states of Sonora, Chihuahua, Baja California, Coahuila, Durango, Nuevo León, Sinaloa, and Tamaulipas.

(3) It includes the states of Guanajuato, Jalisco, Colima, Aguascalientes, Nayarit, Michoacán, Zacatecas, and San Luis Potosí.

(4) It includes the states of Oaxaca, Veracruz, Chiapas, Tabasco, Quintana Roo, Campeche, and Yucatán.

(b) Preventive estimates for credit risk-

As of December 31, 2017 and 2016, the classification of the assessed portfolio and its preventive estimate is analyzed as it is shown below:

Valuated portfolio level of risk	**Portfolio**		**Preventive estimate for credit risks**	
	2017	**2016**	**2017**	**2016**
A-1	$ 8,317,611	7,608,353	48,631	49,116
A-2	1,258,928	1,151,453	12,544	13,190
B-1	577,255	237,269	10,604	4,190
B-2	405,610	173,403	9,020	3,839
B-3	443,120	317,232	14,656	10,870
C-1	188,633	152,591	14,482	10,664
C-2	244,527	389,777	30,657	56,397
D*	519,559	692,742	172,929	246,186
E*	96,284	28,744	69,237	26,064
Total	$ 12,051,527	10,751,564	382,760	420,516
	========	========	======	======

* Troubled portfolio.

(Thousands of pesos)

The analysis of the movements in the preventive credit risk estimates for the years ended as of December 31, 2017 and 2016 is shown below:

		2017	2016
Balance at the beginning of the year	$	420,516	400,102
Increment of allowance in income		116,737	241,481
Release of preventive estimates “Other operation (expenses) income” (see note 26)		(62,277)	(12,461)
Impact of preventive estimate on the year income		54,460	229,020
Write-offs		(92,216)	(208,606)
Balance at the end of the year	$	382,760	420,516
		======	======

(c) *Portfolio securitization-*

NAVISCB 13

On April 30, 2013, the Company, as Settlor and Beneficiary in second place and Administrator, and Banco Invex, S.A Institución de Banca Múltiple, INVEX Grupo Financiero (Invex), as Fiduciary, entered into an agreement to create the Irrevocable Trust Agreement Number 1455 (the Trust), with the purpose of establishing a program for the issuance and public offer in Mexico of Senior Trust Bonds.

Such Trust consisted of the securitization of the current loans in Mexican pesos, through the assignment of the credit claims of the financial leasing operations and simple loans for purchasing transport equipment. As of the closing of September 2017, such issue has been paid in full, so the remnant assets in this Trust were charged back to Navistar Financial, as Settlor in second place.

As of December 31, 2016 collection rights given to the Trust amounted to $1,144,440

As of December 31, 2016 obligation balance on the NAVISCB 13 amounted to $485,832, (see note 15). Additionally, the interest payable as of December 31, 2016, amounts to $1,629. The obligations on such certificates, which only payment source is the collection of collection rights, yields interest of $7,019 and $69,868 in December 2017 and 2016, respectively, which are recorded in the consolidated income statement under the heading "Interest Expenses"(see note 21).

<u>NAVISCB 15</u>

On April 5, 2015, the Company, as Settlor and Beneficiary in second place and Administrator, Invex, as Fiduciary, entered into an agreement to create the Irrevocable Trust Agreement Number 2537 (the Trust), with the purpose of establishing a program for the issuance and public offer in Mexico of Senior Trust Bonds. This Trust will pay the Company a monthly percentage over the amount of the managed assets.

Such Trust consisted of the securitization of the current loans in Mexican pesos, through the assignment of the credit claims of the financial leasing operations and simple loans for purchasing transport equipment. These loans are recorded in the consolidated balance sheet under the heading " portfolio" as restricted, because they do not comply with the requirements for asset cancelation set in the accounting criteria.

According to the Trust Agreement, the Company began with a capacity of 1.20, which will grow to 1.30 (target capacity), in order for the Company to have the right of the surplus in the generated flows once the capacity exceeds the 1.30. As of December 31, 2017 and 2016, the collection rights given to the Trust amounted to $289,300 and $503,479, respectively. Any remnant of the issue will be delivered to the Company once all stock certificates have been settled.

The first issue of stock certificates was 6,165,500 of certificates with a par value of $100 pesos each, under the ticker symbol NAVISCB 15, for $616,550, which yield interest during the year of issue (1,893 days) at an annual TIIE rate plus 1.4 percentage points. The issue pays interest and principal on a monthly basis.

As of December 31, 2017 and 2016, the obligation balance on the NAVISCB 15 amounts to $232,412 and $398,325, (see note 15). Additionally, the interest payable as of December 31, 2017 and 2016, amounts to $971 and $1,317, respectively. The obligations on such certificates, which only payment source is the collection of collection rights, yields interest of $26,315 and $29,521, respectively, which are recorded in the consolidated income statement under the heading "Interest Expenses"(see note 21).

The rating awarded on September 15, 2017 and on September 30, 2016 by HR Ratings de México S. A. de C. V. was "HR AAA(E)" on both dates.

NAVISCB 16

On September 5, 2016, the Company, as Settlor and Beneficiary in second place and Administrator, Invex, as Fiduciary, entered into an agreement to create the Irrevocable Trust Agreement Number 2844 (the Trust), with the purpose of establishing a program for the issuance and public offer in Mexico of Senior Trust Bonds. This Trust will pay the Company a monthly percentage over the amount of the managed assets.

Such Trust consisted of the securitization of the current loans in Mexican pesos, through the assignment of the credit claims of the financial leasing operations and simple loans for purchasing transport equipment. These loans are recorded in the consolidated balance sheet under the heading " portfolio" as restricted, because they do not comply with the requirements for asset cancelation set in the accounting criteria.

According to the Trust Agreement, the Company began with a capacity of 1.215, which will grow to 1.305 (target capacity), in order for the Company to have the right of the surplus in the generated flows once the capacity exceeds the 1.305. As of December 31, 2017 and 2016, the collection rights given to the Trust amounted to $373,510 and $575,378, respectively. Any remnant of the issue will be delivered to the Company once all stock certificates have been settled.

The first issue of stock certificates was 5,363,830 of certificates with a par value of $100 pesos each, under the ticker symbol NAVISCB 16, for $536,383, which yield interest during the year of issue (1,985 days) at an annual TIIE rate plus 1.55 percentage points. The issue pays interest and principal on a monthly basis.

As of December 31, 2017 and 2016, the obligation balance on the NAVISCB 16 amounts to $300,268 and $477,149, (see note 15). Additionally, the interest payable as of December 31, 2017 and 2016, amounts to $1,276 and $1,611, respectively. The obligations on such certificates, which only payment source is the collection of collection rights, as of December 31, 2017 and 2016 yields interest of $32,475 and $10,678, respectively, which are recorded in the consolidated income statement under the heading "Interest Expenses"(see note 21).

The rating awarded on September 25, 2017 and on September 11, 2016 by HR Ratings de México S. A. de C. V. was "HR AAA(E)" on both dates.

NAVISCB 17

On October 17, 2017, the Company, as Settlor and Beneficiary in second place and Administrator, and Invex as Fiduciary entered into an agreement to create the Irrevocable Trust Agreement Number 3290 (the Trust), with the purpose of establishing a program for the issuance and public offer in Mexico of Senior Trust Bonds. This Trust will pay the Company a monthly percentage over the amount of the managed assets.

Such Trust consisted of the securitization of the current loans in Mexican pesos, through the assignment of the credit claims of the financial leasing operations and simple loans for purchasing transport equipment. These loans are recorded in the consolidated balance sheet under the heading " portfolio" as restricted, because they do not comply with the requirements for asset cancelation set in the accounting criteria.

According to the Trust Agreement, the Company began with a capacity of 1.195, which will grow to 1.295 (target capacity), in order for the Company to have the right of the surplus in the generated flows once the capacity exceeds the 1.295. As of December 31, 2017 collection rights given to the Trust amounted to $774,008. Any remnant of the issue will be delivered to the Company once all stock certificates have been settled.

The first issue of stock certificates was 7,730,000 of certificates with a par value of $100 pesos each, under the ticker symbol NAVISCB 17, for $737,000, which yield interest during the year of issue (1,972 days) at an annual TIIE rate plus 1.80 percentage points. The issue pays interest and principal on a monthly basis.

As of December 31, 2017 obligation balance on the NAVISCB 17 amounts to $655,995, (see note 15). Additionally, the interest payable as of December 31, 2017, amounts to $2,865.

The obligations on such certificates, which only payment source is the collection of collection rights, as of December 31, 2017 yields interest of $13,092, which is recorded in the consolidated income statement under the heading "Interest Expenses"(see note 21).

The rating awarded on December 15, 2017 by HR Ratings de México S. A. de C. V. was "HR AAA(E)". Additionally, the rating granted on October 6, 2017 to the NAVISCB 17 issue by Standard & Poors, S. A. de C. V. was "mxAAA(sf)"

(Thousands of pesos, unless otherwise indicated)

A summary of the Trusts financial situation is presented below:

		Tru. 1455[1]	Tru. 2537		Tru. 2844		Tru. 3092
		2016	2017	2016	2017	2016	2017
Balance sheet:							
Cash and cash equivalents	$	294,509	34,160	43,641	66,287	78,321	143,852
Financial derivative instruments		9,030	5,230	10,240	7,015	9,989	3,503
Collection rights, net		962,924	246,214	446,904	334,854	533,337	688,432
Other accounts receivable		9,872	2,515	1,037	647	385	621
Total assets	$	1,276,335	288,119	501,822	408,803	622,032	836,408
Obligations on stock certificates, net	$	487,461	233,383	399,642	301,544	478,760	658,861
Accounts payable		26,075	5,798	8,958	6,956	10,721	17,180
Total obligations on bonds		513,536	239,181	408,600	308,500	489,481	676,041
Assets(1)		762,799	48,938	93,222	100,303	132,551	160,367
Total liabilities and assets	$	1,276,335	288,119	501,822	408,803	622,032	836,408
Income statement:							
Financial income	$	231,522	59,306	80,603	65,604	27,538	32,314
Financial expenses		(75,558)	(40,811)	(32,050)	(39,701)	(6,135)	(13,648)
Impact of collection rights impairment		(8,752)	10,278	(11,613)	75	(8,944)	(17,756)
Other income (expenses), net		15,326	417	610	489	72	131
Year income	$	162,538	29,190	37,550	26,467	12,531	1,041

(1) The Trust 1455 ended in May 2017, as per the contract of termination issued by Invex as Fiduciary .

(Continued)

(d) Escrow-

- On January 30, 2015, an Irrevocable Escrow Agreement was executed by Navistar Financial as Settlor and Beneficiary in second place, Banco Invex, S.A, Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary, and CITIBANK, N.A. as Beneficiary in first place. Such Agreement backs a line of credit hired with Banco Nacional de México S.A., member of Grupo Financiero BANAMEX ("BANAMEX"), and it holds a 100% guarantee with the Export-Import Bank of the United States ("Exim"). As of December 31, 2017 and 2016, the Trust assets are represented by the secured collection rights to pay the loan obligations, which amount to $221,090 and $389,131, respectively.

- In October 2014, the Company as Settlor and Beneficiary in second place, entered into an Irrevocable Management and Escrow Agreement No. F/2251 with Export Development Canada "EDC" Beneficiary in first place, and Banco Invex, S.A Institución de Banca Múltiple, Invex Grupo Financiero as Fiduciary; such Trust is intended to back the line of credit with corporate purposes in favor of the Company in an amount up to 55 million dollars. As of December 31, 2017 and 2016, the assets of this Trust amount to $804,267 and $450,004, respectively.

- In November 2013, the Company as Settlor, Beneficiary in second place and Commission Agent, executed an Irrevocable Escrow Agreement with Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria as Fiduciary and Beneficiary in first place.

  The purpose of this Trust is to back the line of credit in current account in favor of the Company. As of December 31, 2017 and 2016, the assets of this Trust amounted to $2,131,072 and $544,352, respectively.

(Continued)

(e) Risk sharing fund-

On October 24, 2008, the Company entered into, with Nacional Financiera, S. N .C. Institución de Banca de Desarrollo (NAFIN) -the later in its capacity as Fiduciary of the Trust 1148-0 of the Risk-Sharing Fund (the Fund)-, a fund-sharing agreement, which purpose is to recover the amount of the first losses of the portfolio that the Company grants to small- and medium-sized enterprises registered in the Fund and, consequently, subject to its support. Therefore, the Fund shall share up to $20,000, in relation to the first losses of the loan portfolio registered in the Fund.

On November 17, 2010, the Company entered into, with NAFIN in its capacity as Fiduciary of the Risk Sharing Fund, a similar agreement, this time focused on federal freight transport. In this agreement, the Fund will share up to $23,000, in relation to the first losses of the portfolio registered in the Fund.

On November 15, 2012, the Company executed another agreement with NAFIN for the Risk Sharing, focused on federal freight transport. In this agreement, the Fund will share up to $30,000, in relation to the first losses of the loan portfolio registered in the Fund, which amounts to $750,000, effective on January 11, 2013.

On November 26, 2011, the Company entered into an agreement with NAFIN and again on November 26, 2016 for the Risk Sharing focused on federal freight transport. In this agreement, the Fund will share up to $40,000, in relation to the first losses of the registered loan portfolio, which amounts to $1,000,000.

On November 11, 2016, the Company entered into an agreement with NAFIN for the Risk Sharing, focused on federal freight transport. In this agreement, the Fund will share up to $40,000, in relation to the first losses of the registered loan portfolio, which amounts to $1,000,000.

The outstanding balances of the portfolio secured under both schemes as of December 31, 2017 and 2016 was $789,188 and $493,392, respectively.

The fee paid by the hired first-loss schemes amounted to $12,240, which is amortized in straight line based on the life of the registered contracts.

(Continued)

As of December 31, 2017 and 2016 there are 233 contracts registered in the pari-passu program with NAFIN, with an outstanding balance as of December 31, 2017 and 2016 of $388,089 and $116,237, and a paid fee equivalent to 1.8%.

As of December 31, 2017 and 2016, the Company has claimed $57,124 and $98,940, respectively, under the umbrella of such program. From which, $38,006 and $44,088, respectively, have been collected.

(f) Restructured and renewed loans-

As of December 31, 2017 and 2016, the restructured and renewed loans of the portfolio amounted to $225,030 and $659,468, respectively. Derived from such restructuration during 2017 and 2016, additional securities were received by $325,859 and $107,952, respectively.

For the years ended as of December 31, 2017 and 2016, the recovery income of the previously non-performing portfolio amounts to $33,179 and $8,067, respectively, which is recognized under the heading "Other operating income, net" in the consolidated income statement (see note 26).

(g) Fees for granting loans and origination costs-

The movements in the balance of the fees for granting loans and origination costs for the years ended on December 31, 2017 and 2016 are shown below:

(Thousands of pesos)

Fees for granting loans:		**2017**	**2016**
Initial balance	$	150,702	122,523
Collected fees		77,370	86,905
Amortization (note 21)		(56,611)	(58,726)
Subtotal of fees for granting loans to the next sheet	$	171,461	150,702

		2017	**2016**
Subtotal of fees for granting loans of the previous sheet	$	171,461	150,702
Loan origination costs:			
Initial balance		35,292	30,520
Paid costs and expenses		22,005	20,438
Amortization (note 21)		(18,283)	(15,666)
		39,014	35,292
Net balance of fees and costs for loan origination	$	132,447	115,410

(h) Policies and procedures to grant loans

The main policies and procedures set forth to grant, acquire, assign, control and recovery loans, as well as those regarding the assessment and follow-up of the credit risk are mentioned below:

- The general policies governing the Company's credit activity are included in the Loan Brochure.

- The loan process includes promotion, request, assessment, approval, implementation, use, follow-up, control, portfolio rating, as well as administrative and legal recovery.

- The loan and risk area officials analyze the common risk of the partner borrowers integrating a business group or corporation of companies linked among them.

- Officials and employees refrain from participating in loan approvals where there may exist a conflict of interest.

(Continued)

(Thousands of pesos)

- Any withdrawal under a specific line of credit or specific transaction of commercial loan has the authorization of a proper official.

- The execution of any kind of loan performed under legal instruments (contracts, agreements or credit instruments) authorized by the Company's legal department.

(11) Other accounts receivable-

As of December 31, 2017 and 2016, the accounts receivables are as follows:

		2017	2016
Portfolio debtors	$	106,136	96,139
Sundry debtors		455,597	38,556
Refundable taxes		54,009	60,556
Related companies (note 18)		33,308	43,004
		649,050	238,255
Less estimate of doubtful accounts payable		(17,299)	(13,387)
	$	631,751	224,868
		======	======

(12) Real property, furniture and equipment for own use, as well as transport equipment and real property intended for operating lease-

As of December 31, 2017 and 2016, the investment in property, furniture and equipment, as well as equipment and real property intended for operating lease is analyzed as shown below:

(Continued)

(Thousands of pesos)

Real property, furniture and equipment for own use:		**2017**	**2016**	**Annual depreciation rate**
Real property	$	49,638	56,634	2.30%
Transport equipment		2,930	3,092	25%
Furniture and computing equipment		21,598	17,652	10% and 33%
		74,166	77,378	
Accumulated depreciation		(26,926)	(20,350)	
		47,240	57,028	
Land		40,846	41,169	
	$	88,086	98,197	
		=====	=====	

Transport equipment and equipment intended for operating lease:	**2017**	**2016**	**Annual depreciation rate**
Leased transport equipment	$2,634,493	2,486,121	Various
Leased real property	157,432	-	Various
	2,792,375	2,486,121	
Accumulated depreciation and amortization	(758,066)	(546,783)	
	$ 2,034,309	1,939,338	
	=======	=======	

For the years ended on December 31, 2017 and 2016, the charge to income for real property, furniture and equipment depreciation amounted to $3,438 and $$3,486, respectively, and for the equipment and real property intended to operating lease amounted to $331,210 and $277,742, respectively.

(13) Awarded assets-

As of December 31, 2017 and 2016, the awarded assets are as follows:

(Continued)

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		2017	2016
Transport equipment	$	64,006	75,822
Real property		51,627	18,280
		115,633	94,102
Less:			
Allowance of awarded assets		(2,194)	(17,203)
Damage		(6,066)	(17,377)
	$	107,373	59,522

(14) Employee benefits-

Currently, the Company recognizes the benefit of seniority premium, legal compensation before retirement, as well as legal compensation upon retirement, which cover all the permanent and full-time personnel. The benefits previously mentioned are based on the years of service and the amount of the employee's compensation. The elements of the cost of the defined benefit for the years ended on December 31, 2017 and 2016 are shown below:

		2017	2016
Current service cost (CLSA)	$	4,315	3,532
Net interest on PNBD*		2,098	1,606
Recycling of the ANBD remediations recognized in OCI		63	(186)
Reduction effect		-	770
Seniority recognition		107	-
Hold loss of previous fiscal years, recognized in 2016 comprehensive income		-	1,039
Net cost of the year	$	6,583	6,761

* Net defined benefit liability (NDBL).

(Thousands of pesos)

		2017	2016
Remediations initial balance (NDBA)	$	503	(2,236)
Remediations generated in the year		1,169	2,553
Remediation recycling recognized in the year OCI.		(63)	186
Remediations final balance NDBL	$	1,609	503
		====	=====
Initial balance of NDBL	$	27,741	23,869
Defined benefit cost		7,689	6,761
Payment charged to NDBA		(2,405)	(3,392)
OCI		-	503
Final balance of NDBL (note 17)	$	33,025	27,741
		=====	=====

As of December 31, 2017 and 2016, the Company has not funded the defined benefit obligation. The mainly assumptions used to determine the net projected liability are shown below:

	2017	2016
Discount nominal rate used to estimate the current value of the obligations	7.80%	7.90%
Nominal increase rate on salary level.	5.80%	5.80%
Employee's average remaining work life	12 years	12 years

For the years ended on December 31, 2017 and 2016 the charge to income relative to the Company's contributions for the defined contribution plan amounted to $1,375 and $1,176, respectively, under the heading "Administrative Expenses" in the consolidated income statement.

(15) Stock liabilities-

On October 20, 2017 the Company carried out a securitization of credit claims under the ticker symbol NAVISCB 17 with March 15, 2023 (1,972 days) as maturity date. On September 5, 2016 the Company carried out a securitization of credit claims under the ticker symbol NAVISCB 16 with February 15, 2022 (1,985 days) as maturity date. On November 10, 2015 the Company carried out a securitization of credit claims under the ticker symbol NAVISCB 15 which final maturity date is January 15, 2021 (1,893 days).

As of December 31, 2017 and 2016, the stock liabilities at short- and long-term are integrated as shown below:

(Thousands of pesos)

Issue		Amount	Maturity date	Rate
Short-term:				
NAVISTS01417	$	70,000	08/02/2018	TIIE+2.00%
NAVISTS01917		230,000	08/02/2018	TIIE+1.80%
NAVISTS02117		355,000	22/03/2018	TIIE+1.70%
NAVISTS02217		85,000	25/01/2018	TIIE+2.00%
NAVISTS02317		50,000	25/01/2018	TIIE+1.50%
NAVISTS02417		170,000	13/09/2018	TIIE+2.00%
NAVISTS02517		120,000	19/04/2018	TIIE+1.70%
NAVISTS02617		100,000	05/04/2018	TIIE+1.90%
NAVISTS02717		180,000	25/01/2018	TIIE+1.60%
NAVISTS02817		120,000	19/04/2018	TIIE+1.85%
NAVISTS02917		95,000	13/09/2018	TIIE+1.90%
NAVISTS03017		167,000	23/08/2018	TIIE+1.90%
Accrued interest		6,628		
NAVISCB15*		152,928	15/01/2021	TIIE+1.40%
NAVISCB16*		145,317	15/02/2022	TIIE+1.55%
NAVISCB17*		339,423	15/03/2023	TIIE+1.80%
Accrued interest		5,112		
Subtotal		2,391,408		
Long-term:				
NAVISCB15		79,484	15/01/2021	TIIE+1.40%
NAVISCB16		154,951	15/02/2022	TIIE+1.55%
NAVISCB17		316,572	15/03/2023	TIIE+1.80%
		551,007		
Total stock liability	$	2,942,415		

* Current portion of long-term stock certificates.

(Thousands of pesos)

Issue	2016	Maturity	Rate
Short-term:			
NAVISTS00316	$ 100,000	01/03/2017	TIIE+2.40%
NAVISTS00916	100,000	06/04/2017	TIIE+2.35%
NAVISTS01416	78,000	06/04/2017	TIIE+2.30%
NAVISTS01616	220,000	09/03/2017	TIIE+2.25%
NAVISTS01816	100,000	30/03/2017	TIIE+2.25%
NAVISTS01916	100,000	23/03/2017	TIIE+2.25%
NAVISTS02116	75,855	19/01/2017	TIIE+2.20%
NAVISTS02216	84,145	11/05/2017	TIIE+2.25%
NAVISTS02316	160,000	27/04/2017	TIIE+2.25%
NAVISTS02416	85,000	05/04/2017	TIIE+2.25%
NAVISTS02516	302,819	09/02/2017	TIIE+2.40%
NAVISTS02716	200,000	23/02/2017	TIIE+2.40%
Accrued interest	5,193		
NAVISCB13*	485,832	15/05/2018	TIIE+1.50%
NAVISCB15*	166,298	15/01/2021	TIIE+1.40%
NAVISCB16*	176,096	15/02/2022	TIIE+1.55%
Accrued interest	4,557		
Subtotal	2,443,795		
Long-term:			
NAVISCB15	232,027	15/01/2021	TIIE+1.40%
NAVISCB16	301,053	15/02/2022	TIIE+1.55%
Subtotal	533,080		
Total stock liability	$ 2,976,875		

* Current portion of long-term stock certificates.

As of December 31, 2017 and 2016, the issuing expenses balance to be amortized amounts to $68,469 and $47,439, respectively, and it is recorded under the heading "Other assets, net" in the consolidated balance sheet. The charge to income for the amortization of such expenses for the years ended on December 31, 2017 and 2016 amounts to $27,483 and $21,527, respectively (see note 21).

(Continued)

(Thousands of pesos unless otherwise indicated)

(16) Bank loans and loans from other institutions-

As of December 31, 2017 and 2016, bank loans and loans from other institutions at short- and long- term are integrated as shown below:

		2017	2016
Direct loans in dollars accruing interest at an average weighted rate of 3.12% and 3.26% on LIBOR at the closure of September 2017 and 2016, respectively, and an average fixed weighted rate of 5.25% in December 2017 (see section "a" of this note").	$	2,300,885	3,226,983
Direct loans in national currency accruing interest at an average weighted rate of 2.25% and 2.19% on 28-day TIIE in December 2017 and 2016, respectively and a fixed average weighted rate of 8.23% and 6.93% in December 2017 and 2016, respectively.		5,172,706	4,725,391
Accrued interest		35,273	42,971
Total bank loans		7,508,864	7,995,345
Less current portion of the debt		4,079,450	4,184,900
Total long-term bank and other institutions loans	$	3,429,414	3,810,445
		=======	=======

As of December 31, 2017 and 2016, the Company holds 35%, in both years, of the lines of credit approved and secured by Navistar International Corporation (holding company) or by Navistar Financial Corporation (affiliated company).

(a) *Bank loans and loans from other institutions in dollars:*

As of December 31, 2017 and 2016, there are lines of credit hired with national and foreign financial institutions for 306 and 331 million dollars, respectively. Such lines include a credit line in dollars, hired by the Company and by Navistar Financial Corporation with JP Morgan Chase Bank, N.A. The line of credit allows the Company to obtain up to 80.5 million dollars at variable rate. As of December 31, 2017 and 2016, this line was fully available.

(Thousands of pesos unless otherwise indicated)

Since August 2012, the Company grants short-term commercial loans to sell International trucks and buses manufactured in Mexico and exported to Colombia, supported by a line of credit of 95 million dollars from Banco Nacional de Comercio Exterior, S.N.C. (Bancomext). Since August 2013, this line can also be used to fund units placed in Mexico. Additionally, in August 2015, an extension of the discount term for export operation, as well as the inclusion of other countries were authorized. Additionally, on March 4, 2016, an increase in this line of credit of 25 million dollars was recorded. On May 10, 2017 the extension of term to 5 years, beginning on August 7, 2017 of the line of 120 million dollars.

The Company has lines available with Navistar International Corporation and Navistar Financial Corporation, which are still being operated as guarantee of some bank lines and/or as work capital through intercompany loans intended to the acquisition of new units or spare parts (floor plan). As of the end of December 2017 and 2016, this line was not used.

(b) *Bank loans in national currency:*

As of December 31, 2017 and 2016, there are lines of credit denominated in pesos hired by the Company to national financial institution for $5,298 and $4,575, respectively.

As of December 31, 2017 and 2016, most of the lines of credit in dollars and in national currency are secured by the loan portfolio for approximately $8,701,252 and $7,105,575, respectively.

The lines of credit require compliance with certain obligations, restrictions and financial indexes, which the Company has dully met as of December 31, 2017 and 2016.

As of December 31, 2017, maturities of the bank and other institution loans are as follows:

Maturity year	**Pesos**		**Appreciated dollars**
2018	$2,878,482		1,200,968
2019	1,466,734		1,106,806
2020	567,785		4,728
2021	219,761		209
2022	60,532		-
2023	2,859		-
	$ 5,196,153		2,312,711
		7,508,864	
		=======	

(Continued)

(Thousands of pesos unless otherwise indicated)

(17) Sundry creditors and other accounts payable-

As of December 31, 2017 and 2016, the sundry creditors and other accounts payable are as shown below:

		2017	2016
Sundry creditors	$	166,849	81,055
Security deposits		567,945	487,638
Trust portfolio deposits and collection to be delivered to Trust		15,172	18,333
Tax payable (Income Tax and Value-Added Tax)		49	158
Obligation for sharing losses(*)		-	1,507
Provisions for different obligations		33,903	29,699
Related companies (note 18)		51,277	13,782
Employee benefits (note 14)		33,025	27,741
Other taxes		4,108	4,816
Deposits and balance in favor of clients		28,994	58,779
Creditors for settlement of transactions		403,520	-
Other		68,183	62,147
	$	1,373,025	785,655

(*) It corresponds to the estimate of the joint loss sharing resulting from factoring agreements entered into by the Company.

(Thousands of pesos)

(18) Transactions and balance with related companies-

In the normal course of its operation, the Company carries out transactions with related companies, such as management services and fees for granting loans.

The balances receivable and payable with related companies as of December 31, 2017 and 2016, are integrated as shown below:

		2017	2016
Balances payable (note 10):			
Loan portfolio:			
Navistar México, S. de R. L. de C. V.	$	1,336,076	1,629,852
International Parts Distribution, S. A. de C. V.		1,869	1,568
Navistar Financial Corporation		1,434	967
	$	1,339,379	1,632,387
		=======	=======
Other accounts receivable (note 11):			
Navistar México, S. de R. L. de C. V.	$	16,466	26,859
Navistar Comercial, S. A. de C. V.		10,055	10,030
Navistar International Corporation		3,652	2,851
Navistar Inc.		1,591	1,904
Transprotección Agente de Seguros, S. A. de C. V.		1,504	1,309
International Parts Distribution, S. A. de C. V.		40	51
	$	33,308	43,004
		=======	=======
Balances payable (note 17):			
Navistar México, S. de R.L. de C.V.	$	41,879	6,286
Navistar Financial Corporation		5,179	4,063
Navistar Inc.		2,274	2,378
Transprotección Agentes de Seguros, S.A. de C. V.		1,726	-
Navistar International Corporation		219	277
Navistar Comercial, S. A. de C. V.		-	778
	$	51,277	13,782
		=======	=======

(Continued)

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Below is the transactions carried out with associated companies in the years ended on December 31, 2017 and 2016.

		2017	2016
Revenues:			
Interest accrued in favor:			
Navistar México, S. de R. L. de C. V.	$	413,547	362,187
International Parts Distribution, S. A. de C. V.		24,852	20,367
Navistar Financial Corporation		13,678	12,934
Navistar Comercial, S. A. de C. V.		-	51
		======	======
Placement service fees			
Navistar México, S. de R. L. de C. V. (note 22)	$	185,204	177,154
		======	======
Administrative services:			
Trasproteccion Agentes de Seguros, S. A. de C. V.	$	16,862	19,530
Navistar México S. A. de C. V.		1,401	955
		======	======
Portfolio administration fees:			
Navistar Comercial, S. A. de C. V.	$	-	8
		======	======
Other income:			
International Parts Distribution, S. A. de C. V.	$	409	379
Navistar Comercial, S. A de C. V.		990	472
Navistar México, S. de R. L. de C. V.		485	-
Navistar International Corporation		5	-
		======	======

(Continued)

(Thousands of pesos)

		2017	2016
Expenses:			
Technical assistance and telephone service expenses:			
Navistar International Corporation	$	(180)	(890)
		=====	=====
Other fees and service tariffs:			
Navistar Financial Corporation (note 23)	$	(6,004)	(5,621)
		=====	=====
Interest expenses for granting guarantees:			
Navistar Financial Corporation	$	(20,964)	(21,207)
Navistar International Corporation		(1,785)	(2,420)
Navistar México, S. de R. L. de C. V.		(208)	(218)
		=====	=====
Other expenses:			
Navistar México, S. de R. L. de C. V.	$	(2,025)	(1,588)
Navistar Financial Corporation (note 23)		(1,250)	(1,280)
Navistar Inc.		-	(12)
		=====	=====
Accrued interest:			
Transprotección Agentes de Seguros, S. A de C. V.	$	(2,934)	(692)
Distribuidora de Camiones Internacional, S. de R. L de C. V.		-	(791)
		=====	=====

(19) Income tax and PTU-

The ISR Law in force set forth a ISR rate of 30% for 2016 and following years.

The income tax expenses for the years ended on December 31, 2017 and 2016, are integrated as shown below:

(Continued)

(Thousands of pesos)

		2017	2016
Income tax on tax base	$	99,494	128,503
Income tax deferred		43,972	71,923
	$	143,466	200,426

The Company did not apply the tax consolidation with its subsidiary as per the current tax provisions. The PTU expenses (income) for the years ended on December 31, 2017 and 2016, including the consolidated income statement under the heading "Administrative Expenses", are as follows:

		2017	2016
Subsidiary PTU			
Legal	$	2,630	1,665
Deferred		(1,011)	(893)
	$	1,619	772

Below is the summary of the reconciliation between the accounting income and the income for ISR and PTU purposes as of December 31, 2017 and 2016.

(Continued)

(Thousands of pesos)

	2017		2016	
	ISR	PTU	ISR	PTU
Income before income tax	$ 626,877	626,877	546,097	546,097
Income before holding company's tax	-	(608,573)	-	(537,695)
(Less) plus differences between the accounting and tax income.	(18,756)	(6,022)	(10,177)	(2,392)
Tax impact on the inflation, net				
Preventive estimates for credit risk	116,737	-	229,020	-
Deduction of uncollectible accounts receivables	(22,748)	-	(87,864)	-
Difference between the accounting and tax depreciation	(281,939)	1,457	(239,449)	(535)
Debt issue cost and expenses	(3,754)	-	(14,342)	-
Fixed assets sale income Leased	(42,218)	-	-	-
equipment sale income, net				
	-	-	-	-
			(8,060)	
Provisions, net	(3,804)	5,320	1,237	(2,227)
Other deferred loans, net	(80,274)	-	(2,336)	-
Non-deductible expenses and extinguished taxes	10,805	5,068	12,892	1,679
Legal and deferred PTU	-	1,619	-	-
Other	30,719	551	1,324	11,725
Fiscal income	331,645	26,297	428,342	16,652
ISR and PTU Rate	30%	10%	30%	10%
Incurred ISR and PTU	$ 99,494	2,630	128,503	1,665
	======	=====	======	=====

The tax effects of the temporary differences originating significant portions of deferred tax assets and liabilities as of December 31, 2017 and 2016 are detailed below:

(Continued)

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	Asset (liability) as of December 31		Operations charge (loan)	
	2017	**2016**	**2016**	**2017**
ISR:				
Preventive estimates for credit risk, awarded assets and other accounts receivable	$ 114,828	126,155	(11,327)	29,147
Different provisions	5,314	(1,826)	7,140	(6,094)
Deferred charges (loans)	7,558	6,318	1,240	14,131
Portfolio administration asset	-	-	-	150
Employee benefit provision	7,422	6,035	1,387	(1,009)
Other	6,578	9,470	(2,892)	(15,439)
	141,700	146,152	(4,452)	20,886
Valuation allowance	(12,907)	(10,877)	(2,030)	547
	128,793	135,275	(6,482)	21,433
Fixed assets	(128,459)	(91,261)	(37,198)	(92,425)
Deductible PTU	(1,549)	(1,490)	(59)	(851)
Total deferred ISR	(1,215)	42,524	(43,739)	(71,843)
PTU:				
Furniture and equipment	3,001	2,622	379	2,234
Employee benefit provision	4,026	3,316	710	929
Liability provisions	969	923	46	(310)
Other assets and payments in advance	(203)	(228)	25	(1,909)
Deferred PTU	7,793	6,633	1,160	944
Deferred asset, net	$ 6,578	49,157	(42,579)	(70,899)
	====	=====	=====	=====

(Continued)

The valuation allowance of the deferred assets as of December 31, 2017 and 2016 was $12,907 and $10,877, respectively. The net change in the valuation allowance, for the years ended on December 31, 2017 and 2016, was an increase of $2,030 and $547, respectively. To evaluate the deferred asset recovery, the Company's Management considers the probability that part or all of them are not recovered.

The final realization of the deferred assets depends on the yielding of taxable profit in the years when the temporary differences are deductible. In doing this evaluation, the Company's Management considers the expected reversal of deferred liabilities, projected taxable profit and planning strategies.

(20) Shareholder's equity-

The main characteristics of the shareholder's equity is described below:

(a) Structure of corporate equity-

The main characteristics of the balance constituting the corporate equity and the share issue premium are described below:

		Thousands of pesos	
	Number of shares[1]	Corporate equity	Premium in share issue
Figures as of December 31, 2017 and 2016	2,425,035	$ 283,177	111,961

(1) It includes 561,786 shares from series "A", corresponding to the fixed portion, and 1,863,249 from series "B", corresponding to the variable portion, all of them with a par value of $100 pesos each.

(Thousands of pesos)

(b) Shareholder's equity restrictions-

The year profit is subject to the separation of 10% to comprise the legal reserve, until it represents one fifth of the corporate equity. The legal reserve as of December 31, 2017 and 2016, is $122,535, an amount which has reached the minimum required.

The corporate equity refunding and the retained earning distributions, as well as other shareholder's equity accounts for which the ISR that had already been covered, can be done without any lien. Other refunding and distribution higher than the amounts intended for fiscal purposes are subject to ISR.

(c) Comprehensive income-

The comprehensive income, showed in the consolidated statements of changes in shareholder's equity for the years ended on December 31, 2017 and 2016, accounts for the income of the Company's total activity during the year and it is shown below.

		2017	**2016**
Net earnings	$	483,409	345,670
Non-controlling sharing		2	1
		483,411	345,671
Employee benefits remediation		(1,104)	(503)
Deferred income tax		233	80
Deferred PTU		148	51
		(723)	(372)
Comprehensive income	$	482,688	345,299
		======	======

(21) Financial margin-

The elements of the financial margin for the years ended on December 31, 2017 and 2016 are shown below:

(Continued)

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		2017	2016
Interest income:			
From:			
Loan portfolio	$	954,548	778,131
Financial lease		402,068	344,202
Investments and debtors for repurchase (notes 7 and 8)		38,249	29,649
Fees for granting loans (note 10g)		56,611	58,726
Exchange income		32,905	128,990
		1,484,381	1,339,698
Interest expenses:			
Interest expenses of stock certificates (note 10c)		(78,901)	(110,067)
Amortization of debt issue expenses (note 15)		(27,483)	(21,527)
Interest expenses of bank loans		(759,657)	(547,076)
Amortization of origination costs (note 10g)		(18,283)	(15,666)
Exchange income		(98,449)	(22,057)
		(982,773)	(716,393)
Total financial margin	$	501,608	623,305
		======	======

(22) Collected fees and rates-

For the years ended on December 31, 2017 and 2016, the accounts receivable are integrated as it is shown below:

		2017	2016
Placement service fees (note 18) $		185,204	177,154
Other collected fees and rates		60,955	65,615
Asset administration		-	8
	$	246,159	242,777
		======	======

(Continued)

(Thousands of pesos)

(23) Paid fees and rates-

For the years ended on December 31, 2017 and 2016, the paid fess and rates are integrated as it is shown below:

		2017	2016
Collection service fees and others (note 18)	$	(7,254)	(6,901)
Bank fees		(5,272)	(4,721)
	$	(12,526)	(11,622)
		=====	=====

(24) Intermediation income, net-

For the years ended on December 31, 2017 and 2016, the intermediation income is incorporated as it is shown below:

		2017	2016
Trading derivatives (note 9)	$	(14,722)	17,851
Derivate trade (note 9)		(60,672)	(50,210)
Exchange loss for currency appraisal		60,635	(25,810)
	$	(14,759)	(58,169)
		=====	=====

(25) Operating lease income-

For the years ended on December 31, 2017 and 2016, the operating lease income is incorporated as it is shown below:

		2017	2016
Operating lease income	$	526,760	439,822
Leased property depreciation (note 12)		(331,210)	(277,742)
	$	195,550	162,080
		======	======

(Continued)

(Thousands of pesos)

The Company works only with loan segments and the operating lease. The operating lease income in 2017 and 2016 amounted to $195,550 and $162,080, respectively, which are shown in this note. The difference of this income against the net consolidated income constitutes the loan segment.

(26) Other operation income, net-

For the years ended on December 31, 2017 and 2016, the other operation income is integrated as it is shown .

		2017	2016
Other operation (expenses) income, net	$	7,945	26,522
Release of preventive estimate (note 10b)		62,277	12,461
Other lease benefits		24,806	24,093
Loss for awarded assets valuation		16,652	(8,908)
Awarded sale income		(7,774)	7,103
Recovery of loan portfolio (note 10f)		33,179	8,067
Impact of the estimate for non-recoverable or difficult collection		(7,912)	3,367
Furniture and equipment sale earnings		97	(17)
Total of other operation income $		129,270	72,688
		======	=====

(27) Financial indicators

The main financial indicators as of December 31, 2017 and 2016 are presented below:

	2017	2016
Delinquency rate	2.38%	3.69%
Margin rate of non-performing loan portfolio	133.33%	106.13%
Operational efficiency (management and promotion expenses/ total average assets)	2.02%	1.66%
ROE (average net earnings/shareholder's equity)	16.14%	12.55%
ROA (average net earnings/total assets)	3.24%	2.36%
Liquidity (liquid assets/liquid liabilities) *	3.70%	17.70%
MIN (Year risk-adjusted financial margin / average performing assets)**	3.15%	3.22%

(Continued)

(Continued)

* y ** See explanation below.

* Liquid assets− Availabilities, securities to trade and available to sale.
Liquid liabilities− Immediately payable deposits, interbank and other institutions, immediately payable, and short-term loans.

** Average performing assets− Availabilities, investments in securities, security transactions and current loan portfolio.

(28) Commitments and contingent liabilities-

(a) The Company is involved in several trials and claims resulting from the normal course of its operations. From the point of view of the defense attorneys, it is unlikely that such claims may have any impact on the Company's income.

(b) As mentioned in note 10, there is an obligation of loss sharing derived from the portfolio sales performed by the Company in the previous years.

(c) Under the current tax law, the authorities have the power to review from five previous years and up to the last submitted ISR return.

(d) Under the ISR Law, the companies performing transactions with the related parties are subject to tax restrictions and obligations relative to the determination of the agreed prices, since these shall be comparable to those performed by or between the independent parties in similar transactions.

If the tax authorities review the prices and reject the amounts agreed, they could require, in addition to the corresponding payment of tax and accessories (updates and surcharges), fines on the missed contributions, which could be up to 100% of the updated contribution amount.

(e) The Company rents the premises occupied by its administrative offices, according to lease agreements with defined expiration dates. The total expense for rent amounted $5,266 in 2017 and $5,268 in 2016.

(f) There is a contingent liability derived from the employee benefits mentioned in note 3(t)

(29) Recently issued regulatory pronouncements-

The CINIF has issued the following FRSs and Improvements:

(Continued)

FRS C-9 *"Provisions, contingencies and commitments"*- It comes into force for the year beginning on January 1, 2018, allowing its application in advance, provided that such application is carried out together with the initial application of the FRS C-19 "Financial instruments payable". It supersedes Bulletin C-9 "Liabilities, provision, contingent assets and liabilities, and commitments". The first application of this FRS does not involve accounting changes in the financial statements. Some of the main aspects covered by this FRS are the following:

- It reduces the scope by relocating the topic relative to the accounting treatment of the financial liabilities in the FRS C-19 "Financial instruments payable".
- It modifies the definition of "liabilities" by removing the characteristic of "virtually unavoidable" by including the term "probable".
- The terminology is updated in the whole standard for a presentation consistent with the other FRSs.

FRS C-19 *"Financial instruments payable"*- It comes into force for the year beginning on January 2018, with retrospective effects, allowing its application in advance, provided that such application is carried out together with the application of the FRS C-9 "Provisions, contingencies and commitments", and of the FRSs relative to financial instruments which effectiveness and probability to be applied in advance are similar to those indicated for this FRS.

Its main characteristics include:

- It establishes the possibility of appraising, after its initial recognition, certain financial liabilities at their fair value when some conditions are met.
- To appraise long-term liabilities at their current value in their initial recognition.
- In restructuring liabilities, without substantially modifying the future cash flows to settle them, the costs and fees paid in this process will affect the liability amount and they will be amortized on a modified effective interest rate, instead of directly affecting the net profit or loss.
- It integrates the provisions in IFRIC 19 " Financial liabilities extinction with equity instruments", a topic not included in the existing regulations.

(Continued)

- The effect of extinguishing a financial liability must be presented as a financial income in the comprehensive income statement.

- It introduces the concepts of amortized cost to assess the financial liabilities and the concept of the effective interest method, based on the effective interest rate.

Improvements to FRS 2018

In December 2017, the CINIF issued the document "Improvements to FRSs 2018" which contains specific changes to some of the already existing FRSs. The main improvements that result in accounting changes are shown below:

FRS B-2 ***"Cash flow statement"-*** It requires new disclosures about liabilities associated with funding activities that had or had not required the use of cash or cash equivalent, preferably through a reconciliation of the initial and final balance of them. This improvement comes into force for the year beginning on January 1, 2018, allowing its early application. The accounting changes resulting from it must be retrospectively recognized.

The Company's Management considers that the implementation of this improvements to FRSs do not involve a significant impact on the Company's consolidated financial statements.

FRS B-10 ***"Inflation impact"-*** It requires to disclosure the cumulative inflation percentage for the three previous fiscal years used as basis to assess the economic return with which the company worked during the current year whether as inflationary or non-inflationary, and the cumulative inflation percentage of three years, including the two previous years and the current year, which will be used as basis to assess the economic return with which the company will work during the next year. This improvement comes into force for the year beginning on January 1, 2018, allowing its early application. The accounting changes resulting from it must be retrospectively recognized.

The Company's Management considers that the implementation of this improvements to FRSs do not involve a significant impact on the Company's consolidated financial statements.

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