2016
SECOND QUARTER

NAVISTAR FINANCIAL

VARIATION ANALYSIS

REMARKS ON RESULTS

ABOUT THE FINANCIAL SITUATION

NAVISTAR FINANCIAL MEXICO

Navistar Financial came to Mexico in 1997 and operated together with Servicios Financieros Navistar, with the main goal of funding the Floor Plan of the International Dealers Network —a group created in 1996.

Because of the increasing market demand to get retail funding, during 1998 Arrendadora Financiera Navistar and Navistar Comercial were incorporated in order to be able to offer a broader range of financial products.

On December 7, 2017, it was agreed to carry out a merger between Arrendadora Financiera Navistar and Navistar Financial, which came into effect on January 1, 2008.

The main goal of this financial company in our country is to help its clients to be successful by offering them financial solutions based on a consistent and reliable service, as well as on a deep knowledge of the transport sector.

With the Financial Reform, which came into effect on January 10, 2014, some provisions were established, including that the issuing debt SOFOMES ENR must be entities regulated by the National Banking and Securities Commission (CNBV); later, on January 12, 2015, the federal government published on the Official Gazette of the Federation, the secondary regulations which modified the general provisions applicable to SOFOMES ENR (CUIFE), by means of which Navistar Financial became an "E.R." entity regulated by the CNBV since March 1, 2015.

HEADINGS OF THE BALANCE SHEET

The financial information of Navistar Financial, S.A. de C.V. SOFOM E.R. (Navistar Financial or the "Company") submitted for fiscal year 2015 includes changes in its presentation in order to make it comparable to fiscal year 2016 (current regulations).

The Company's ***Assets*** show an increase of $786.8 million Mexican pesos (mmp) in comparison to 2Q 2015; such variation is mainly explained by a growth in the loan portfolio, which is the equipment intended to operating lease and availabilities.

The ***Availabilities and Repurchases*** have a positive variation of $75.8 mmp, with a total balance of $768.9 mmp, comprised by (i) $437 mmp in cash restricted by the issuance of Senior Trust Bonds (CBF), which may be used to pay the liabilities of this same issue and (ii) $331.9 mmp may be used for portfolio acquisition.

On December 3, 2015, resulting from a new issue of CBF NAVISCB15, an Interest Rate Option was hired in compliance with the Trust Agreement entered into.

Consequently, the **Derivative** heading shows a decrease of $0.4 mmp against June 2015; the balance comprises Interest Rate Options acquired in compliance with the Trust Agreement entered into as a result of the issue of the CBFs, with a notional value of $1,800 mmp, and a new Interest Rate Option with a notional value of $616.5 mmp; such instruments show a mark-to-market (MTM) of $(5.3) mmp.

The ***Net Loan Portfolio*** reflects an increase of $625.1 mmp, equivalent to a 6.8% positive variation, compared to 2Q15, which is explained mainly through:

(i) The increase occurred because of a larger unit inventory within the international dealer network, resulting from a new trade program implemented since the first quarter of 2016 in order to face the devaluation of the peso against the US dollar.

(ii) The **Non-Performing Loan Portfolio,** as of the closing of 2Q16, shows a balance of $266.5 mmp, representing 2.7% of the total portfolio, according to Exhibit 34 of the Single Circular of the Bank (2Q15 2.8%). The performance of the non-performing loan portfolio is still affected by factors such as public expenditures cutback, longer credit term granted by forwarders to their clients, reduction in the market liquidity and slowdown in commercial sectors connected to the transport industry because of the devaluation of the peso against the US dollar.

The **Preventive Credit Risk Estimate** shows a decrease of $51.2 mmp, maintaining a hedge of 1 time ("x") the expected loss and of 1.35 times the non-performing portfolio (2Q2015 1.58x).

The appraisal of the preventive credit risk estimate is estimated according to the expected loss methodology.

It is worth to mention that the company, as of June 30, 2016, has executed 5 Trusts, which are described below:

A. On November 5, 2015, an Irrevocable Management Trust Agreement was entered into by Navistar Financial as Settlor and Trustee in Second Place, and Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary, and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative, with regard to the public offer of 6,165,500 CBFs with a nominal value of MX$100.00 (one hundred 00/100, Mexican pesos). The trust assets of this trust are comprised by a portfolio and cash equivalent to $642 mmp as of June 30, 2016.

B. On January 30, 2015, an Irrevocable Guarantee Trust Agreement was executed by Navistar Financial as Settlor and Trustee in second place, Banco Invex, S.A, Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary and CITIBANK, N.A. as Trustee in first place. Such agreement supports a line of credit hired with Banco Nacional de México S.A., member of Grupo Financiero BANAMEX ("BANAMEX") and which holds a 100% guarantee with the Export-Import Bank of the United States ("Exim"). As of June 2016, the balance of the contributed portfolio is $697 mmp.

C. In October, 2014, Navistar Financial ("Settlor", "Trustee in Second Place") entered into an Irrevocable Guarantee Trust Agreement with (i) Export Development Bank of Canada (EDC) "Trustee in First Place" and (ii) Invex as Fiduciary. The purpose of this guarantee is to back the line of the credit granted by EDC. The trust assets of this Trust, as of June, 2016, amount to $782 mmp.

D. In November, 2016, Navistar Financial ("Settlor", "Trustee in Second Place" and "Commission Agent") entered into an Irrevocable Guarantee Trust Agreement with i) Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria ("Fiduciary") and (ii) Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo ("NAFIN" and "Trustee in First Place"). The purpose of this guarantee is to back the line of credit in current account in favor of the Company. The trust assets of this Trust, as of June, 2016, amount to $3,361 mmp.

E. In May, 2013, an Irrevocable Management Trust Agreement was entered into by Navistar Financial as Settlor and Manager, Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary, and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative ("Securitization Trust"), regarding the public offer of 18,000,000 CBF with nominal value of MX$100.00 (one hundred 00/100, Mexican pesos), both executed by Invex. As of the end of June, 2016, the Trust comprised a portfolio and cash equivalent to $1,834 mmp; such Trust foresees the contribution of new assets, which work as guarantee.

These amounts are presented under the heading "loan portfolio", "other accounts receivable" and "property in operating lease" in the balance sheets.

The net of other ***Accounts Receivable*** and ***Accounts Payable*** shows a variation of $24.2 mmp, resulting mainly from the decrease in the intercompany accounts payable, related to the wholesale operation and the reduction in the dealers' credit balance.

In order to comply with the secondary regulation issued by the CNBV and published in the Official Gazette of the Federation on January 12, 2015, the basic financial statements include a change in the presentation of the operating lease movements, showing the payables of such movements as well as their corresponding reserve under the heading "Other receivables (net)".

The heading ***Awarded Assets,*** as of the close of June, 2016, shows a positive variation in the award indicator on the 65pbs portfolio as a consequence of the portfolio growth and the stable performance in the stock rotation of these assets: 0.5% in 2Q16 against 1.1% in 2Q15 ($59.5mdp).

In relation to ***Equipment Intended to Operating Lease,*** as of 2Q16 there are an increment of $272.3 mmp compared to 2Q15, representing a sound growth which in this 2T2016 is of 20.8%. This resulted from the Operating Lease program, permanently focused on big fleets targeted funding.

The heading ***Other Assets*** shows an increase of $14.8 mmp, because of the increase in deferred charges due to the implementation of satellite localization device in the financed units.

As of the close of 2Q16, the Company's **net liabilities from liquid assets** reflect an increase of $455.1 mmp, equivalent to an increase of 5.6%, compared to the same period the previous year, as a result of an increase in the bank loans, which are consequence of the new wholesale trade program.

The heading **Stock Liabilities** shows a balance of $3,281.1 mmp, it is comprised by the equity and interest of (i) CBF in the amount of $1,135.2, corresponding to the issue NAVISCB13, (ii) CBF in the amount of $483.4 mmp for the issue NAVISCB15 (first issue under a $5,000 mmp, 5-year revolving program authorized on November 5, 2015, with) and (iii) Short-Term Bonds ("CB") in the amount of $1,662.3 mmp from a $1,800 program.

In **Bank Loans** there is an increase of $396.5 mmp against 2Q15, a consequence of the hiring and availability of new funding sources with the commercial bank during this quarter. As of June 30, 2016 and 2015, the 34% and 37%, respectively, of the bank loan balance described before are guaranteed by Navistar International Corporation ("NIC") or by Navistar Financial Corporation ("NFC").

In 2Q16 and 2Q15, the net liabilities from liquid assets are guaranteed by the loan portfolio and transport equipment intended to operating lease in the amount of $9,424 and $8,421 mmp, respectively. In addition, as of the closing of June, 2016, the company has a free current portfolio of $2,880 mmp, getting a 1.74 times benchmark of free current portfolio, compared to the outstanding balance of the issue of the current commercial paper.

On the other side, **Deferred Loans and Advanced Collections** do not present a significant variation, which is of $0.7 mmp, representing a 0.65% decrease compared to 2Q2015.

The Company shows financial soundness, which is reflected on a capitalization level (equity/total portfolio) equal to 25.2% (2Q15 22.4%) and a net leverage of the liquid assets of 3.7x (2Q15 4.3x), based on the bank covenants.

HEADINGS IN THE INCOME STATEMENT

The financial information corresponding to fiscal year 2015 includes changes in its presentation in order to make it comparable to the same period in 2016 (current regulations). Additionally, the percentages related to portfolio are organized in annual basis.

As of the end of 2Q16, the ***Financial Margin,*** not affected by the exchange rate fluctuations, reaches $257.0 mmp, which means a negative variation of $9.2 mmp against the same period the previous year, which is explained by the raise occurred in the funding rates of one year in comparison to the other. The interest hedging ratio for 2Q16, not affected by the exchange rate fluctuation, is1.8x (2.0x 2Q15), so the Company is in compliance with the required bank obligations.

In order to comply with the secondary regulation issued by the CNBV and published in the Official Gazette of the Federation on January 12, 2015, the basic financial statements include a change in their presentation of the operating lease movements, and now it shows the operating lease income as well as its depreciation under the heading "Income from operating lease", within the heading "Operating Income".

Regarding the ***Preventive Credit Risk Estimate,*** a $27.6 mmp decrease is observed in comparison to the previous year, resulting from an improvement in the classification of the wholesale and retail client portfolio and an appropriate application of penalties.

Consequently, the ***Financial Margin adjusted by credit risks***, not affected by the exchange rate fluctuations, shows a positive variation of $18.4 mmp.

As part of the Operating Income, the following items are included.

(i) Net fees and commissions collected show positive variations reflected in an income of $9.7 mmp, resulting from the rise in the commissions paid for the wholesale unit sale derived from the program of exchange rate implemented this year, as well as from the reduction in the management fee paid to Navistar Financial Corporation for management of the portfolio for funding other countries, which is significantly lower than the previous year.

(ii) Intermediation Income shows a positive impact of $17.5, resulting from:

a) A positive variation of $21.7 mmp, explained by the derivative instruments and rate exchange fluctuation; due to analysis issues, the net impact of the currency position (excluded in the Financial Margin) must be taken, in 2Q2016 it reaches $6.8 mmp against a $5.3 mmp profit in this same period the previous year.

b) Negative variation because of the Interest Rate transactions, this instrument shows a decrease in its 2016 value derived from the volatility of the Interbank Balance Interest Rate ("TIIE") and the long term curve. Aggregate to 2Q15, there were positive effects of $1.3 mmp on this instruments but during 2016 there has been negative effects of $3.0 mmp.

Such instrument is monthly appraised to Fair Value, based on models commonly used in the financial markets for this kind of operations, and the variations in the instrument appraisal are recorded in the intermediation income, because, once the TIIE reference rate exceeds the interest rate agreed (6%) for IRCAP hired in 2013 and (5%) for IRCAP hired in 2015, the difference in the interest amount connected to this rate will be reimbursed by the financial intermediary in exchange of the premium paid at the beginning of the operation.

(i) ***Management Expenses***; the expenses indicator over the total managed portfolio is 1.8%, a number 53 pbs lower than the 2.3% of 2Q15. A $21.5 mmp reduction can be observed against the 2Q15, resulting from saving strategies implemented by the company in 2016, focused on optimizing resources.

Within the heading **Caused and Deferred Income Taxes**, a negative variation of $56.4 mmp is shown; this effect is consequence of: i) the income tax provision which increase is directly related to the result of the fiscal year and ii) an increase in the deferred tax resulting from a decrease in the fixed assets in 4Q2015.

FUNDING SOURCES

As of June 30, 2016, the Company had $11,792.6 mmp in approved funding sources, which were distributed the following way: (I) 20% in domestic and foreign commercial bank, (ii) 52% in domestic and foreign development bank, (ii) 14% in CBF and (iv) 14% in CB.

The Company maintains $2,398.2 mmp in available lines with funding banks.

The available lines with NIC and NFC 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 of the Floor Plan; in this latter case, as of the end June, 2016, the line was not available as work capital.

Since May 2014, the company has a $12.5 mmp loan with DCI (a Navistar Financial's subsidiary).

There is an issue of CBF NAVISCB13 in the amount of $1,800.0 mmp through the Trust 1455, opened in Invex, with an 1,835-day term, considering a 36-month revolving period for amortization. This issuance was carried out by means of two offers, the first in May, 2013, in the amount of $1,000 mmp, and the second in November, 2015, in the amount of $800 mmp. The Company holds 100% of the property rights certificates of the aforementioned trust. The balance as of June, 2016 is $1,135.2 mmp.

In November, 2015, the first CBF issuance was performed under the Senior Bond Certificate program authorized on November 5, 2015 for up to $5,000 mmp. This first issue, NAVISCB15 in the amount 616.5 mmp, was executed through the Trust 2537, opened with Invex, with an 1,893-day term and with monthly amortizations. As of the end of June 2016, the balance of the issue is $547.1 mmp. The Company holds 100% of the property rights certificates of the previously mentioned trust. The balance as of June, 2016 is $483.4 mmp.

Additionally, the Company has a short-term CBs program of $1,800 mmp; such program was renewed and extended on December 11, 2014, and its balance as of June, 2016 is $1,662.3 mmp.

Below, there is a breakdown of the debt by currency and rate. The debt is expressed in thousands and the currency is indicated in each case.

	Jun-16	%	Jun -15	%
Debt in pesos fixed rate	2,331,249	25%	839,131	10%
Debt in pesos with CAP	1,614,741	17%	1,800,000	20%
Debt in pesos variable rate	2,885,483	31%	2,492,122	28%
TOTAL PESOS	**6,831,473**		**5,131,253**	
Debt in dollars fixed rate	10,032	2%	40,922	7%
Debt in dollars variable rate	128,766	25%	197,295	35%
TOTAL DOLLARS	**138,798**		**238,217**	

The Company, within its risk management activities, frequently requires financial derivative instruments such as Currency Swaps (CCSwap) that help Navistar Financial to keep optimal levels of safety, liquidity and costs without importing the currency in which the credit or loan operation may be performed.

As of June 30, 2016, the Company does not have hired any CCSwap.

According to the Trust Agreement entered into as a result of the issue of the CBF NAVISCB13, two Interest Rate Options were hired under the following conditions:

- CAP on TIIE:
- Notional: 1,000.0 mmp
- Start: May 31, 3013
- Maturity: May 15, 2018
- Counterpart: BANCO NACIONAL DE MÉXICO S.A. MEMBER OF GRUPO FINANCIERO BANAMEX
- Strike: 6%
- Premium: 13.5 mmp

- CAP on TIIE:
- Notional: 800.0 mmp
- Start: November 29, 2013
- Maturity: May 15, 2018
- Counterpart: BBVA BANCOMER S.A.
- Strike: 6%
- Premium: 12.1 mmp

Additionally, and according to the Trust Agreement entered into as a result of the issue of the CBF NAVISCB15, one Interest Rate Option was hired under the following conditions:

- CAP on TIIE:
- Notional: 616.5 mmp
- Start: December 3, 2015
- Maturity: August 15, 2019
- Counterpart: BBVA BANCOMER S.A.
- Strike: 5%
- Premium: 3.6 mmp

Consistently, the Company carries out these transactions in the OTC market and, as part of its guidelines, the institutions with which it operates or executes the derivatives must be institutions with which it has entered into an ISDA Agreement (International Swap Dealers Association). The counterparts must be financial institutions approved by Navistar Financial, in which case, each assignment is the result of a global relationship with the respective entity, besides considering risk factors, economic soundness and commitment of each selected company.

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