2016

THIRD QUARTER

NAVISTAR® FINANCIAL

VARIATION ANALYSIS

REMARKS ON RESULTS

ABOUT THE FINANCIAL SITUATION

NAVISTAR FINANCIAL MEXICO

Navistar Financial came to Mexico in 1997, operating 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 SOFOMES ENR issuing debt must be entities regulated by the National Banking and Securities Commission (CNBV); later, on January 12, 2015, the federal government published in 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.

BALANCE SHEET HEADINGS

The financial information of Navistar Financial, S.A. de C.V. S 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 that of fiscal year 2016 (current regulations).*

The Company's ***Assets*** show a negative variation of $178.2 million Mexican pesos (mmp) in comparison to the 3Q15; such variation is mainly explained by a reduction in the Company's availabilities.

The ***Availabilities and Repurchases*** have a negative variation of $195.3 mmp, with a total balance of $639.2 mmp, comprised by (i) $450.4 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) $188.8 mmp that may be used as working capital.

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 an increase of $5.0 mmp compared to September 2015; the balance comprises Interest Rate Options acquired in compliance with the Trust Agreement entered into as a result of the issue of CBF, 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 a reduction of $116.0 mmp, equivalent to a negative variation of 1.1%, compared to 3Q15, which is explained mainly through:

(i) The reduction of $872.1 mmp in the short-term commercial credit portfolio for the sale of international trucks and buses manufactured in Mexico and exported to Colombia, because of the contraction of the Latin American markets in the current year.

(ii) The **Non-Performing Loan Portfolio,** as of the closing of 3Q16, shows a balance of $217.2 mmp, representing 2.1% of the total portfolio, according to Exhibit 34 of the Single Circular of Banks (3Q15 2.6%). Despite factors such as cutback of the public expenditure, longer terms of credits granted by carriers to their clients, reduction of liquidity in the market and slowdown in the commercial sector related to the transport industry owing to the peso depreciation against the US dollar have impacted the liquidity of our clients, we have managed to keep healthy our indicator of non-performing loans, by reducing it 0.5%, in comparison of one year to the other, thanks to the strengthening of the collection strategies this year.

The **Preventive Credit Risk Estimate** shows a decrease of $66.6 mmp, maintaining a hedge of 1 time ("x") the expected loss and of 1.66x the non-performing portfolio (3Q2015 1.54x). The appraisal of the preventive credit risk estimate is calculated according to the methodology of expected loss.

It is worth to mention that the company, as of September 30, 2016, has executed 6 Trusts, which are described below:

A. On September 5, 2016, 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 5,363,830 CBF 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 of $617 mmp as of September 30, 2016.

B. On November 5, 2015, an Irrevocable Management Trust Agreement was executed 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 CBF 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 of $552 mmp as of September 30, 2016.

C. 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 backs a line of credit hired with Banco Nacional de México S.A., member of Grupo Financiero BANAMEX ("BANAMEX"), which holds a 100% guarantee with the Export-Import Bank of the United States ("Exim"). As of the closing of September 2016, the balance of the contributed portfolio is $665 mmp.

D. 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 September 30, 2016, amount to $670 mmp.

E. In November, 2013, 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 ("Trustee") 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 September 30, 2016, amount to $3,457 mmp.

F. 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 September 2016, the Trust is comprised by a portfolio of $1,365 mmp; such issue is in the stage of amortization.

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 positive variation of $688.5 mmp, resulting mainly from the decrease in the intercompany accounts payable, related to the wholesale transaction because of the acquisition of new units and the increment 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, as of June 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 closing of September, 2016, shows a positive variation in the award indicator on the 38pbs portfolio as consequence of the stable performance in the stock rotation of these assets: 0.58% in 3Q16 against 1.0% in 3Q15 ($42.4 mmp).

In relation to ***Equipment Intended to Operating Lease,*** as of 3Q16 there is an increase of $402.7 mmp compared to 3Q15, representing a growth of 28.8%. This resulted from the Operating Lease program, permanently focused on big fleets targeted funding.

The heading ***Other Assets*** shows an increase of $13.5 mmp, because of the increase in deferred charges due to the implementation of satellite localization device in the financed units.

As of the closing of 3Q16, the Company's **net liabilities from liquid assets** reflect an increase of $489.6 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 increase in the operating lease program.

The heading **Stock Liability** shows a balance of $3,512.1 mmp, comprised by the equity and interest of (i) CBF in the amount of $793,665, corresponding to the issue NAVISCB13, (ii) CBF in the amount of $436,324 mmp for the issue NAVISCB15 (first issue under a $5,000 mmp, 5-year revolving program authorized on November 5, 2015), (iii) CBF in the amount of $538,396 mmp corresponding to the issue NAVISCB16 (second issue under a $5,000 mmp program), and (iii)[SIC] Short-Term Bonds ("CB") in the amount of $1,743.7 mmp from a $1,800-mmp program.

In **Bank Loans** there is an increase of $55.3 mmp against 3Q15, a consequence of the hiring and availability of funding sources with the commercial bank during this quarter. As of September 30, 2016 and 2015, the 35% and 43%, respectively, of the bank loan balances described before are guaranteed by Navistar International Corporation ("NIC") or by Navistar Financial Corporation ("NFC").

In 3Q16 and 3Q15, the bank liabilities are guaranteed by the loan portfolio and transport equipment intended to operating lease in the amount of $7,475 and $6,735 mmp, respectively. In addition, as of the closing of September, 2016, the company has a free current portfolio of $3,047.4 mmp, getting a 1.75x benchmark of free current portfolio, compared to the outstanding balance of the issue of the current commercial paper.

On the other side, the **Deferred Loans and Advanced Collections** do not present a significant variation, which is of $0.5 mmp, representing positives of 0.43%, compared to 3Q2015.

The Company shows financial soundness, which is reflected on a capitalization level (equity/total portfolio) equivalent to 24.8% (3Q15 20.3%) and a net leverage level of the liquid assets of 4.0x (3Q15 5.0x), based on the bank covenants.

HEADINGS IN THE INCOME STATEMENT

The financial information corresponding to the 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 an annual basis.

As of the closing of 3Q16, the ***Financial Margin,*** without effect due to the exchange rate fluctuations, reached $386.1 mmp, which means a negative variation of $16.2 mmp compared to the same period of the previous year, which is explained by the raise in the funding rates of one year in comparison to the other. The interest-hedging ratio for 3Q16, without effect due to the exchange rate fluctuation, is 1.8x (2.0x 3Q15), 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, from June 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 non-material variation of $3.2mmp is observed in comparison to the previous year, which represents a 2.8%, resulting from an improvement in the classification of the wholesale and retail client portfolio and from an appropriate application of penalties.

Consequently, the ***Financial Margin adjusted by the credit risks***, without effect due to the exchange rate fluctuation, shows a negative variation of $19.3mmp.

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

(i) Net fees and commissions collected show a positive variation reflected in an income of $27.3 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 the management of the portfolio for funding other countries, which is significantly lower than the previous year.

(ii) Intermediation income shows a negative impact of $24.3mmp, resulting from:

a) A negative variation of $17.6 mmp, explained by the exchange rate fluctuation and derivative instruments; for analysis issues, the net impact of the currency position (excluded in the Financial Margin) must be taken, in

3Q2016 it reaches a profit of $7.1 mmp against a loss of $7.6 mmp 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 3Q15, there were positive effects of $0.6 mmp on these instruments but during 2016 there has been negative effects of $6.2 mmp.

Such instrument is monthly appraised to Fair Value, based on models commonly used in the financial markets for this kind of transactions, 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 transaction.

(i) ***Management Expenses***; the expenses indicator over the total managed portfolio is 1.75%, a number 31 pbs lower than the 2.07% of 3Q15. A reduction of $26.3 mmp can be observed against the 3Q15, resulting from the saving strategies implemented by the company in 2016, focused on optimizing resources.

Within the heading **Caused and Deferred Income Taxes**, a negative variation of $70.8 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 September 30, 2016, the Company had $12,110.2 mmp in approved funding sources, which were distributed the following way: (i) 19% in domestic and foreign commercial bank, (ii) 53% in domestic and foreign development bank, (ii) 14% in CBF, and (iv) 14% in CB.

The Company maintains $2,275.2 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 working 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 of September, 2016, the line was not available as working capital.

Since May 2014, the company has had 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 a 1,835-day term, considering a 36-month revolving period and 24 months for its 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, 2013, in the amount of $800 mmp. The Company holds 100% of the property rights certificates of the aforementioned trust. The balance as of September 30, 2016 amounts to $791.5 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 of 616.5 mmp, was executed through the Trust 2537, opened with Invex, with a 1893-day term and with monthly amortizations. As of the end of September 2016, the balance of the contributed portfolio amounts to $435.1 mmp. The Company holds 100% of the property rights certificates of the previously mentioned trust.

In September, 2016, the second CBF issuance was performed under the Senior Bond Certificate program authorized on November 5, 2015 for up to $5,000 mmp. This second issue, NAVISCB16, in the amount of $536.3 mmp, was executed through the Trust 2844, opened with Invex, with a 1985-day term and with monthly amortizations. As of the closing of September, 2016, no amortization had occurred. The Company holds 100% of the property right certificates of the aforementioned trust.

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 September 30, 2016 is $1,662.3 mmp.

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

	Sep-16	%	Sep-15	%
Debt in pesos fixed rate	2,734,673	28%	1,036,518	11%
Debt in pesos with CAP	1,763,066	18%	1,800,000	19%
Debt in pesos variable rate	3,341,617	34%	2,649,113	28%
TOTAL PESOS	**7,839,356**		**5,485,631**	
Debt in dollars fixed rate	10,033	2%	21,198	4%
Debt in dollars variable rate	92,953	18%	219,117	38%
TOTAL DOLLARS	**102,986**		**240,315**	

The Company, within its risk management activities, frequently requires to hire financial derivative instruments such as Currency Swaps (CCSwap) that help Navistar Financial to keep optimal levels of security, liquidity and costs regardless of the currency in which the credit or loan transaction may be performed.

As of September 30, 2016, the Company had not 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, 2013
- Maturity: May 15, 2018
- Counterparty: 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
- Counterparty: 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
- Counterparty: 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 (International Swap Dealers Association) Agreement. The counterparties must be financial institutions approved by Navistar Financial, in which case, each designation 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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