2017
THIRD QUARTER

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 wider 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, among other provisions, it was established that 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 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.

BALANCE SHEET HEADINGS

The financial information of Navistar Financial, S.A. De C.V. SOFOM E.R. (interchangeably "Navistar Financial" or the "Company") *presented for fiscal year 2016 includes changes in the presentation in order to make it comparable to fiscal year 2017 (current regulations).*

The Company's ***Assets*** show a negative variation of $154.9 million Mexican pesos (mmp) in comparison to the 3Q16; such variation is mainly explained by a decrease in investments in repurchases, which amounts to $349.7 million Mexican pesos (mmp) and whose decrease is due to the liquidation of the trust 1455 constituted in April 2013.

The ***Availabilities and Repurchases*** have a negative variation of $349.7 mmp, with a total balance of $289.4 mmp, comprised by (i) $141.9 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) $147.5 for availabilities.

On October 7, 2016, resulting from a new issue of CBF NAVISCB 16, an Interest Rate Option was hired in compliance with the Trust Agreement entered into.

Consequently, the **Derivative** heading shows an increment of $4.4 mmp compared to September 2016; the balance comprises two 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 $720 mmp, an Interest Rate Option of notional value of $263 mmp, and a new Interest Rate Option with a notional value of $344 mmp; such instruments show a mark-to-market ("MTM") of $13.6 mmp.

The ***Net Loan Portfolio*** reflects an increment of $493.9 mmp, equivalent to a positive variation of 4.7%, compared to 3Q16, which is explained mainly through:

(i) Increase in the loan portfolio of $438.1 mmp comprised by: a) Increase in the retail trade portfolio of $312.4 mmp resulting from the commercial strategies implemented by Navistar Financial in 2017 and b) Increase of $125.7 mmp in the short-term commercial loan portfolio for the financing of production orders for the United States of America.

(ii) The **Non-Performing Loan Portfolio,** as of the closing of 3Q17, shows a balance of $277 mmp, representing 2.5% of the total portfolio, according to the Exhibit 34 of the Single Circular of the Bank (3Q16 2.1%). This increment results mainly from the implementation of criteria to classify the non-performing portfolio of the Single Circular of the Bank. Despite this criteria implementation and factors such as cutback of the public expenditure, reduction of liquidity in the market and slowdown in the commercial sector related to the transport industry owing to the peso depreciation against dollar have impacted the liquidity of our clients, we have managed to keep our indicator of non-performing loan healthy thanks to the strengthening of the collection strategies applied since the last months of 2016 and reinforced in 2017.

The ***Preventive Credit Risk Estimate*** shows an increment of $3.9 mmp, maintaining a hedge of 1 time ("x") the expected loss and of 1.32 x the non-performing portfolio (3Q2016 1.66x). 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, 2017, has 5 current 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 par value of MX$100.00. (one hundred 00/100, Mexican pesos). The trust assets of this trust are comprised by a portfolio of $422 mmp as of September 30, 2017.

B. On September 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 CBF with a par value of MX$100.00. (one hundred 00/100, Mexican pesos). The trust assets of this trust are comprised by a portfolio of $340 mmp as of September 30, 2017.

C. On January 30, 2015, an Irrevocable Guarantee Trust Agreement was entered into 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- Bank of the United States ("Exim"). As of the closing of September 2017, the balance of the contributed portfolio is $344 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, 2017, amount to $1,198 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 ("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 September 30, 2017, amount to $4,134 mmp.

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 negative variation of $118.5 mmp, which is mainly due to a reduction of the intercompany Accounts Receivable related to the wholesale operation for the purchase of new units.

The heading ***Awarded Assets,*** as of the closing of September, 2017, shows a negative variation in the award indicator on the 44pbs portfolio as consequence of a less the stock rotation of these assets: 1.02% in 3Q17 against 0.58% in 3Q16.

In relation to ***Equipment Intended to Operating Lease,*** as of 3Q17 there are an increment of $225.9 mmp compared to 3Q16, representing a growth of 12.6%. This resulted from the Operating Lease program, permanently focused on big fleets targeted funding.

The headings ***Other Assets*** shows a reduction of $37.4 mmp, caused mainly by the reduction in expenses for credit instrument issue and other deferred expenses.

As of the closing of 3Q17, the Company's **Net liabilities of liquid assets** reflect an increase of $177.4 mmp, equivalent to an increase of 1.9% in comparison to the same period of the previous year.

The heading **Stock Liability** shows a balance of $2,420 mmp, comprised by the equity and interest of a, (i) CBF in the amount of $273.7 mmp for the issue NAVISCB 15 (first issue under the$5.000 bmp, 5 year revolving program authorized on November 5, 2015), (ii) CBF in the amount of $338.9 mmp corresponding to the issue NAVISCB 16 (second issue under the $5.000 bmp program), and (iii)[SIC] Short-Term Bonds ("CB") in the amount of $1,807.4 mmp from a $1.8-bmp program.

In **Bank Loans,** there is an increase of $919.9 mmp against 3Q16, a consequence of the hiring and availability of funding sources with the commercial bank and development banking during the year to fund growth in credit and leasing portfolios. As of September 30, 2017 and 2016, the 37% and 35%, respectively, of the bank loan balance described before are guaranteed by Navistar International Corporation "NIC" or by Navistar Financial Corporation ("NFC").

In 3Q17 and 3Q16, the bank liabilities are guaranteed by the loan portfolio and transport equipment intended to operating lease in the amount of $8,688 and $7,475 mmp, respectively. In addition, as of the closing of September, 2017, the company has a free current portfolio of $3,784 mmp, getting a 2.10 times benchmark of free current portfolio, compared to the outstanding balance of the issue of the current commercial paper.

Moreover, the **Deferred Loans and Advanced Collections** show a positive variation of $14.8 mmp, representing a variation of 13.9% compared to 3Q2016. This is mainly because an increment in the financial accrual income and commissions collected in advance because of loan granting.

The Company shows financial soundness, which is reflected on a capitalization level (equity/total portfolio) equivalent to 27.1% (3Q16 24.8%) and a net leverage level of the liquid assets of 3.4x (3Q16 4.0x), based on the financial covenants.

HEADINGS IN THE INCOME STATEMENT

The financial information corresponding to the fiscal year 2016 includes changes in its presentation in order to make it comparable to the same period in 2017 (current regulations). Additionally, the percentages related to portfolio are organized in an annual basis.

As of the closing of 3Q17, the ***Financial Margin,*** not affected by the exchange rate fluctuations, reaches $409.8 mmp, which means a positive variation of $23.7 mmp compared to the same period the previous year, which is explained mainly by the increase on income from commercial loans thanks to new business strategies implemented as of June of this year. The interest coverage ratio for 3Q17, not affected by the exchange rate fluctuation, is1.6x (1.8x 3Q16), so the Company is in compliance with the required bank obligations.

Regarding the ***Preventive Credit Risk Estimates***, it shows a positive variation in relation to the previous year of $17.7 mmp, representing a decrease of 15%; this mainly because to the equilibrium between an appropriate risk portfolio control and the implementation of criteria to classify the non-performing portfolio of the single circular of bank previously mentioned.

Consequently, the ***Financial Margin adjusted by the credit risks***, not affected by the exchange rate fluctuation, shows a positive variation of $41.4 mmp.

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

(i) The net of commissions and tariffs collected and paid shows a positive variation reflected in the income of $19.9 mmp, because of the increment in the commissions collected for commercial loans derived from the increment in the retail loan portfolio.

(ii) Intermediation income shows a negative impact of $36.2 mdp, resulting from:

a) A positive variation of $77 mmp, explained by the rate exchange fluctuation and derivative instruments; for analysis issues, the net impact of the currency position (excluded in the Financial Margin) must be taken, in 3Q2017 it reaches a loss of $28.9 mmp against a profit of $13.3 mmp in this same period the previous year.

b) Negative variation because of the Interest Rate transactions, this instrument shows a decrease in its 2017 value derived from the volatility of the Interbank Balance Interest Rate ("TIIE") and the long-term curve. Aggregate to 3Q16, there were negative effects of $6.2 mmp on this instrument but during 2017 there has been negative effects of $46.9 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 of the total managed portfolio is 2.23%, a number 45 pbs greater than the 1.71% of 3Q16. An increment of $54.7 mmp is shown in comparison to the 3Q16, derived mainly from an increment in fees related to collection, expenses related to technological systems and other administration expenses.

Within the heading **Caused and Deferred Income Taxes**, a positve variation of $12.8 mmp is shown; this effect is consequence of the income tax provision which reduction is directly related to the decrease in provisions for expenses and prepayments as well as an increase in deferred income.

FUNDING SOURCES

As of September 30, 2017, the Company had $13,076.6 mmp in approved funding sources, which were distributed the following way: (i) 29.2% in domestic and foreign commercial bank, (ii) 52.3% in domestic and foreign development bank, (ii) 4.7% in CBF, and (iv) 13.8% in CB.

The Company maintains $3,421.9 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 of September, 2017, the line was not available as work capital.

In November, 2015, the first CBF issuance was performed under the Senior Bond Certificate program authorized on November 5, 2015 for up to $5 bmp. This first issue, NAVISCB 15 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 closing of September 2017, the balance of the issue is $273.7 mmp. The Company holds 100% of the property rights certificates of the aforementioned 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 bmp. This second issue, NAVISCB 16 in the amount of $536.4 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, 2017, the balance of the issue is $338.9 mmp. The Company holds 100% of the property rights certificates of the aforementioned trust.

Additionally, the Company maintains a short-term CBs program of $1.8 bmp; such program was renewed and extended on February 17, 2017, and its balance as of September 30, 2017 is $1,807.4 mmp.

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

	Sep-17	%	Sep -16	%
Debt in pesos fixed rate	4,008,771	52%	2,734,673	35%
Debt in pesos with CAP	1,326,945	17%	1,763,066	22%
Debt in pesos variable rate	2,338,296	31%	3,341,617	43%
Subtotal pesos	**7,674,012**		**7,839,356**	
Interest payable	**30,529**		**23,408**	
TOTAL PESOS	**7,704,541**		**7,862,764**	
Debt in dollars fixed rate	0	0%	10,033	10%
Debt in dollars variable rate	109,075	100%	92,953	90%
Subtotal dollars	109,075		102,986	
Interest payable	549		468	
TOTAL DOLLARS	**109,624**		**103,454**	

The Company, within its risk management activities, frequently requires hiring financial derivative instruments, such as Currency Swaps (CCSwap), which 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 September 30, 2017, the Company did not had hired a CCSwap.

According to the Trust Agreement entered into as a result of the issue of the CBF NAVISCB 13, two Interest Rate Options were hired under the following conditions:

- CAP on TIIE
- Notional: 1.0 bmp
- Start date: May 31, 2013
- Maturity date: 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 date: November 29, 2013
- Maturity date: May 15, 2018
- Counterparty: BBV A BANCOMER S. A.
- Strike: 6%
- Premium: 12.1 mmp

According to the Trust Agreement entered into as a result of the issue of the CBF NAVISCB 15, one Interest Rate Options were hired under the following conditions:

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

Additionally, and according to the Trust Agreement entered into as a result of the issue of the CBF NAVISCB 16, one Interest Rate Options were hired under the following conditions:

- CAP on TIIE
- Notional: 536.3 mmp
- Start date: October 07, 2016
- Maturity date: September 15, 2020
- Counterparty: BBV A BANCOMER S. A.
- Strike: 6%
- Premium: 4.6 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 assignment is the result of a global relationship with the respective entity, besides considering risk factors, economic soundness and commitment of each selected institution.

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