2019
THIRD QUARTER

NAVISTAR® FINANCIAL

VARIATION ANALYSIS

COMMENTS ON THE RESULTS

ABOUT THE FINANCIAL SITUATION

NAVISTAR FINANCIAL MEXICO

Navistar Financial came to Mexico in 1997 operating with the company Servicios Financieros Navistar, with the main purpose of funding the Floor Plan of the Network of International Distributor, a group created in 1996.

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

On December 7, 2007, a merger was agreed between Arrendadora Financiera Navistar and Navistar Financial, which came into effect on January 1, 2008.

The main goal of this financial company in Mexico 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 set, including that the SOFOMES ENR entities issuing debt must be entities regulated by the National Banking and Securities Commission (CNBV) of Mexico. Then, on January 12, 2015, the federal government published in the Official Gazette of the Federation, the secondary regulations modifying the general provisions applicable to SOFOMES ENR (CUIFE); consequently, Navistar Financial became an Entity Regulated ("E.R.") by the CNBV since March 1, 2015.

BALANCE SHEET HEADINGS

The financial information about Navistar Financial, S.A. de C.V. SOFOM E.R. (Navistar Financial or the "Company") submitted for the fiscal year 2018 includes changes in its presentation in order to make it comparable to the fiscal year 2019 (current regulations).

The Company's ***Assets*** show a positive variation of $81.3 million Mexican pesos (mmp) in comparison to the 3Q18; such variation is due to a decrease of the loan portfolio and an increment in the availabilities, equipment intended for operating lease, awarded assets and other accounts receivable.

Availabilities and Repurchases have a positive variation of $576.5 mmp, with a total balance of $1.6188 bmp, comprised of (i) $209.9 mmp in cash restricted by the issue of Senior Trust Bonds ("CBF"), which may be used to pay the liabilities of these same issues, and (ii) $1.4088 bmp of availabilities.

On September 20, 2018, an interest rate option was hired. Compared to the closing of September 2018, the heading **Derivatives** , as of the closing of September 2019, shows a reduction of $18.1 mmp; this balance comprises three Interest Rate Options acquired in compliance with the Trust Agreements entered into as a result of the issues of CBF as follows: with a notional value of $616.5 mmp, an Interest Rate Option of notional value of $536.4 mmp, an Interest Rate Option of notional value of $709.5 mmp; as well as one Interest Rate Option hired on March 28, 2018 with a notional value of $374.6 mmp, on September 20, 2018 with a notional value of $225.8 mmp, and on September 20, 2018 with a notional value of $819.7 mmp; such instruments show a mark-to-market ("MTM") of $0.65 mmp.

The **total Loan Portfolio (Net)** shows a decrease of $1.1788 bmp, equivalent to a negative variation of 9.4%, compared to 3Q18, which is explained mainly through:

(i) Reduction in the current loan portfolio amounting $1.2875 bmp, due mainly to: a reduction in the floor plan portfolio of $714.2 mmp, a decrease of $340.00 in the portfolio of loans granted to manufacture and export trucks to the United States, and a decrease in the short-term commercial loans to sale International trucks and buses manufactured in Mexico and exported to Colombia in the amount of $447.9 mmp; partially compensated by an increment in the loan portfolio of retail trade products, equivalent to 2.9%, in comparison to 3Q2018.

(ii) The **Non-Performing Loan Portfolio,** as of the closing of 3Q19, shows a balance of $430.45 mmp, representing 3.6% of the total portfolio, according to the Exhibit 34 of the Single Circular of Banks (3Q18 2.3%). The increment in the non-performing portfolio is due to the negative performance of some clients, including one which started a process of insolvency; this, in compliance with the current regulations.

The ***Preventive Credit Risk Estimate*** shows an increment of $21.4 mmp, maintaining a hedge of 1 time ("x") the expected loss and 1.1x the non-performing portfolio (3Q2018 1.5x). 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, 2019, has executed 5 Trusts, which are described below:

A. On October 17, 2017, an Irrevocable Management Trust Agreement was entered into by Navistar Financial as Settlor and Beneficiary 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, related to the public offer of 7,370,000 CBF with a nominal value of MX$100.00. (one hundred 00/100, Mexican Pesos). The trust assets of this trust are comprised of a portfolio of $ 247 mmp as of September 30, 2019.

B. On September 5, 2016, an Irrevocable Management Trust Agreement was entered into by Navistar Financial as Settlor and Beneficiary 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, related 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 of a portfolio of $80 mmp as of September 30, 2019.

C. In October 2014, Navistar Financial ("Settlor", "Beneficiary in Second Place") entered into an Irrevocable Escrow Agreement with (i) Export Development Bank of Canada (EDC) "Beneficiary in First Place" and (ii) Invex as "Fiduciary". The purpose of this guarantee is to back the line of credit granted by EDC. The trust assets of this Trust, as of September 30, 2019, amount to $2.707 bmp.

D. On January 30, 2015, an Irrevocable Escrow Agreement was entered into 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"). Since March 15, 2019, the debt has been paid; currently, the parties are in process for terminating such trust.

E. In November 2013, Navistar Financial ("Settlor", "Beneficiary in Second Place" and "Commission Agent"), entered into an irrevocable escrow 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 "Beneficiary in First Place"). This trust was superseded on May 27, 2019 by a new escrow and payment source in Banco Monex S.A Institución de Banca Múltiple, Monex Grupo Financiero ("Monex"), ("Fiduciary"), transferring the Nafin trust portfolio to the new trust, which secures the guarantee to back up the line of credit in current account in favor of the Company. The trust assets of this Trust, as of September 30, 2019, amount to $2.370 bmp.

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 $1.6439 bmp, which is mainly due to: a) foreign exchange trading transactions (swap) in the amount of $468.2 mmp and b) $1.1808 bmp derived from the increase of the intercompany account payable related to the wholesale operation, a strategy which purpose is optimize the cost of the funding of the company.

Awarded Assets, as of the closing of September 2019, shows a negative variation in the portfolio award indicator of 59 pbs due to a lower stock rotation of the inventory of these assets: 1.16% in 3Q19, compared to 0.57% in 3Q18.

In relation to ***Equipment Intended for Operating Lease,*** as of 3Q19 there is a $544.6 mmp increment, compared to 3Q18, representing a growth of 23.2%; resulting from the Operating Lease program, permanently focused on big fleets targeted funding.

Other Assets shows a reduction of $24.4 mmp, caused mainly by the reduction in expenses derived from credit instrument issue and from medical expenses insurance policies paid in advance in 2018.

As of the closing of 3Q19, the Company's **Net Liabilities of Liquid Assets** reflect a reduction of $2.9683 bmp, equivalent to 29.4% in comparison to the same period of the previous year.

"Stock Liability" shows a balance of $1.8824 bmp, comprised of the equity and interest of a (i) CBF in the amount of $66.8 mmp, corresponding to the issue NAVISCB16 (Second issue under a $5 bmp, 5-year program), (ii) CBF in the amount of $207.6 mmp corresponding to the issue NAVISCB17 (Third issue under a $5-bmp program), and (iii) Short-Term Bonds ("CB") in the amount of $1.6080 bmp from a $3-bmp program.

Regarding **Bank Loans,** there is a reduction of $2.1115 bmp, compared to 3Q18, consequence of the strategy implemented in the treasury area, which has resulted in resource efficiency and better management of such resources. As of September 30, 2019 and 2018, the 0% and 24%, respectively, of the balance of the aforementioned bank loans is guaranteed by Navistar International Corporation ("NIC") or by Navistar Financial Corporation ("NFC").

In 3Q19 and 3Q18, the bank liabilities are guaranteed by the loan portfolio and the transport equipment intended for operating lease in the amount of $8.536 and $9.827 bmp, respectively. In addition, as of the closing of September 2019, the company has a free current portfolio of $6.827 bmp, getting a 4.26-time indicator of free current portfolio, compared to the outstanding balance of the issue of the current commercial paper.

Moreover, **Deferred Loans and Advanced Collections** show a variation of $60.5 mmp, representing a negative variation of 47.5%, compared to 3Q2018. This is mainly due to an increase of the income to be accrued corresponding to the sale of trucks of operating leases ended which were still in process as of the closing of the quarter.

The Company shows a financial soundness, which is reflected in a capitalization level (equity / total portfolio) equivalent to 35.0% (3Q18 27.1%) and a net leverage level of the liquid assets of 2.6x (3Q18 3.4x), based on bank covenants.

INCOME STATEMENT HEADINGS

The financial information corresponding to the 2018 period includes changes in its presentation in order to make it comparable to the same period in 2019 (current regulations). Additionally, the percentages related to portfolio are arranged on an annual basis.

As of the closing of 3Q19, the ***Financial Margin***, not affected by the exchange rate fluctuation, amounts to $521.8 mmp, which represent a positive variation of $56.4 mmp, compared to the same period in the previous year, which is mainly explained by an increment in the income derived from the loan portfolio, as well as by a reduction in the funding cost. The interest hedge ratio for 3Q19, not affected by the exchange rate fluctuation, is 1.7x (1.7x 3Q18); therefore, the Company is in compliance with the required bank obligations.

The ***Preventive Credit Risk Estimates*** show a positive variation, compared to the previous year, of $23.1 mmp, representing a decrease of 16%; this is mainly because, during 2018, increased the default probability of some clients, including a client who started a process of insolvency.

Consequently, the ***Financial Margin Adjusted by the Credit Risks***, not affected by exchange rate fluctuation, shows a positive variation of $79.5 mmp.

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

(i) The net of collected and paid fees and rates shows a positive variation reflected in an income of $15.8 mmp, as a consequence of the reduction in the heading "collected fees" due to the creation of new loans, including floor plan, as well as due to the reduction of fees paid for the operation of trucks manufactured in Mexico and exported to Colombia.

(ii) Intermediation income shows a positive impact of $18.8 mmp, resulting from:

a) A positive variation of $37.4 mmp, explained by the fluctuations in the exchange rate and derivative instruments. For analysis purposes, the net impact of the currency position (excluded in the Financial Margin Analysis) must be considered, which in 3Q2019 amounts to a profit of $4.9 mmp, compared to the $12.1 mmp profit in this same period the previous year.

b) A negative variation resulting from the Interest Rate transactions. This instrument shows an increment in its 2019 value derived from the volatility of the Interbank Balance Interest Rate ("TIIE") and the long-term curve. Aggregate as of 3Q18, there were negative effects of $44.0 mmp on these instruments, and during 2019 there have been negative effects of $62.5 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 the IRCAP hired in 2013 and (5%) for IRCAP hired in 2015, the difference in the interest amount associated with this rate will be reimbursed by the financial intermediary in exchange of the premium paid at the beginning of the transaction.

The ***Operating Lease Income*** shows no variation due to two factors: a) the increment in the income in the amount of $14.6 mmp, derived from a larger volume of operating leases granted mainly to fleets, and b) the recognition of reserves for clients with a default of more than 90 days, in the amount of $14.7mmp.

Other operating income and expenses shows a positive variation of $50.4 mmp, derived mainly from negative impacts in 3Q2018 related to impairments in computing projects and other related projects with estimates for non-recoverable accounts.

Administrative Expenses show a decrease of $1.5 mmp (representing 1% in comparison to 3Q2018), due mainly to: a) Savings in expenses paid to the parent company for concept of use of facilities, and b)increase in fees paid to collection agencies; the indicator of expenses on the total managed portfolio is at a 1.97% level in comparison to 3Q18 (1.80%); this mainly because of the reduction in the portfolio.

Within the heading ***Caused and Deferred Income Taxes***, a negative variation of $49.0 mmp is shown; this effect is a consequence of the income tax provision which increase is directly related to the fiscal year income, which is 32% higher in comparison to 3Q18.

FUNDING SOURCES

As of September 30, 2019, the Company had $15.8611 bmp in authorized funding sources, which were distributed the following way: (i) 33.1% in domestic and foreign commercial bank, (ii) 55.0% in domestic and foreign development bank, (iii) 1.8% in CBF, and (iv) 10.1% in CB.

The Company maintains $7.1616 bmp in lines available with funding banks.

The available lines with NIC and NFC are still being operated as guarantees of some bank lines and/or as working capital through intercompany loans intended for the acquisition of new units or spare parts of the Floor Plan; in this latter case, as of the end of September 2018, this line was not available as working capital

In September 2016, the second CBF issue was performed under the Senior Bond Certificate program authorized on November 5, 2015, for up to $5 bmp. This second issue, NAVISCB16 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 2019, the balance of this issue is $66.8 mmp. The Company holds 100% of the titles of the trust assets of the aforementioned trust.

In October 2017, the third CBF issue was performed under the Senior Bond Certificate program authorized on November 5, 2015 for up to $5 bmp. This third issue, NAVISCB17 in the amount of $737 mmp, was executed through the Trust 3290, opened with Invex, with a 1972-day term and with monthly amortizations. As of the closing of September 2019, the balance of this issue is $207.6 mmp. The Company holds 100% of the titles of the trust assets of the aforementioned trust.

Additionally, the Company has a short-term CBs program of $3 bmp; such program was renewed on February 17, 2017 and extended on October 24, 2018, and its balance as of September 30, 2019 is $1.6079 bmp.

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

	Sep -19	%	Sep -18	%
Debt in Pesos fixed rate	4,025,335	50%	3,463,929	40%
Debt in Pesos with CAP hedge	0	0%	1,955,302	23%
Debt in Pesos variable rate	3,965,776	50%	3,163,684	37%
Subtotal Pesos	**7,991,111**		**8,582,915**	
Interest payable	**33,519**		**42,919**	
TOTAL PESOS	**8,024,630**		**8,625,834**	
Debt in Dollars fixed rate	0	0%	0	0%
Debt in Dollars variable rate	35,892	100%	133,119	100%
Subtotal Dollars	**35,892**		**133,119**	
Interest payable	**2**		**349**	
TOTAL DOLLARS	**35,894**		**133,468**	

The Company, among 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 is performed.

As of September 30, 2019, the Company has not hired any CCSwap.

Under the Trust Agreement entered into as a result of the issue of the CBF NAVISCB16, one Interest Rate Option was hired under the following conditions:

- CAP on TIIE
- Notional: 536.3 mmp
- Start date: October 07, 2016
- Maturity date: September 15, 2020
- Counterparty: BBVA BANCOMER S.A.
- Strike: 6%
- Premium: 4.6 mmp

Under the Trust Agreement entered into as a result of the issue of the CBF NAVISCB17, one Interest Rate Option was hired under the following conditions:

- CAP on TIIE
- Notional: 709.5 mmp
- Start date: November 15, 2017
- Maturity date: August 15, 2022

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

Consolidated financial statements

September 30, 2019 and 2018

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 September 30, 2019 and 2018

(Thousands of pesos)

(1) Company's 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 which address is Ejército Nacional 904, Colonia Polanco, Alcaldía Miguel Hidalgo, Mexico City. Its main activity is the granting of loans and financial lease to individuals or entities for the purchase of automotive vehicles, auto parts, and services related thereto, as well as transport equipment operating lease, mainly of the brand International, through its network of distributors all over the Mexican Republic.

Navistar Financial is a subsidiary of Navistar International Corporation and partner of Navistar Comercial, S. A. de C. V., Navistar International Corporation and Navistar Comercial, S. A. de C. V own 90.63% and 9.37% of Navistar Financial's corporate equity, respectively.

Servicios Corporativos NFC, S. de R. L. de C. V. (Servicios Corporativos), a subsidiary of Navistar Financial) is a company incorporated under the Mexican law. The main activity of Servicios Corporativos is the provision with administrative 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 October 28, 2019, José A. Chacón Pérez (Executive President), Vishal Khairari (Chief Financial and Administrative Officer, Global Operations), Federico Viramontes (Director of Finance and Mexico Controller), and Nancy H. Trejo González (Internal Control Manager), authorized the issue of the attached consolidated financial statements and the notes thereof.

According to the General Business Companies Act, the provisions of the National Banking and Securities Commission (the Commission), as well as the bylaws of the Company, the shareholders and the Commission have the capacity to modify the consolidated financial statements after their issue.

Presentation basis

a) Compliance statement

On January 12, 2015, the resolution modifying the general provisions applicable to Regulated Multi-Purpose Financial Companies (SOFOMES) was published in the Official Gazette of the Federation (DOF), 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 the transactions thereof, shall apply the accounting criteria for credit institutions in Mexico (Accounting Criteria) provided by the Commission in Exhibit 33 of the general provisions applicable to credit institutions (the Provisions), except for the series "D" of such criteria, since they shall apply series "D" of the 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, and in a context broader than the Mexican Financial Reporting Standards (FRS), the general complementary rule bases provided in FRS A-8 shall apply, and only in case that the International Financial Reporting Standards (IFRS) referred to in FRS A-8 do not provide a solution to the accountable recognition, another complementary rule of any other regulatory framework may be applied, provided that such complementary rule complies with all the requirements indicated in the aforementioned FRS. 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 part of a formal and recognized group of standards, provided that such accounting standard complies with the requirements in the Commission's criterion A-4

b) Use of judgments 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 as of the date of the consolidated financial statements, in addition to the recorded amounts of income and expenses during the year. The actual income may differ from these estimates and assumptions.

Judgments-

The information regarding any judgment made during the implementation of the accounting policies with the major effects on the amounts recognized in the consolidated financial statement is described in the following notes:

- Notes 3(h) and 3(j): Classification of leases;
- Note 3(o): Residual value of the assets in operating lease.

Assumptions and uncertainties in the estimates-

The information about estimate assumptions and uncertainties with a significant risk of resulting in a material adjustment to the amounts of asset and liability books during the following year is included in the notes described below:

- Note 3(g) and 9: Valuation of the trading financial derivative instruments;
- Notes 3(l) and 10 (b): Preventive credit risk estimates;
- Notes 3(r) and 19: Recognition of deferred assets for income tax and employee profit sharing;
- Notes 3(u) and 14: Measurement of defined employee benefit obligations.

c) Operation and reporting currency

The aforementioned consolidated financial statements are presented in Mexican Peso reporting currency, which is equal to the registration currency and its operation currency.

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

d) Recognition of assets and liabilities on the date of the deal

The attached consolidated financial statements recognize the assets and liabilities derived from foreign exchange trading, repurchases and transactions derived from trading, on the date in which the operation is made, regardless their date of settlement.

(3) Summary of the main accounting policies-

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

(a) Recognition of the inflationary impact-

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

(b) Consolidation basis-

The consolidated financial statements include the financial statements of Navistar Financials and its subsidiary, Servicios Corporativos (which 99.97% of corporate equity is held by Navistar Financial). The major balances and transactions between Navistar Financial and Servicios Corporativos have been removed in the preparation of the consolidated financial statements. The consolidation was carried out based on the audited financial statements of Servicios Corporativos as of September 30, 2019 and 2018.

(c) Availabilities-

Availabilities include deposits in Mexican-Peso and US-Dollar bank accounts, which are recognized at their par value, they also include 24- and 48-hour foreign exchange trading transactions that according to the applicable regulations are not considered derivatives.

The foreign currency acquired in 24- and 48-hour trading transactions are recognized as restricted availability (currency to be received); while the foreign currency sold are recorded as a cash outflow (currency to be delivered). The rights and obligations derived from the foreign currency exchange aforementioned are recorded under the heading “Other accounts receivable” and “Creditors for settlement of transactions”, respectively

As of the date of the consolidated financial statements, the interest is recognized in the income of the year as it is accrued under the heading “Interest Income”.

(d) Settlement accounts-

The amounts receivable and payable derived from financial derivative instrument transactions and repurchase transactions, which, having reached their maturity, have not currently been settled, as well as the amounts receivable or payable derived from foreign exchange trading transactions in which no immediate settlement was agreed or in those of the same day value date, are registered in the settlement accounts under the heading “Other accounts receivable” and “Creditors for settlement of transactions”, as applicable.

(e) Security investments-

Security investments include the debt securities acquired for the Company Management’s purpose of, and with the capacity of, holding them until their maturity. They are classified using the following category:

Held to maturity securities-

These are debt securities with fixed or determinable payment and fixed maturity, with the purpose and capacity to hold them until their maturity.

These securities are initially recognized at their fair value, and then are valued at their amortized cost, which means that the interest amortization or discount, as well as the transaction costs, are included in the accrued interest recognized in income under the heading “Interest income”. The interest is recognized in income as it is accrued after the securities are transferred. The trade income is recognized considering the difference between the net realizable value and the book value of the securities, under the heading “Intermediation Income, net”.

As of September 30, 2019 and 2018, no security transfers between categories were performed.

(f) Repurchase transactions-

On the date of the repurchase transaction hiring, the entity, acting as the repurchasing entity, recognizes either the cash outflow or a creditor settlement account, recording an account receivable initially measured at the agreed price, representing the right to recover the cash handed out. During the repurchase life, the mentioned account receivable is valued at its amortized cost through the recognition of the repurchase interest in the year income, as it is accrued, following the method of effective interest affecting such account receivable.

As for the collateral received, the Company recognizes it in memorandum accounts and, when it is other than cash, the Company will follow the guidelines set forth in Criterion B-9 "Property custody and management" for its valuation, until the repurchase maturity.

The interest accrual for repurchases derived from transactions is presented under the heading “Interest income”.

(g) 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. Their accountable treatment is described below:

Interest rate swaps and CSS-

The transactions related to flow exchange or asset performance (swaps and CCS) are recorded in the assets and the liabilities, according to 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 profit or loss in the income under the heading "Intermediation income, net”.

Options-

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

(h) Loan portfolio-

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

The lines of credit that have not been used are recorded in the memorandum accounts, under the heading “Loan commitments”. The amount used by the borrower will be included in the commercial loan portfolio.

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

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

The Company recognizes an account receivable for financial leasing when at least one of the following assumptions are met in the contracts.

- The lessor transfers the ownership of the asset to the lessee at the end of the lease term.

- The lease has a call option and a value lower than the asset fair value is expected to be given; such call option is deemed reasonably certain to be executed at the beginning of the lease.

- The lease term covers most part of the economic lifetime of the leased asset.

- At the beginning of the lease, the current value of the minimal lease payment amounts, at least substantially, to all fair value of the leased asset.

- The leased asset is of so specialized nature that only the lessee can use them without significant modifications.

- The lessee can cancel the lease, and the lessor’s losses associated with this cancellation are at lessee's expenses.

- The loss and profit derived from the fluctuations in the fair value of the estimated residual value of the leased asset shall be in charge of the lessee.

- The lessee can offer the lease at a rent significantly lower than the market rent.

When at least one of the aforementioned assumptions does not become real, the Company recognizes the lease as an operating lease and registers it as a fixed asset, recognizing the rent income as it is accrued.

Additionally, the Company classifies its portfolio as wholesale and retail trade. The wholesale trade portfolio corresponds to those loans granted 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.

The fees derived from opening a loan are initially recorded as a deferred loan and they are recognized in income according to the loan term that originated them.

(i) Overdue loans and interest-

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

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

Loans which amortization of principal and interest was 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 in bankruptcy.

The recognition of interest in the consolidated income statement is suspended upon transferring the loan to the non-performing portfolio. As long as the loan remains in the non-performing portfolio, the interest accrued are recorded in the memorandum account.

When such overdue interest is collected, it is recognized in the year income under the heading “Interest income”.

As for the accrued non-collected interest corresponding to loans deemed as non-performing portfolio, an estimate equivalent to the total thereof is performed when transferring the loan as non-performing portfolio. Such estimate is canceled when the interest is actually collected or when there is evidence of sustained payment.

Any overdue loans which outstanding balance is completely paid (principal and interest, among other) or those any restructured or renewed loans with evidence of sustained payment are transferred to the current loan 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 is recognized under the heading “Interest income”.

Sustained payment-

It is deemed that a sustained payment exists when the borrower is in compliance with the payment without delay for the due and payable amount of principal and interest, of at least three consecutive amortizations of the loan payment schedule or, in case of loans with amortizations covering terms longer than 60 calendar days, the payment of one installment.

As for the loans with one single payment of capital at maturity, whether the interest payment is regular or not, the sustained payment evidence will be deemed met when the borrower had paid at least 20% of the original loan amount at the moment of the loan restructuring or renewal or if the accrued interest amount corresponding to a 90-day term, as per the payment schedule of the loan restructuring or renewal, has been paid. For this purpose, the accrued interest recognized in the memorandum accounts are not considered.

Charges to the allowance are done when a practical recovery impossibility is determined, charging off the corresponding amount in the non-performing portfolio. Occasionally, the Management determines, when at the management’s opinion it may be necessary, that a current loan must be considered non-recoverable.

(j) Operating lease-

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

The assets to be leased are registered at their purchase costs and account for the properties acquired by the Company, which corresponding lease contract is in the process of being executed.

The account receivable for operating lease represents the amounts of the outstanding accrued rents and the leased asset is subject to the fixed asset policies described in note 3(o).

(Thousands of pesos)

(k) Securitization transactions-

The Company performs loan portfolio securitization transactions where it assesses whether such transaction complies with the requirements of financial asset recognition and writing off, in accordance with the provisions of the Accounting Criteria. If such asset writing off does not comply with the requirements for its derecognition, 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 bond are recognized as liabilities under the heading "Stock liabilities”.

(l) Preventive credit risk estimates-

The Company determines a preventive credit risk estimate, which, at Management's criterion, is enough to cover any loss of the loan portfolio.

The Management determines the preventive credit risk estimates based on the expected loss, applicable to the whole commercial portfolio, observing the Provisions for the preventive credit risk estimates applicable to Credit institutions, set forth by the Commission, which are described below:

- In the case of loans granted to entities or persons with business activities, with income higher or equal to the equivalent in Mexican Pesos to 14 million UDIs, the estimate is calculated according to the general methodology set forth in the Exhibit 22 of the Provisions; on the other hand, in case of a net income or sale income lower than the equivalent in Mexican Pesos to 14 million UDIs, such estimate is calculated according to the general methodology described in the Exhibit 21 of the Provisions.
- In the case of the loans granted to states, municipalities and financial entities, such estimate is calculated according to the application of the general methodology described in the Exhibit 18 and Exhibit 20, respectively, of the Provisions.

The classification of the commercial loan portfolio by the level of risk as of September 30, 2019 and 2019, is arranged as indicated below:

Level of risk	Preventive allowance percentage ranges		
A-1	-	to	0.90%
A-2	0.901	to	1.50%
B-1	1.501	to	2.00%
B-2	2.001	to	2.50%
B-3	2.501	to	5.00%
C-1	5.001	to	10.00%
C-2	10.001	to	15.50%
D	15.501	to	45.00%
E	Higher than 45.01	to	100.00%

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:

R_i= Allowance amount to be composed for the n-th loan.

PI_i= Default probability of the n-th loan.

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

EI_i= Non-performance exposure of the n-th loan.

(m) Other accounts receivable, net-

Other accounts receivable mainly account for debit balance in portfolio, sundry 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 estimate is not performed for tax balance in favor.

The Management considers that the estimates for non-recoverable collection is enough to absorb losses, according to the policy set forth in the Accounting Criteria.

(n) Awarded assets, net-

The awarded assets are recorded at their awarding value or accord and satisfaction value or at their fair value calculated from the indispensable costs and expenses paid in their awarding, whichever is lower. The differences, in case the determined values are lower than the amount of the portfolio to be canceled, are considered losses, and, in the income of the year, these are recognized under the heading "Other operating income, net"; otherwise, the value of the awarded asset is adjusted according to the value of the portfolio being writing of. 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 allowances is reduced from the asset value and it is recognized as expenses in the consolidated income statement for the year under the heading “Other operating income (expenses), net”.

(Thousands of pesos)

The time elapsed for the application of 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

Real property

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

(o) Real property, furniture and equipment, net-

The real property, furniture and equipment in operating lease and owned by the Company are registered at their acquisition cost and up to December 31, 2007, these were updated by means of factors derived from the National Consumer price Index (INPC).

Real property, furniture and equipment owned by the Company-

The depreciation is estimated on the updated values with the straight-line method, based on the lifespans of the corresponding assets estimated by the Company's 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 annual depreciation rate of the main asset groups is shown below:

Real property	3%
Furniture and equipment	10%
Computing equipment	25%
Transport equipment	25%
Improvement to leased premises [1]	10%

(1) The improvements to leased premises are amortized during the useful time of the improvement or at the end of the lease, whichever the lowest.

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

Leased real property, furniture and equipment-

As for the leased assets, the depreciation is estimated based on the lease term, considering the difference between the property acquisition value and its estimated residual value.

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

Real property	Varied
Transport equipment	25%
Computing equipment	25%

The real property, furniture and equipment are canceled upon their sale or when it is expected to obtain no 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 net book value), is included in the consolidated income statement, under the heading “Other operating income (expenses), net”.

The Company assesses periodically the net book value of its own property, furniture and equipment, as well as property intended for operating lease 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 their estimated recovery value, the Company records the corresponding deterioration.

(p) Other assets-

Other assets include, mainly, any expenses for allocation of debt, which are amortized according to the term thereof; any costs for management of portfolio, which are amortized during the term set in the corresponding agreements; any deferred charges for costs and expenses associated with the initial granting of the loan, which are amortized in straight line through the life of the loan; any intangibles corresponding to software licensing and development, which are amortized in a 3-5 year term; and any payments in advance corresponding to major medical expense insurance and vehicle insurance, which are amortized within a 1-2 year term, according to the policy validity.

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

The financial liabilities derived 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 under the heading “Interest expenses”.

Short- and long-term bank loans and loans from other institutions, both national and foreign, are recorded based on the contract value of the obligation. The interest incurred is recognized in income as it is accrued under the heading “Interest expenses”.

(r) Income tax and employee profit sharing (PTU)-

The income tax (ISR) and the employee profit sharing (PTU) incurred during this year are determined according to the current tax provisions.

The deferred ISR and PTU (assets and liabilities) are recorded according to the asset and liability method that compares their carrying and fiscal values. The deferred ISR and PTU (assets and liabilities) are recognized according to the future tax consequences attributable to the temporary difference between the values reflected in the consolidated financial statements of the existing assets and liabilities, and their relative tax bases and, in the case of the income tax, according to the tax loss to be amortized and other fiscal loans to be recovered. The assets and liabilities derived from deferred ISR and PTU are estimated using the rates provided by the corresponding law, to be applied to the taxable earnings in the years when it is expected the temporary differences to be reversed. The impact of the tax rate changes on the deferred ISR and PTU is recognized in the income of the year when such changes are approved.

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

(s) Deferred loans-

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

(t) Provisions-

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

(u) Employee benefits-

Short-term direct benefits

The employee short-term direct benefits are recognized in the income of the year when the services are provided. A liability is recognized for the amount expected to be paid if the Company has a legal or constructive obligation of paying such amount derived from previously provided services, and the obligation can be reasonably estimated.

Post-employment benefit

Established contribution plan

The obligations regarding contributions to established contribution plans are recognized in the year income as the related services are provided by the employees. The contributions paid in advance are recognized as an asset to the extent the payment in advance results in a reduction in the payments to be paid in the future or in a cash reimbursement.

The Company has an established contribution plan, where the employees with one year of seniority do voluntary contributions ranging 2% to 6% of its base monthly salary, which also depend on their age; the Company provides the 75% of their total contributions.

The employees can use the performed contributions on the first day of the immediate next month after the month the employee turns 60 years old or, with the Company's written consent, from the employee’s 55th birthday, provided that such employee has at least 20 years of active service in the Company.

Defined benefits

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

The estimate of the obligations derived from defined benefits is carried out annually by actuaries, using the projected unit credit method. When the estimate results in a possible asset for the Company, the recognized asset is limited to the current value of the economic benefits available in the way of future reimbursements of the plan or reductions in the future contributions thereto. To estimate the current value of the economic benefits, any requirement of minimal funding 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. The company determines the net interest expenses (income) on the net liabilities (assets) derived from the defined benefits in the year, by multiplying the discount rate used to measure the defined benefit obligation by the net liabilities (assets) determined at the beginning of the year about which the reporting is being prepared, considering the changes in the net liabilities (assets) derived from defined benefits during the year as a consequence of the contribution and benefit-payment estimates. The net interest is recognized under the heading “Administrative Expenses".

Any changes affecting the past service cost are immediately recognized in the income statement in the year in which 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 projected actuarial 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.

(v) 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 income derived from 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.

The income for administrative services of Servicios Corporativos is recognized in the consolidated income statement as it is accrued under the heading “Collected fees and rates”.

(w) Transactions in foreign currency-

Transactions in foreign currency are recorded at the exchange rate valid on the date of execution or settlement. Assets and liabilities in foreign currency are translated at the exchange rate valid on the date of the consolidated balance sheet. The differences in exchanges incurred in relation to the assets or liabilities hired in foreign currency are recorded in the income statement of the year under the heading “Intermediation Income, net”.

(x) Contingencies-

Major 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 or assets are recognized until there is certainty about their realization.

(4) Accounting changes, accounting criteria implementation and reclassifications-

a) Accounting changes-

In October 2018, the Mexican Financial Reporting Standards Board (Consejo Mexicano de Normas de Información Financiera, A. C. , CINIF) issued the document Improvements to FRSs 2019 (“Mejoras a las NIF 2019”), which contains specific changes to some of the already existing FRSs. The FRS improvements mentioned below, which came into force on January 1, 2019 for the years indicated, did not produce significant effects on the Company’s consolidated financial statement.

- FRS B-2 “Cash flow statement”
- FRS B-10 “Inflation impact”
- FRS C-1 “Cash and cash equivalent”

b) Reclassifications-

The consolidated financial statements as of and for the year ended on September 30, 2018, include certain reclassifications to be standardized with the presentation used in the consolidated financial statement as of and for the year ended on September 30, 2019.

(5) Foreign exchange position-

The monetary assets and liabilities in foreign currency as of September 30, 2019 and 2018 are shown below:

		Thousands of dollars	
		2019	**2018**
Assets (mainly loan portfolio and foreign exchange trading)		104,878	135,958
Liabilities (bank loans mainly)		(102,153)	(137,414)
Asset (liability) position, net		2,725	(1,456)
		======	======
Asset (liability) position valuated in pesos, net	$	53,777	(27,261)
		======	======

As of September 30, 2019 and 2018, 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, on September 30, 2019 and 2018, was $19.7345 and $18.7231 pesos per dollar, respectively.

(6) Availabilities-

Availabilities comprise, as of September 30, 2019 and 2018, the elements shown below:

		2019	**2018**
National bank deposits	$	63,269	103,526
Foreign bank deposits		62,805	27,554
Restricted availabilities:			
24- and 48-hour foreign exchange trading (note 17)[1]		1,118,946	651,564
National bank deposits [2]		163,831	4,397
	$	1,408,851	787,041
		=======	=======

(1) As of September 30, 2019 and 2018, the currency to be received for trades to be settled in 24 and 48 hours amounts 56,700, and 34,800 dollars, respectively.

(2) It corresponds to security trust balances in banks (see note 10c).

(7) Security investments-

As of September 30, 2018, the held to maturity securities corresponds to notes in the amount of $374 with a 3-day maturity, and a performance rate of 7.86%.

The interest yielded by security investments increased to $8,981 and $6,148, respectively, for the years ended on September 30, 2019 and 2018 (see note 21).

(8) Repurchase transactions-

As of September 30, 2019 and 2018, the balance of “Repurchase debtors” amounted $209,931 and $254,867, respectively, where the position of the restricted bonds is compounded mainly of government paper corresponding to issues of CETES, BONDESD and UDIBONOS at 1- and 3-day term, respectively, with an interest rate from 7.45% to 7.63% and 7.50%, respectively. As of September 30, 2019 and 2018, the restricted bonds correspond to investments of Servicios Corporativos and Investments of the Irrevocable Trust No. 2537 (this issue was paid on March 15, 2019), the Irrevocable Trust No. 2844, and the Irrevocable Trust 3290 (see note 10c).

As of September 30, 2019 and 2018, the bonds received as collateral in the repurchase transactions amount to $209,931 and $254,867, respectively, which correspond to government paper of issue of CETES, BONDESD and UDIBONOS.

The interest yielded by repurchase transactions amounted to $10,170 in 2019, and $19,886 in 2018; which are reported in the consolidated income statement under the heading "Interest Income" (see note 21).

(9) Trading derivatives-

As of September 30, 2019 and 2018, the Company has hired financial derivative instruments of interest rate options, called Interest Rate Cap (IR CAP), referred to the Interbank Equilibrium Interest Rate (TIIE), which would allow the Company to receive the difference of the spot rate and the agreed rate. The premiums of the IR CAP are amortized as the principal of the bonds 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 applicable.

(Thousands of pesos)

The quantity of the notional amounts and the book value of the transactions with financial derivative instruments as of September 30, 2019 and 2018, are shown below:

					2019		2018	
Instrument	Underlying	Notional (1)	Maturity	Premium	Impact on income	Fair value	Impact on income	Fair value
IR CAP	28-day TIIE	1,000,000	2018	$ 13,496	-	-	(1,231)	-
IR CAP	28-day TIIE	800,000	2018	12,150	-	-	(708)	-
IR CAP	28-day TIIE	616,550	2019	3,690	(845)	-	(3,796)	1,434
IR CAP	28-day TIIE	536,383	2020	4,630	(2,725)	454	(3,655)	3,360
IR CAP (2)	28-day TIIE	709,522	2022	3,150	(1,929)	17	(2,118)	1,385
IR CAP (2)	28-day TIIE	374,649	2021	1,235	(1,002)	-	(448)	787
IR CAP (2)	28-day TIIE	225,811	2021	3,195	(4,087)	37	(651)	2,544
IR CAP	28-day TIIE	819,644	2021	11,635	(15,223)	141	(2,429)	9,206
				$ 53,181	(25,811)	649	(15,036)	18,716
				=====	======	=====	======	======

(1) The notional amounts of the agreements account for the reference on which the rates and exchange rates set in the agreement of the financial derivative instruments shall be applied, and they do not represent the loss or profit associated with the market risk or credit risk of the instruments. The notional amounts represent the amount to which the rate or the price is applied, in order 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.

(2) On March 27 and September 20, 2018, the Company hired three new IR CAP with maturity date of April 15, 2021 (with a premium value of $1,235) and August 3, 2021 (with a premium value of $11,635 and $3,195, respectively).

For the years ended on September 30, 2019 and 2018, the profit (loss) for the trade of financial derivative instruments amounted to ($36,676) and ($28,926), respectively (see note 22).

(10) Loan portfolio-

(a) Classification of the loan portfolio-

The classification of the current and non-performing commercial loans as of September 30, 2019 and 2018 is shown below:

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

Notes to the consolidated financial statements

(Thousands of pesos)

		Current portfolio			Non-performing portfolio			
September 30, 2019		**Mexican Pesos**	**Valued Dollars**	**Total**	**Mexican Pesos**	**Valued Dollars**	**Total**	**Total current and non-performing**
Business or Commercial activity [2]:								
Commercial loans	$	6,025,289	845,894	**6,871,183**	136,635	-	**136,635**	**7,007,818**
Capitalizable lease		4,626,918	14,502	**4,641,420**	270,011	-	**270,0114,**	**911,431**
Financial income to be accrued		(849,435)	(736)	**(850,171)**	(27,236)	-	**(27,236)**	**(877,407)**
Funded insurances		261,354	795	**262,149**	40,278	204	**40,482**	**302,631**
Restricted portfolio[1]:								
Commercial loans		128,729	-	**128,729**	2,693	-	**2,693**	**131,422**
Capitalizable lease		213,103	-	**213,103**	8,380	-	**8,380**	**221,483**
Financial income to be accrued		(20,439)	-	**(20,439)**	(501)	-	**(501)**	**(20,940)**
Financial entities		146,624	-	146,624	-	-	-	**146,624**
Government entities		-	-	-	-	-	-	**-**
	$	**10,532,143**	**860,455**	**11,392,598**	**430,260**	**204**	**430,464**	**11,823,062**
		========	=======	========	======	=====	======	========
September 30, 2018								
Business or Commercial activity [2]								
Commercial loans	$	6,138,113	1,733,798	**7,871,910**	147,660	2,437	**150,097**	**8,022,007**
Capitalizable lease		4,440,831	41,853	**4,482,684**	113,346	-	**113,346**	**4,596,030**
Financial income to be accrued		(816,917)	(2,625)	**(819,542)**	(9,152)	-	**(9,152)**	**(828,694)**
Funded insurances		266,188	2,903	**269,091**	36,286	1,134	**37,420**	**306,511**
Restricted portfolio[1]:								
Commercial loans		309,760	-	**309,760**	3,622	-	**3,622**	**313,382**
Capitalizable lease		557,710	-	**557,710**	5,261	-	**5,261**	**562,971**
Financial income to be accrued		(64,526)	-	**(64,526)**	(313)	-	**(313)**	**(64,839)**
Financial entities		71,807	-	**71,807**	-	-	-	**71,807**
Government entities		1,234	-	**1,234**	-	-	-	**1,234**
	$	**10,904,200**	**1,775,929**	**12, 680,128**	**296,710**	**3,571**	**300,281**	**12,980,409**
		========	========	=========	=======	======	======	=========

(1) See section (c) of this note.
(2) As of June 30, 2019 and 2018, there are restricted loans in the amount of $8,536,526 and $9,910,850, respectively, to guarantee most of the lines of credits granted to the Company (see note 15b).

(Thousands of pesos)

Non-performing portfolio:

The non-performing portfolio classification is presented below by seniority as of September 30, 2019 and 2018.

30 de September,		Days 1-180	Days 181-365	1-2 years	More than 2 years	Total
2019	$	135,075	94,334	181,490	19,565	430,464
2018		82,216	101,864	87,014	29,187	300,281
		======	======	======	======	======

An analysis of the movements in the non-performing portfolio for the years ended on September 30, 2019 and 2018, is shown below:

		2019	2018
Balance at the beginning of the year	$	349,880	287,069
Awards		(14,811)	(3,870)
Write-offs		(55,616)	(43,692)
Collection		(166,317)	(87,529)
Transfer from current to non-performing portfolio		378,266	192,680
Transfer from non-performing to current portfolio		(60,938)	(44,377)
Balance at the end of the year	$	430,464	300,281
		======	======

As of September 30, 2019 and 2018, the accrued non-collected interest of the non-performing loan portfolio, recognized in the memorandum accounts and which will be recognized in the year income until being collected, amount to $90,239 and $71,449, respectively.

(Thousands of pesos)

The maturity by year of the loan portfolio is analyzed as follows:

Maturity year		2019	2018
2018		-	6,524,175
2019	$	5,096,287	2,433,545
2020		2,605,272	1,906,184
2021		2,039,165	1,292,150
2022		1,317,392	643,803
2023		553,352	153,674
2024		160,729	26,878
2025		50,865	-
	$	11,823,062	12,980,409
		=========	=========

Risk concentration:

As of September 30, 2019 and 2018, the Company's portfolio is comprised of the loans granted to individuals and medium-sized enterprises. No debtor has a credit risk higher than 10% of the total portfolio, except for the loan granted to a related company, which represents 6% and 12% of the total portfolio as of September 30, 2019 and 2018, respectively (see note 17).

The loan portfolio concentration by geographic zone as of September 30, 2019 and 2018, is detailed below.

		2019		2018	
		Portfolio	%	Portfolio	%
Mexico City and State of Mexico	$	2,142,558	18%	2,415,488	19%
Center (1)		867,970	7%	1,028,179	8%
North (2)		4,837,637	41%	5,498,428	42%
West (3)		3,086,792	26%	3,075,412	24%
South (4)		888,105	8%	962,902	7%
	$	11,823,062	100%	12,980,409	100%
		=========	====	=========	====

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

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

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

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

(Thousands of pesos)

(b) Preventive credit risk estimates-

As of September 30, 2019 and 2018, the classification of the assessed portfolio and its preventive estimate is analyzed as shown below:

Assessed portfolio level of risk		Portfolio 2019	Portfolio 2018	Preventive credit risk estimates 2019	Preventive credit risk estimates 2018
A-1	$	7,862,916	9,107,980	40,453	47,044
A-2		1,421,400	1,525,136	15,998	17,384
B-1		532,338	513,699	9,015	8,875
B-2		275,752	309,731	6,222	6,977
B-3		367,726	306,943	13,222	10,431
C-1		237,262	259,836	18,548	20,107
C-2		464,023	275,851	54,399	34,171
D*		562,028	543,066	216,773	190,267
E*		99,617	138,167	92,791	110,740
Total	$	11,823,062	12,980,409	467,421	445,996
		=========	=========	=======	=======

* Troubled portfolio.

An analysis of the movements of the preventive credit risk estimates for the years ended on September 30, 2019 and 2018, is shown below.

		2019	2018
Balance at the beginning of the year	$	405,248	382,760
Increment of the allowance in income		123,476	146,592
Release of preventive estimate in “Other operating income, net” (see note 26)		-	(11,618)
Effect of the preventive estimate on the year income		123,476	134,974
Write-offs		(61,303)	(71,738)
Plus:			
Year movements, net		62,173	63,236
Balance at the end of the year	$	467,421	445,996
		=======	=======

(c) Portfolio securitization-

NAVISCB 15

On November 5, 2015, the Company, as Settlor, Beneficiary in second place and Administrator, and 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 issue and public offer in Mexico of Senior Trust Bonds. This Trust will pay the Company a monthly percentage on the amount of the managed assets.

Such Trust consisted in the securitization of current loans in Mexican pesos, through the assignment of the credit claims of financial lease operations and simple loans for purchasing transport equipment. On March 15, 2019, such issue has been paid, so the remnant assets in this Trust were charged back to Navistar Financial, as Settlor in second place.

As of September 30, 2018, the collection rights given to the Trust amounted to $123,964.

As of September 30, 2018, obligation balance on the NAVISCB 15 amounts to $106,180, respectively (see note 14). Additionally, the interest payable as of September 30, 2019 and 2018, amounts to $235 and $393, respectively. The obligations on such bonds, which only payment source is the collection of collection rights, yielded interest of $1,242 and $11,871 in 2019 and 2018, respectively, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 19).

NAVISCB 16

On September 5, 2016, the Company, as Settlor, Beneficiary in second place and Administrator, and 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 issue and public offer in Mexico of Senior Trust Bonds. This Trust will pay the Company a monthly percentage on the amount of the managed assets.

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

Under 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 September 30, 2019 and 2018, the collection rights given to the Trust amounted to $81,956 and $206,078, respectively. Any remnant of the issue will be delivered to the Company once all bonds have been settled.

The first issue of bonds was 5,363,830 of bonds with a par value of $100 pesos each, under the ticker symbol NAVISCB 16, in the amount of $536,383, which yield interest during the issue term (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 September 30, 2019 and 2018, the balance of the obligation on the NAVISCB 16 amounts to $66,608 and $167,969, respectively (see note 14). Additionally, the interest payable as of September 30, 2019 and 2018, amounts to $748 and $632, respectively. The obligations on such bonds, which only payment source is the collection of collection rights, for the years ended on September 30, 2019 and 2018, yielded interest of $7,697 and $17,110, respectively, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 19).

The rating awarded on November 15, 2018 by HR Ratings de México S. A. de C. V. was "HR AAA(E)."

NAVISCB 17

On October 17, 2017, the Company, as Settlor, 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 issue and public offer in Mexico of Senior Trust Bonds. This Trust will pay the Company a monthly percentage on the amount of the managed assets.

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

Under 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 September 30, 2019 and 2018, the collection rights given to the Trust amounted to $250,011 and $481,472, respectively. Any remnant of the issue will be delivered to the Company once all bonds have been settled.

The first issue of bonds was 7,370,000 of bonds with a par value of $100 pesos each, under the ticker symbol NAVISCB 17, in the amount of $737,000, which yield interest during the issue term (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 September 30, 2019 and 2018, the balance of the obligation on the NAVISCB 17 amounts to $206,834 and $393,338, respectively (see note 14). Additionally, the interest payable as of September 30, 2019 and 2018, amount to $ 982 and $1,517, respectively. The obligations on such certificates, which only payment source is the collection of collection rights for the years ended on September 30, 2019 and 2018 yielded interest of $21,035 and $37,147, respectively, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 19).

The rating awarded on November 15, 2018 by HR Ratings de México S. A. de C. V. was "HR AAA(E)."

(Thousands of pesos)

A summary of the Trusts financial situation is presented below (figures not audited):

	Trust 2537(1)	Trust 2844		Trust 3290	
	2018	2019	2018	2019	2018
Balance sheet:					
Cash and cash equivalents	$ 31,883	29,545	54,620	65,952	105,434
Financial derivative instruments	1,434	454	3,359	17	1,385
Collection rights, net	95,497	64,712	176,406	212,413	425,068
Other accounts receivable	2,693	1,557	886	3,210	1,675
Total asset	$ 131,507	96,268	235,271	281,592	533,562
	======	======	======	======	======
Obligations on bonds, net	$ 101,633	63,172	161,029	201,406	384,622
Accounts payable	1,551	625	287	1,266	2,474
	103,184	63,797	161,316	202,672	387,096
Assets	28,323	32,471	73,955	78,920	146,466
Total liabilities and assets	$ 131,507	96,268	235,271	281,592	533,562
	======	======	======	======	======
Income statement:					
Financial income	$ 27,715	16,579	36,021	39,424	74,592
Financial expenses	(19,428)	(11,561)	(20,935)	(24,945)	(41,862)
Change in the fair value of financial derivative instruments	(3,796)	(2,725)	(3,656)	(1,929)	(2,118)
Impact of collection rights impairment	4,606	1,724	2,108	9,379	4,876
Other income (expenses), net	2,214	2,647	2,000	3,071	6,425
General expenses	(52)	(35)	(41)	(54)	(49)
Year income	$ 11,259	6,629	15,497	24,946	41,864
	=====	=====	=====	=====	=====

(d) Escrows-

- 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”), which holds a 100% guarantee with the Export-Import Bank of the United States (“Exim”). As of September 30, 2018, the Trust assets are represented by the collection rights that the Company offered as security to pay the loan obligations, which obligations amount to $108,645.

- 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“, as Beneficiary in first place, and Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero as Fiduciary. Such Trust is intended for back the line of credit with corporate purposes in favor of the Company in an amount up to 55 million dollars. As of September 30, 2019 and 2018, the assets of this Trust amount to $803,177 and $1,547,963, 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 (NAFIN) 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 September 30, 2019 and 2018, the assets of this Trust amounted to $1,973,759 and $1,661,047, respectively.

As of September 30, 2019 and 2018, the assets of the Escrows entered into with Exim, EDC and NAFIN, previously described, correspond to the collection rights of the commercial loan portfolio granted by the Company as security, which are restricted.

(e) Risk sharing fund-

On October 24, 2008, the Company entered into a fund-sharing agreement with NAFIN, the latter in its capacity as Fiduciary of the Trust 1148-0 of the Risk-Sharing Fund (the Fund), 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 with the Fund and, consequently, subject to its support. In this Agreement, the Fund will share up to $20,000, in relation to the first losses of the loan portfolio registered with the Fund.

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

On November 26, 2011, the Company entered into an agreement with NAFIN, and again on November 26, 2016, for a 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 15, 2012, the Company entered into another agreement with NAFIN for a 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 with the Fund, which amounts to $750,000, effective on January 11, 2013.

On November 11, 2016, the Company entered into an agreement with NAFIN for a 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 June 22, 2018, the Company entered into an agreement with NAFIN for a Risk Sharing focused on federal freight transport. In this agreement, the Fund will share up to $42,000, in relation to the first losses of the registered loan portfolio, which amounts to $1,218,250.

The outstanding balances of the portfolio secured under both schemes as of September 30, 2019 and 2018 was $1,198,912 and $1,402,025, 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.

As of September 30, 2019 and 2017, there are 491 and 517 contracts, respectively, registered in the pari-passu program with NAFIN, with an outstanding balance of $541,206 and $779,707, and a paid fee equivalent to 1.8%.

As of September 30, 2019 and 2018, the Company has claimed $40,447 and $22,559, respectively, under such program. From which, $26,591 and $12,965, respectively, have been collected, which were applied against the loan portfolio that is part of the program.

(Thousands of pesos)

(f) Restructured and renewed loans-

During the years ended on September 30, 2019 and 2018, the Company did 103 and 82 loan restructurings and renewals, which outstanding balance as of the restructuring date amounted to $1,337,040 and $422,109, respectively, modifying the payment schedule and the loan terms, without impact on the year income.

For the years ended on September 30, 2019 and 2018, the recovery income of the previously non-performing portfolio amounts to $29,966 and $42,929, respectively, which is recognized under the heading "Other operating income, net" in the consolidated income statement (see note 24).

(g) Fees for granting loans and origination costs-

The movements in the balance of the fees for granting loans and the origination costs thereof for the years ended on September 30, 2019 and 2018 are shown below.

		2019	2018
Fees for granting loans:			
Initial balance	$	105,519	93,727
Collected fees		45,296	56,207
Amortization (note 19)		(48,686)	(51,941)
		102,129	97,993
Loan origination costs:			
Initial balance		55,774	39,014
Paid costs and expenses		18,203	26,878
Amortization (note 19)		(17,018)	(15,594)
		56,959	50,298
Net balance of fees and loan origination costs	$	45,170	47,695
		======	======

(h) Policies and procedures to grant loans-

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

(Thousands of pesos)

- 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 official analyzes 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.
- Any use of a specific line of credit or specific transaction of commercial loan shall have the authorization of a proper official.
- The execution of any kind of loan is performed in the legal instruments (contracts, agreements or credit instruments) authorized by the Company's legal department.

(11) Other accounts receivable, net-

As of September 30, 2019 and 2018, the accounts receivable are as follows:

		2019	2018
Portfolio debtors	$	173,357	123,562
Sundry debtors		161,636	117,775
Refundable taxes		93,760	42,176
Related companies (note 17)		54,411	75,269
		483,164	358,782
Less:			
Estimate of doubtful accounts payable		(34,368)	(46,866)
	$	448,796	311,916
		======	======

(Thousands of pesos)

(12) Real property, furniture and equipment, net-

As of September 30, 2019 and 2018, the investment in real state, furniture and equipment, intended for operating lease and to be used by the Company is analyzed as shown below:

		2019	2018	Annual depreciation rate
Real property, transport equipment and computing equipment in operating lease:				
Real property	$	185,336	185,336	Varied
Transport equipment		3,840,092	3,083,937	Varied
Computing equipment		3,244	3,244	25%
		4,028,672	3,272,517	
Less:				
Accumulated depreciation		(1,140,109)	(928,593)	
	$	2,888,563	2,343,924	
		=======	=======	
Real property, furniture and equipment for own use:				
Real property [(1)]	$	21,734	21,734	3%
Transport equipment		1,153	2,930	25%
Modifications and improvements		433	433	10%
Furniture and computing equipment		18,030	20,407	10% and 25%
		41,350	45,504	
Less:				
Accumulated depreciation		(19,610)	(25,091)	
		21,740	20,413	
Land		40,846	40,846	
	$	62,586	61,259	
		======	======	

For the years ended on September 30, 2019 and 2018, the charge to income for depreciation of real property, transport equipment and computing equipment in operating lease amounted to $339,874 and $285,523, respectively (see note 23) and for real property, furniture and equipment for own use amounted to $2,129 and $2,102, respectively.

(Thousands of pesos)

(13) Awarded assets, net-

As of September 30, 2019 and 2018, the awarded assets are as follows:

		2019	2018
Transport equipment	$	106,004	39,517
Real property		51,627	51,627
		157,631	91,144
Less:			
Allowance of awarded assets		(12,272)	(8,683)
Wear and tear		(8,566)	(8,411)
	$	136,793	74,050
		======	======

(14) Stock liabilities-

On February 17, 2017, through official letter No. 153/10007/2017, the Commission authorized the Company to create a program to place revolving short-term term bonds for the amount of $1,800,000 or its equivalent in UDIs. Additionally, on October 23, 2018, through official letter No. 153/12389/2018, the Commission authorized the updating of the bond program previously describe, only and exclusively to increment the total amount authorized for the program in the amount of $1,200,000 or its equivalent in UDIs, resulting in a total authorized amount of up to $3,000,000 or its equivalent in UDIs.

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, stating 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), once the principal balance of the bonds of this issue reached 10% of the principal initial balance, the Company decided to make an optional payment in advance on March 15, 2019.

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

Notes to the consolidated financial statements

(Thousands of pesos, unless otherwise indicated)

As of September 30, 2019 and 2018, the stock liabilities at short- and long-term are composed as shown below:

Issue		Amount 2019	Date of maturity	Rate
Short-term:				
Company's-				
NAVISTS000219	$	100,000	05/12/2019	TIIE +1.73%
NAVISTS000619		100,000	06/02/2020	TIIE +0.95%
NAVISTS000719		166,950	20/02/2020	TIIE +0.95%
NAVISTS000819		384,865	17/10/2019	TIIE +0.75%
NAVISTS000919		200,000	20/02/2020	TIIE +0.90%
NAVISTS001019		250,000	14/11/2019	TIIE +0.73%
NAVISTS001119		400,000	11/12/2019	TIIE +0.80%
Accrued interest		6,129		
		1,607,944		
Securitized portfolio-				
NAVISCB16*		66,608	15/03/2023	TIIE+1.80%
NAVISCB17*		138,814	15/02/2022	TIIE+1. 55%
Accrued interest		982		
Total Short-term		1,814,348		
Long-term:				
Securitized portfolio-				
NAVISCB16		-	15/02/2022	TIIE+1.55%
NAVISCB17		68,020	15/03/2023	TIIE+1.80%
Total Long-term		68,020		
Total stock liability	$	1,882,368		
		========		

* Current portion of long-term issues of bonds of securitized portfolio.

Navistar Financial, S. A. de C. V.,
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Notes to the consolidated financial statements

(Thousands of pesos, unless otherwise indicated)

Issue		Amount 2018	Date of maturity	Rate
Short-term:				
Company's-				
NAVISTS00118	$	315,000	29/11/2018	TIIE+1.79%
NAVISTS00918		180,000	28/03/2019	TIIE+1.55%
NAVISTS00618		140,000	13/12/2018	TIIE+1.60%
NAVISTS00718		160,000	04/04/2019	TIIE+1.55%
NAVISTS00818		90,000	15/11/2018	TIIE+1.30%
NAVISTS00418		300,000	24/01/2018	TIIE+1.60%
NAVISTS00218		300,000	18/10/2018	TIIE+1.60%
Accrued interest		7,620		
		1,492,620		
Securitized portfolio-				
NAVISCB15*		106,180	15/01/2021	TIIE+1.41%
NAVISCB16*		118,424	15/02/2022	TIIE+1.55%
NAVISCB17*		262,380	15/03/2023	TIIE+1.80%
Accrued interest		2,542		
Total Short-term		1,982,146		
Long-term:				
Securitized portfolio-				
NAVISCB15		-	15/01/2021	TIIE+1.41%
NAVISCB16		49,545	15/02/2022	TIIE+1.55%
NAVISCB17		130,958	15/03/2023	TIIE+1.80%
Total Long-term		180,503		
Total stock liability	$	2,162,649		
		========		

* Current portion of long-term issues of bonds of securitized portfolio.

(Thousands of pesos, unless otherwise indicated)

As of September 30, 2019 and 2018, the balance of issue expenses to be amortized amounts $15,338 and $29,091 respectively, and it is recorded under the heading "Other assets, net" in the consolidated balance sheet. The charge to income derived from the amortization of such expenses in the years ended on September 30, 2019 and 2018, amounts to $22,280 and $30,147, respectively (see note 21).

(15) Bank loans and loans from other institutions-

As of September 30, 2019 and 2018, the bank loans and loans from other institutions, at short- and long-term, are composed as shown below:

		2019	2018
Direct loans in Dollars accruing interest at an average weighted rate of 2.22% and 2.80% on LIBOR at the closing of September 2019 and 2018, respectively (see section "a" of this note").	$	708,319	2,492,392
Direct loans in Mexican Pesos accruing interest at an average weighted rate of 2 % and 2.16% on 28-day TIIE in September 2019 and 2018, respectively, and an average fixed weighted rate of 9.54% and 8.84% in September 2019 and 2018, respectively.		6,115,854	6,430,428
Accrued interest		26,445	39,300
Total of bank loans		6,850,618	8,962,120
Less:			
Current portion of the debt		2,311,695	5,069,273
Total of bank loans and loans from other institutions at long-term	$	4,538,923	3,892,847
		========	========

The paid interest expense derived from bank loans and loans from other institutions, as well as the Company's stock liabilities, for the years ended on September 30, 2019 and 2018 amounts to $603,993 and $557,470, respectively, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 19).

As of September 30, 2019 and 2018, the balance of paid fees due to the use of loans pending to be amortized amounts $14,712 and $16,493, respectively, and it is recorded under the heading "Other assets, net" in the consolidated balance sheet. The charge to income from the amortization of such fees in the years ended on June 30, 2019 and 2018 amounts to $16,057 and $17,580, respectively (see note 19).

As of September 30, 2019 and 2018, the Company holds 12% and 32%, respectively, 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 September 30, 2019 and 2018, there are lines of credit hired with national and foreign financial institutions in the amount of 430 and 396 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 100 million dollars at variable rate. As of September 30, 2019 and 2018, this line was fully available.

Since August 2012, the Company has granted 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 has also been available to 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. 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 was authorized. On June 28, 2018, an increment of 40 million dollars was authorized, resulting in a total of 160 million.

The Company has lines available with Navistar International Corporation and Navistar Financial Corporation, which are still being operated as guarantees of some bank lines and/or as working capital through intercompany loans intended for the acquisition of spare parts or new units (floor plan), in this last case, as of the closing of September 2019 and 2018, this line has not been used.

(b) *Bank loans in Mexican Pesos:*

As of September 30, 2019 and 2018, there are lines of credit denominated in pesos hired by the Company to national financial institution for $5.500 and $5.240 billion pesos respectively.

As of September 30, 2019 and 2018, most of the lines of credit in dollars and in Mexican Pesos are secured by the loan portfolio in the amount of $8,536,526 and $9,910,850, respectively, (note 10 a).

(Thousands of pesos)

The lines of credit require compliance with certain obligations, restrictions and financial indexes, which the Company has duly met as of September 30, 2019 and 2018.

As of September 30, 2019, maturities of the bank loans and loans from other institution are as follows:

Maturity year		Pesos	Valued Dollars
2020	$	1,604,402	707,293
2021		3,321,389	1,063
2022		747,798	-
2023		327,845	-
2024		111,411	-
2025		29,417	-
	$	6,142,262	708,356
		$	6,850,618
			========

(16) Sundry creditors and other accounts payable-

As of September 30, 2019 and 2018, the sundry creditors and accounts payable are as follows:

		2019	2018
Creditors for settlement of transactions:			
24- and 48-hour foreign exchange trading (note 6)	$	1,119,825	651,565
Sundry creditors and other accounts payable:			
Sundry creditors		13,270	69,874
Security deposits		739,308	657,357
Income tax payable		128,459	38,760
Trust portfolio deposits and collection to be delivered to the Trust		1,240	4,001
Tax payable (Income Tax and Value-Added Tax)		3,108	2,771
Provisions for different obligations		8,748	9,434
Related companies (note 17)		1,300,797	82,347
Employee benefits		36,404	38,422
Other taxes		2,307	1,994
Deposits and balance in favor of clients		61,114	85,739
Employee profit sharing payable		1,487	1,796
Other		102,705	93,959
	$	3,518,772	1,738,019
		========	========

(Thousands of pesos)

(17) Transactions and balances with related companies-

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

The balances receivable and payable with related companies as of September 30, 2019 and 2018, are composed as shown below:

		2019	2018
Balances receivable (note 10):			
Loan portfolio:			
Navistar México, S. de R. L. de C. V.	$	723,253	1,521,911
Navistar Comercial, S. A. de C. V.		6,468	-
International Parts Distribution, S. A. de C. V.		2,169	2,047
Navistar Financial Corporation		111	1,727
	$	732,001	1,525,685
		======	=======
Other accounts receivable (note 11):			
Navistar Comercial, S. A. de C. V.	$	28,388	20,541
Navistar México, S. de R. L. de C. V.		15,940	45,270
Navistar International Corporation		6,729	4,919
Transproteccion Agente de Seguros, S. A. de C. V.		1,591	1,642
Navistar Inc.		1,589	1,516
International Parts Distribution, S. A. de C. V.		96	98
Navistar Financial Corporation		78	-
	$	54,441	75,269
		======	======
Balances payable (note 17):			
Navistar México, S. de R. L. de C. V.	$	1,276,449	27,320
Navistar Inc.		23,143	21,958
Navistar Financial Corporation		672	10,577
Navistar International Corporation		533	442
Transproteccion Agente de Seguros, S. A. de C. V.		-	22,050
	$	1,300,797	82,347
		========	=======

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

Notes to the consolidated financial statements

(Thousands of pesos)

Below are the transactions carried out with related companies for the years ended on September 30, 2019 and 2018.

		2019	2018
Revenues:			
Interest accrued in favor:			
Navistar Mexico, S. de R. L. de C. V.	$	191,451	237,427
International Parts Distribution, S. A. de C. V.		21,795	16,501
Navistar Financial Corporation		9,817	24,850
Navistar Comercial, S.A de C.V.		2,081	893
Placement-service fees:			
Navistar Mexico, S. de R. L. de C. V. (note 22)		115,188	111,342
Administrative services:			
Transproteccion Agentes de Seguros, S. A de C. V.		13,852	14,256
Navistar Comercial, S. A. de C. V.		2,988	-
Navistar México, S. de R. L. de C. V.		1,489	1,162
Other income:			
Navistar México, S. de R. L. de C. V.		658	645
International Parts Distribution, S. A. de C. V.		443	476
		=======	======
Expenses:			
Technical assistance and telephone service expenses:			
Navistar México, S. de R.L. C.V.	$	182	274
Other service fees and rates:			
Navistar Financial Corporation (note 21)		3,766	9,900
Interest expenses for granting securities:			
Navistar International Corporation		880	846
Navistar Financial Corporation		837	16,161
Navistar México, S. de R. L. de C. V.		129	511
Other management expenses:			
Navistar México, S. de R. L. de C. V.		784	683
Accrued interest:			
Transproteccion Agentes de Seguros, S. A de C. V.		2,193	2,806
		=====	=====

(18) Shareholder's equity-

The main characteristics of the shareholder's equity are described below.

(a) Structure of corporate equity-

The main characteristics of the balance constituting the corporate equity and the additional paid-in capital are described below:

			Thousands of pesos	
	Number of shares (1)		Corporate equity	Additional paid-in capital
Figures as of September 30, 2019 and 2018	2,425,035	$	283,177 ======	111,961 ======

(1) It includes 561,786 shares of 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.

(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 September 30, 2019 and 2018, 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, which income tax had already been covered, can be performed without any burden. Other refunding and distributions in excess of the amounts intended for tax purposes are subject to income tax.

(Thousands of pesos)

(c) Comprehensive income-

The comprehensive income, showed in the consolidated statements of variations in shareholder's equity for the years ended on September 30, 2019 and 2018, accounts for the income of the Company's total activity during the year and it is shown below.

		2019	2018
Net controlling interest income	$	349,909	277,562
Non-controlling interest		3	3
Comprehensive income	$	349,912	277,565
		======	=======

(19) Financial margin-

The elements of the financial margin for the years ended on September 30, 2019 and 2018, are analyzed below:

		2019	2018
Interest Income:			
Derived from:			
Loan portfolio	$	732,077	737,994
Intercompany loans		1,613	893
Financial lease		419,221	359,427
Investments and debtors derived from repurchase (notes 7 and 8)		19,151	26,034
Fees for granting loans (note 10g)		48,686	51,941
Exchange income		13,391	68,495
Total interest income		1,234,139	1,244,784
Interest expenses:			
Interest expenses derived from bonds (note 10c)		(29,974)	(66,128)
Amortization of debt issue expenses (note 14)		(22,280)	(30,147)
Other debt issue expenses		(1,846)	(17,518)
Interest expenses derived from bank loans and loans from other institutions, as well as from the Company's security liabilities (note 15)		(603,993)	(557,470)
Amortization of expenses derived from the use of bank loans and loans from other institutions (note 15)		(16,057)	(17,580)
Amortization of origination costs (note 10g)		(17,018)	(15,594)
Other origination costs		(7,791)	(6,422)
Exchange income		(7,662)	(18,122)
		(706,621)	(728,981)
Total financial margin	$	527,518	515,803
		=======	=======

(Thousands of pesos)

(20) Collected fees and rates-

For the years ended on September 30, 2019 and 2018, the collected fees and rates are composed as shown below:

		2019	2018
Placement service fees collected from related companies (note 17)	$	115,188	111,342
Placement service fees		13,349	12,994
Other fees and rates collected		43,134	38,371
	$	171,671	162,707
		======	=======

(21) Paid fees and rates-

For the years ended on September 30, 2019 and 2018, the paid fees and rates are composed as shown below:

		2019	2018
Fees for collection service and others (note 17)	$	(3,766)	(9,900)
Bank fees		(3,808)	(4,473)
	$	(7,574)	(14,373)
		=====	=====

(22) Intermediation income, net

For the years ended on September 30, 2019 and 2018, the intermediation income is comprised as shown below:

		2019	2018
Valuation of trading derivatives (note 9)	$	(25,811)	(15,036)
Loss derived from the trade of derivative instruments (note 9)		(36,676)	(28,926)
Foreign exchange (loss) due to currency valuation (note 6)		(871)	(38,226)
	$	(63,358)	(82,188)
		======	=======

(23) Operating lease income-

For the years ended on September 30, 2019 and 2018, the operating lease income is composed as shown below:

		2019	2018
Operating lease income	$	469,454	415,136
Depreciation of property in operating lease (note 12)		(339,874)	(285,523)
	$	129,580	129,613
		=======	=======

(Thousands of pesos)

The Company works only with loan and operating lease segments. The operating lease income in 2019 and 2018 amounted to $129,580 and $129,613, respectively, as shown in this note. The difference of this income against the net consolidated income constitutes the loan segment.

(24) Other operating income, net-

For the years ended on September 30, 2019 and 2018, other operating income is composed as shown:

		2019	2018
Other operating income, net	$	37,845	32,024
Release of preventive estimate (note 10b)		-	11,618
Other lease benefits (purchase option at reduced price)		24,227	20,491
Impact of estimates and wear and tear of awarded assets		(d)	(13,393)
Awarded sale income		5,519	2,304
Recovery of the previously non-performing loan portfolio (note 10f)		29,966	42,929
Impact of the estimate for non-recoverable or difficult collection		828	(35,806)
Real property, furniture and equipment sale earnings		550	5
Loss derived from wear and tear		-	(31,765)
Total of other operating income, net	$	78,834	28,407
		======	======

(Thousands of pesos)

(25) Financial indicators-

The main financial indicators as of September 30, 2019 and 2018 are presented below.

	2019	2018
Delinquency rate	3.64%	2.31%
Hedge ratio of non-performing loan portfolio	108.59%	148.53%
Operational efficiency *(administrative and promotion expenses/ average total assets)*	1.74%	1.91%
ROE (*net earnings/average shareholder's equity*)	11.31%	9.58%
ROA (*net earnings/average total assets*)	2.85%	2.06%
Liquidity (*liquid assets/liquid liabilities*) *	9.53%	15.53%
*Year credit-risk-adjusted financial margin/Average performing assets***	4.18%	4.00%

* *Liquid assets*– Availabilities, held-to-maturity securities.
Liquid liabilities– Immediately payable and short-term interbank loans and loans from other institutions.

** *Average performing assets*: Availabilities, security investments, security transactions, derivative transactions and current loan portfolio.

(26) Rating-

The ratings awarded on October 30, 2018 to Navistar Financial by HR Ratings de México S. A. de C. V. were HR BBB with positive prospective.

(27) Contingent commitments and liabilities-

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

(b) Under the current tax law, the authorities have the power to review tax returns from the last five years up to the last submitted income tax return.

(c) As per the Income Tax Law, the companies performing transactions with related parties are subject to fiscal limitations and obligations regarding the setting of agreed prices, since these shall be comparable to those performed by or between 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 (restatement and surcharges), fines on the missed contributions, which could be up to 100% respect of the restated contribution amount.

(d) The Company rents the premises occupied by its administrative offices, as well as the employee parking lots, according to lease agreements with set expiration dates. For the years ended on September 30, 2019 and 2018, the expenses derived from administrative office and parking lot rents amounted to $6,369 and $5,942, respectively. The total rents are included in the heading “Administrative Expenses” in the consolidated income statement.

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

(28) Regulatory pronouncements recently issued -

(a) Commission’s resolutions-

On December 27, 2017, the resolution modifying the Accounting Criteria was published in the DOF; such modifications come into force on January 1, 2019, according to the following provisions:

i. Accounting Criteria B-6, “Loan portfolio” and D-2 “Income Statement” of the Exhibit 33 of the Accounting Criteria.

The Accounting Criteria are adjusted for the writing-off of surplus in the credit risk estimates determined for the year when such modification occurred, as well as for the recoveries corresponding to previously nonperforming or eliminated loans may be recognized in the year income under the heading such estimates were originally registered, which in both cases is “Preventive credit risk estimates”, instead of under the heading “Other operating income, net”, where they were recognized prior to this modification.

i. Accounting Criteria A-2 “Application of specific standards”

Certain Financial Reporting Standards issued by CINIF are included for they to be applicable to credit institutions when their implementation deadline is determined, so these financial entities may be able to comply with such Standards. Such FRSs are as follows: B-17 “Fair value determination”, C-3 “Accounts receivable”, C-9 “Provisions, contingencies and commitments”, C-16 “Impairment of financial instruments receivable”, C-19 “Financial instruments payable”, C-20 “Financial instrument receivable, principal and interest”, D-1 “Revenue from Contracts with Customers” and D-2 “Expenses derived from Contracts with Customers”.

On November 15, 2018, the modifying resolution of the resolution modifying the Accounting Criteria previously mentioned, which was published on December 27, 2017, was published in the DOF. Such modifications consisted of the content relative to section b) Accounting Criteria A-2 “Application of specific standards”, extending the implementation deadline of the referred FRSs from January 1, 2019 to January 1, 2020, and adding to this resolution the FRS D-5 “Leases”, which implementation deadline is also January 1, 2020.

(b) New FRSs and improvements to the existing FRSs-

FRS D-5 "Leases"- This improvement comes into force in the year beginning on January 1, 2019. The application for the first time of this FRS causes accounting changes in the financial statements, mainly for the lease, and provides different options for its recognition. Its main changes include:

- It eliminates the classification of leases as operating lease and capitalizable lease, and a liability per lease at the payment current values must be recognized, as well as a right-to-use asset in the same amount, of any lease with a term longer than 12 months, unless the underlying asset is a low value asset.

- An expense derived from depreciation or amortization of the right-to-use assets and an expense derived from the interest on the lease liability are recognized.

- It modifies the presentation of cash outflows related, since the cash outflows derived from operating activity are decreased, and the cash outflows derived from financial activities are increased.

- It modifies the recognition of profit and loss when a seller-lessee transfers an asset to another entity or leaseback that asset.

- The accounting recognitions by the lessor does not have changes respect to the prior Bulletin D-5, and only some disclosure requirements are added.