

**2018**  
**SECOND QUARTER**



# **VARIATION ANALYSIS**

**COMMENTS ON THE RESULTS  
ABOUT THE FINANCIAL SITUATION**

## NAVISTAR FINANCIAL MEXICO

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Navistar Financial came to Mexico in 1997, operating with the company Servicios Financieros Navistar, with the main goal of funding the Floor Plan of the International dealer network—a group created in 1996.

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

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

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

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



## **BALANCE SHEET HEADINGS**

The financial information about Navistar Financial, S.A. de C.V. SOFOM E.R. (Navistar Financial or the "Company") submitted for the fiscal year 2017 includes changes in its representation in order to make it comparable to the fiscal year 2018 (current regulations).

The Company's **Assets** show a positive variation of \$1.2362 mbp compared to the 2Q17; such variation is mainly explained by the increment in the current loan portfolio and in the equipment intended for operating lease.

The **Availabilities and Repurchases** have a positive variation of \$117.2 mmp, with a total balance of \$376.7 mmp, comprised of (i) \$254.4 mmp in cash restricted by the issue of Senior Trust Bonds (CBF), which may be used to pay the liabilities of this same issue and (ii) \$121.9 of availabilities.

On March 28, 2018, an interest rate option was hired. Compared to the closing of June 2017, the heading **Derivative**, as of the closing of June 2018, shows a reduction of \$5.9 mmp; the 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 \$142 mmp, an Interest Rate Option of notional value of \$227.5 mmp, an Interest Rate Option of notional value of \$532 mmp, and an Interest Rate Option hired on March 28, 2018 with a notional value of \$354 mmp; such instruments show a mark-to-market ("MTM") of \$(10.8) mmp.

The **Net Loan Portfolio** reflects an increment of \$1.0291 bmp, equivalent to a positive variation of 9.4%, compared to 2Q17, which is explained mainly through:

- (i) The increment in the current loan portfolio of \$1.104 mbp which consists, almost completely, of the increment in the retail portfolio of \$1.0989 mbp, resulted from the company's commercial strategies to satisfy the market's needs and from accomplishing the goals of financing level.
- (ii) The **Non-Performing Loan Portfolio**, as of the closing of 2Q18, shows a balance of \$297.6 mmp, representing 2.5% of the total portfolio, according to the Exhibit 34 of the Single Circular of the Bank (2Q17 3.4%). This reduction results from the operating efficiency of the collection area in the Company and the continued improvement of its strategies during the year 2018; which results into a healthier indicator compared to the same period the previous year.

The **Preventive Credit Risk Estimate** shows an increment of \$6.0 mmp, maintaining a hedge of 1 time ("x") the expected loss and of 1.4 x the non-performing portfolio (2Q2017 1.12x). The appraisal of the Preventive Credit Risk Estimate is calculated according to the methodology of expected loss.

It is worth to mention that the company, as of June 30, 2018, has executed 6 Trusts, which are described below:

- A. On October 17, 2017, an Irrevocable Management Trust 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 Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative, with regard 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 comprise a portfolio of \$ 579 mmp as of June 30, 2018.
- B. On September 05, 2016, an Irrevocable Management Trust 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 Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative, with regard to the public offer of 5,363,830 CBF with a nominal value of MX\$100.00 (one hundred 00/100, Mexican pesos). The trust assets of this trust comprise a portfolio of \$268 mmp as of June 30, 2018.
- C. On November 05, 2015, an Irrevocable Management Trust 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 Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative, with regard to the public offer of 6,165,500 CBF with a nominal value of MX\$100.00 (one hundred 00/100, Mexican pesos). The trust assets of this trust comprise a portfolio of \$163 mmp as of June 30, 2018.
- D. On January 30, 2015, an Irrevocable Escrow Agreement was executed by Navistar Financial as Settlor and Beneficiary in second place, Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero (Invex), as Fiduciary, and CITIBANK, N.A. as Beneficiary in first place. Such Agreement backs a line of credit hired with Banco Nacional de México S.A., member of Grupo Financiero BANAMEX ("BANAMEX"), and it holds a 100% guarantee with the Export-Import Bank of the United States ("Exim"). As of the closing of June 2018, the balance of the contributed portfolio is \$201 mmp.
- E. In October 2014, Navistar Financial ("Settlor", "Beneficiary" in Second Place) entered into an Irrevocable Guarantee Trust 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 the credit granted by EDC. The trust assets of this Trust, as of June 30, 2018, amount to \$1.350 mbp.
- F. 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). The purpose of this guarantee is to back the line of credit in current account in favor of the Company. The trust assets of this Trust, as of June 30, 2018, amount to \$3.651 mbp.

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** show a positive variation of \$123.5 mmp, which results mainly from the increment of security deposits for the loans granted, which have been higher in comparison to the previous year.

The heading **Awarded Assets**, as of the closing of June 2018, shows a positive variation in the award indicator in the 16 pbs portfolio, as a consequence of a higher stock rotation of these assets: 0.68% in 2Q18 compared to 0.84% in 2Q17.

In relation to **Equipment Intended for Operating Lease**, as of 2Q18, there is a \$170.8 mmp increment compared to 2Q17, representing a growth of 8.4%. This resulted from the Operating Lease program, permanently focused on big fleets targeted funding.

The heading **Other Assets** shows a reduction of \$17.2 mmp, caused mainly by the reduction of expenses for credit instrument issue.

As of the closing of 2Q18, the Company's **Net Liabilities of Liquid Assets** reflect a reduction of \$717.2 mmp, equivalent to an increment of 7.4%, in comparison to the same period of the previous year, resulting from the increment in the portfolio.

The heading **Stock Liability** shows a balance of \$2.4663 mbp, which comprise the equity and interest of a (i) CBF in the amount of \$154.2 mmp for the issue NAVISCB15 (first issue under a 5.000 mbp, 5-year, revolving program authorized on November 5, 2015), (ii) CBF in the amount of \$223.3 mmp corresponding to the issue NAVISCB16 (second issue under a 5.000 mbp program), (iii) CBF in the amount of \$443.7 mmp corresponding to the NAVISCB17 issue (third issue under a 5.000 mbp program), and (iii) Short-Term Bonds ("CB") in the amount of \$1.6451 mbp of a \$1.800 mbp program.

In **Bank Loans** there is an increase of \$835.4 mmp compared to 2Q17, as a consequence of the hiring and availability of funding sources with commercial and development banks during this year. As of June 30, 2018 and 2017, the 36% and 39%, respectively, of the aforementioned bank loan balance are guaranteed by Navistar International Corporation ("NIC") or by Navistar Financial Corporation ("NFC").

In 2Q18 and 2Q17, the bank liabilities are guaranteed by the loan portfolio and transport equipment intended for operating lease in the amount of \$9.827 and \$8.550 mbp, respectively. In addition, as of the closing of June 2018, the company has a free current portfolio of \$3.559 mmp, getting a 2.17-times benchmark of free current portfolio, compared

to the outstanding balance of the issue of the current commercial paper.

Moreover, the **Deferred Loans and Advanced Collections** show a variation of \$9.0 mmp, representing a positive variation of 7.6%, compared to 2Q2017. This is mainly because of an increment in the financial income to be accrued and the fees collected in advance because of the granting of loans.

The Company shows financial soundness, which is reflected on a capitalization level (equity/total portfolio) equivalent to 27.7% (2Q17 25.8%) and a net leverage level of the liquid assets of 3.5x (2Q17 3.9x), based on the bank covenants.

## HEADINGS IN THE INCOME STATEMENT

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*The financial information corresponding to the fiscal year 2017 includes changes in its presentation in order to make it comparable to the same period in 2018 (current regulations). Additionally, the percentages related to portfolio are arranged on an annual basis.*

As of the closing of 2Q18, the **Financial Margin**, not affected because of the exchange rate fluctuation, amounts to \$306.3 mmp, which represent a positive variation of \$43.9 mmp compared to the same period in the previous year, which is mainly explained by an increment in the commercial loan volume granted on 2018. The interest hedge ratio for 2Q18, not affected by the exchange rate fluctuation, is 1.7x (1.6x 2T17), so the Company is in compliance with the required bank obligations.

The **Preventive Estimates for Credit Risks** show a positive variation in relation to the previous year in the amount of \$21.7 mmp, representing a reduction of 19%; this is mainly because of an appropriate portfolio risk control.

Consequently, the **Financial Margin Adjusted by the Credit Risks**, not affected by the exchange rate fluctuation, shows a positive variation of \$65.6 mmp.

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

- (i) The net of the collected and paid fees and rates shows a negative variation reflected in income of \$28.2 mmp, as a consequence of the reduction in the heading "collected fees", mainly because of the reduction in the volume of collocation of geolocation devices in comparison to the previous year.
- (ii) Intermediation income shows a positive impact of \$42.4 mmp, resulting from:
  - a) A negative variation of \$60.8 mmp, explained by the fluctuations in the rate exchange and derivative instruments. For analysis purposes, the net impact of the currency position (excluded in the Financial Margin analysis) must be considered. In 2Q2018, this reaches a profit of \$12.9 mmp, compared to the loss of \$19.7 mmp in this same period the previous year.
  - b) A positive variation because of the Interest Rate transactions. This instrument shows an increment in its 2018 value derived from the volatility of the Interbank Balance Interest Rate ("TIIE") and the long-term curve. Aggregate to 2Q17, there were negative effects of \$45.5 mmp on these instruments and, during 2018, there have been negative effects of \$26.2 mmp.

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

- (i) **Management Expenses:** the expenses indicator over the total managed portfolio is 1.90%, a figure which is 26 pbs lower than the 2.16% of 2Q17. A reduction of \$6.0 mdp is shown in comparison to 2Q17, because of a decrease in the volume of expenses for marketing of the geolocation device launched in 2017.

Within the heading **Caused and Deferred Income Taxes**, a negative variation of \$11.6 mmp is shown; this effect is a consequence of the income tax provision which increase is directly related to the income of the fiscal year.



## FUNDING SOURCES

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As of June 30, 2018, the Company had \$14.3989 mbp in approved funding sources, which were distributed in the following way: (i) 29.2% in domestic and foreign commercial bank, (ii) 53.7% in domestic and foreign development bank, (iii) 5.7% in CBF, and (iv) 11.4% in CB.

The Company maintains \$3.6224 mbp in available lines 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 June 2018, the line was not available as working capital.

In November 2015, the first CBF issue was performed under the Senior Bond Certificate program authorized on November 5, 2015 for up to \$5.000 mbp. This first issue, NAVISCB15 in the amount of 616.5 mmp, was executed through the Trust 2537, opened with Invex, with a 1893-day term and with monthly amortizations. As of the closing of June 2018, the balance of this issue is \$154.2 mmp. The Company holds 100% of the titles of trust assets of the aforementioned trust.

In September 2016, the second CBF issue was performed under the Senior Bond Certificate program authorized on November 5, 2015 for up to \$5.000 mbp. 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 June 2018, the balance of this issue is \$223.2 mmp. The Company holds 100% of the titles of 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 \$5.000 mbp. 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 June 2018, the balance of this issue is \$443.7 mmp. The Company holds 100% of the titles of trust assets of the aforementioned trust.

Additionally, the Company has a short-term CBs program of \$1.800 mbp; such program was renewed and extended on February 17, 2017, and its balance, as of June 30, 2018, is \$1.6451 mbp.

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

	Jun -18	%	Jun -17	%
Debt in pesos fixed rate	3,747,208	46%	3,434,438	42%
Debt in pesos with CAP coverage	1,133,683	14%	685,374	8%
Debt in pesos variable rate	3,221,232	40%	4,037,912	50%
<b>Subtotal pesos</b>	<b>8,102,123</b>		<b>8,157,724</b>	
Interest payable	31,512		29,136	
<b>TOTAL PESOS</b>	<b>8,133,635</b>		<b>8,186,860</b>	
Debt in dollars fixed rate	0	0%	0	0%
Debt in dollars variable rate	135,821	100%	99,066	100%
<b>Subtotal dollars</b>	<b>135,821</b>		<b>99,066</b>	
Interest payable	659		582	
<b>TOTAL DOLLARS</b>	<b>136,480</b>		<b>99,648</b>	

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

As of June 30, 2018, the Company has not hired any CCSwap.

According to the Trust Agreement entered into as a result of the issue of the CBF NAVISCB15, two Interest Rate Options were hired under the following conditions:

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

According to 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
- Par value: 536.3 mmp
- Start date: October 07, 2016
- Maturity date: September 15, 2020
- Counterparty: BBVA BANCOMER S.A.
- Strike: 6%
- Premium: 4.6 mmp

According to 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
- Par value: 709.5 mmp
- Start date: November 15, 2017
- Maturity date: August 15, 2022
- Counterparty: BBVA BANCOMER S.A.
- Strike: 9%
- Premium: 3.1 mmp

Additionally, the company hired one Interest Rate Option, under the following conditions:

- CAP on TIIE
- Par value: 374.6 mmp
- Start date: March 28, 2018
- Maturity date: April 14, 2021
- Counterparty: BBVA BANCOMER S.A.
- Strike: 8.25%
- Premium: 1.2 mmp

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



**“The information published in this document can contain or refer to future projections, tendencies, results, facts or actions, which involves risk and uncertainties, so there is no guarantee or assurance that such projections, tendencies, results, facts or actions may happen or be accomplished under the terms described herein. Therefore, Navistar Financial, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Regulated Entity does not assume liability for the updating of the content of this document.”**

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

Consolidated Financial Statements

June 30, 2018 and 2017

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

Notes to the consolidated financial statements

For years ended on June 30, 2018 and 2017

(Thousands of pesos)

**(1) Company's activity-**

***Activity-***

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

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

Servicios Corporativos NFC, S. de R. L. de C. V. (Servicios Corporativos, a subsidiary of Navistar Financial) is a company incorporated under the Mexican law. The main activity of Servicios Corporativos is the provision with management services to its related parties. Such services are offered in Mexico City.

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

**(2) Authorization and presentation basis**

**-Authorization-**

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

**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)

According to the General Law on Business Corporations, the provisions of the National Banking and Securities Commission (the Commission) and the bylaws of the Company, the shareholders and the Commission have the capacity to modify the consolidated financial statements after their issue. The non-consolidated financial statements, as of June 30, 2018, issued separately on this same date, shall be submitted for approval in the next Shareholder's Meeting of the Company.

**Presentation bases**

**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 (the Provisions), which set forth that those SOFOMES with debt securities registered in the National Security Registry, as it is the case of the Company (see note 15), for the registration of its transactions, shall apply the accounting criteria for credit institutions in Mexico provided by the Commission in Exhibit 33 of the general provisions applicable to credit institutions, except for the series "D" of such criteria, since they shall apply series "D" criteria relative to the basic financial statements for SOFOMES, in force since 2015.

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



**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)

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

**c) Operation and reporting currency**

The aforementioned consolidated financial statements are shown in Mexican pesos 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, it refers to thousands of Mexican pesos and, when referring to dollars, it refers to US dollars.

**(3) Summary of the main accounting policies-**

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

**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)

**(a) *Recognition of the inflationary impact-***

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

**(b) *Consolidation bases-***

The consolidated financial statement includes information about Navistar Financial and its subsidiary, Servicios Corporativos (which 99.97% of corporate equity is held by Navistar Financial). The important balances and transactions between Navistar Financial and Servicios Corporativos have been removed in the preparation of the consolidated financial statements. The consolidation was carried out based on the audited financial statements of Servicios Corporativos as of and for the years ended on June 30, 2018 and 2017.

**(c) *Availabilities-***

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

**(d) *Investments in securities-***

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

Notes to the consolidated financial statements

(Thousands of pesos)

*(e) Debtor for repurchases-*

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

*(f) Transactions with trading financial derivative instruments-*

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

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

*Interest rate swaps and CSS*

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

*Options-*

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

**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)

**(g) *Loan portfolio-***

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

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

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

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

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

**(h) *Overdue loans and interest-***

The loan and interest outstanding balance is classified as overdue as per the criteria described 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)

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

(Thousands of pesos)

**(i) *Operating lease-***

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

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

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

**(j) *Securitization transactions-***

The Company performs portfolio securitization transactions, where it assesses whether such transaction complies with the asset transfer requirements, in accordance with the provisions of the accounting criteria. If such asset transfer does not comply with the requirements to be canceled, 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 bonds are recognized as liabilities under the heading "Stock liabilities".

**(k) *Preventive credit risk estimates-***

The Company determines the preventive estimates for credit risk, which, under the Management's judgment, are enough to cover any loss of the loan portfolio.

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Beginning on June 30, 2017, the Management is based on studies that analyze and classify the total commercial portfolio, as per the "Provisions", to carry out the preventive credit risk estimates applicable to Credit Institutions set forth by the Commission, which are described below:

- In case of loans to entities and individuals with business activity, with income higher or equal to 14 million UDIs in national currency, the estimate is performed as per the general methodology set in Exhibit 22 of such Provisions.
- In case of loans to entities and individuals with business activity, with net income or net sales lower than the equivalent to 14 million UDIs in national currency, the estimate is performed as per the implementation of the methodology described in Exhibit 21 of such Provisions.

The classification of the loan portfolio by risk level as of June 30, 2018 and 2017, is assembled as indicated below:

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

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*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 integrated 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.

$$PI_i = \frac{1}{1 + e^{-\frac{(500 - \text{Total Credit Rating}) \times \ln(2)}{40}}}$$

Until December 30, 2016, the Company's Management performed its estimates, according to the following internal methodology, considering the guidelines set forth in the Provisions of Credit Institutions required to use the internal methodology, which set that the severity of the loss and the default probability shall be estimated and that the non-performance exposure of each credit shall be obtained.

*Internal methodology-*

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

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



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Where:

$R_i$  = Amount of the allowance to be comprised

$P_i$  = Default probability

$SP_i$  = Severity of the loss

$E_i$  = Non-performance exposure

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

**(l) Other accounts receivable-**

These 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 estimates are not performed with tax balance in favor.

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

**(m) Awarded assets-**

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

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

Movable property

<b><u>Time elapsed from the awarding or accord and satisfaction (months)</u></b>	<b><u>Allowance percentage</u></b>
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

<b><u>Time elapsed from the awarding or accord and satisfaction (months)</u></b>	<b><u>Allowance percentage</u></b>
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

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**(n) *Real property, furniture and equipment-***

The real property, furniture and equipment are recorded at their acquisition cost and, up to December 30, 2007, these were updated by means of factors derived from the National Consumer Price Index (INPC). The depreciation is estimated on the updated values with the straight-line method, based on the lifespans of the corresponding assets calculated by the Company Management.

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

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

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

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

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

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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 its estimated recovery value, the Company records the corresponding wear and tear.

**(o) Other assets-**

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

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

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

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

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

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

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The deferred ISR and PTU (assets and liabilities) are recognized according to the future tax consequences, which are attributable to the temporary difference between the values reflected in the consolidated financial statements of the existing assets and liabilities, as well as 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 for deferred ISR and PTU are estimated using the rates provided in the corresponding law, 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 in 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 the OCI or directly under a heading of the shareholder's equity.

**(r) *Deferred loans-***

It includes the financial income to be earned from the financial leasing transactions and the fees charged for opening the loans, 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.

**(s) *Provisions-***

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

**(t) *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.

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

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

**(u) *Transactions in foreign currency-***

Transactions in foreign currency are recorded at the exchange rate valid on the date of formalization 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 and liabilities hired in foreign currency are recorded in the income statement of the year.

**(v) *Contingencies-***

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

**(4) *Implementation of accounting criteria and reclassification-***

***Implementation of accounting criteria-***

The Company, since June 2017, adapted its internal methodology to the methodology set forth by the Commission to borrowers with net income or net sales lower or equal to 14 million UDIs, to determine the preventive credit estimates of the consolidated balance sheet.

***Reclassifications-***

The consolidated financial statements as of and for the year ended on June 30, 2017, include certain reclassifications to be standardized with the presentation used in the consolidated financial statement as of and for the year ended on June 30, 2018.

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**(5) Transactions in foreign currency-**

The monetary assets and liabilities, in foreign currency, as of June 30, 2018 and 2017, are shown below:

	<b>Thousands of dollars</b>	
	<b>2018</b>	<b>2017</b>
Assets (loan portfolio mainly)	137,394	105,379
Liabilities (bank loans mainly)	(138,909)	(102,877)
Net asset (passive) position	(1,515)	2,502
	=====	=====

As of June 30, 2018 and 2017, the Company has hired classified trading financial derivative instruments, which protects its exposure to exchange-rate risk (see note 9).

The dollar-peso exchange rate, as of June 30, 2018 and 2017, was \$19.6912 and \$18.0626 pesos per dollar, respectively.

**(6) Availabilities-**

This heading comprises, as of June 30, 2018 and 2017, the elements shown below:

	<b>2018</b>	<b>2017</b>
National bank deposits	\$ 87,326	98,353
Foreign bank deposits	31,907	23,898
National bank restricted deposits <sup>(1)</sup>	2,650	3,236
	\$ 121,883	125,487
	=====	=====

<sup>(1)</sup> It corresponds to the balances in banks of the security trust (see note 10c).

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**(7) Investments in securities-**

As of June 30, 2018 and 2017, the notes in the amount of \$434 and \$139 have a 5-day and 3-day maturity, respectively, and a yield rate of 7.81% and 6.96%, respectively.

Interest earned by the security investment amounted to \$788 and \$3,596, respectively, for the years ended on June 30, 2018 and 2017 (see note 19).

**(8) Repurchases-**

As of June 30, 2018 and 2017, the investments in repurchases for \$254,394 (including \$232,828 in restricted securities) and \$133,919 (including \$111,320 in restricted securities), respectively, are mainly constituted of government paper (Bonds and Unibonds), at 3- and 3-day terms, respectively, with a rate interest of 7.75%-7.50% and of 6.95%-6.80%, respectively. As of June 30, 2018, the restricted securities correspond to the investments of the Irrevocable Trust No. 2537, Irrevocable Trust 2844 and Irrevocable Trust 3290 (until June 30, 2017, the Irrevocable Trust 1455 was also included —see note 10(c)—).

Interest earned by the investment in repurchase amounted to \$17,219 in 2018, and \$16,534 in 2017; which are reported in the consolidated income statement under the heading "Interest Income" (see note 19).

**(9) Trading derivatives-**

As of June 30, 2018 and 2017, 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 will allow the Company to receive the difference of the spot rate and the agreed rate. The IR CAP is 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.



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Additionally, as of June 30, 2017, the Company has hired financial derivative instruments that allowed exchange rate and currency flows (CCS), with the aim of optimizing their short-term yield in dollars. The difference between the paid exchange rate and the received exchange rate, as well as the fluctuation in the fair value, was recorded in the consolidated income statement under the heading "Intermediation Income". The CCS allow to receive THIE in pesos and pay the London InterBank Offered Rate (LIBOR) in dollars.

The quantity of the notional amounts and the book value of the transactions with financial derivative instruments as of June 30, 2018 and 2017 is shown below:

Instrument	Underlying	Initial notional(1)	Maturity	Premium	2018		2017	
					Impact on income	Fair value	Impact on income	Fair value
IR CAP	28-day THIE	1,000,000	2018	\$ 13,496	(1,231)	-	(2,282)	2,788
IR CAP	28-day THIE	800,000	2018	12,150	(708)	-	(1,766)	2,194
IR CAP	28-day THIE	616,550	2019	3,690	(2,561)	2,669	(4,002)	6,238
IR CAP	28-day THIE	536,383	2020	4,630	(2,297)	4,718	(4,526)	5,463
IR CAP	28-day THIE	709,522	2022	3,150	(1,344)	2,159	-	-
IR CAP	28-day THIE	374,649	2021	<u>1,235</u>	<u>50</u>	<u>1,285</u>	<u>-</u>	<u>-</u>
				\$ 38,351	(8,091)	10,831	(12,576)	16,683
				=====	=====	=====	=====	=====

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

As of June 30, 2018 and 2017, the loss for the trade of financial derivative instruments amounted to \$18,100 and 25,883 (see note 22).

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**(10) Loan portfolio-**

**(a) Classification of the loan portfolio-**

The classification of the current and non-performing loans, as of June 30, 2018 and 2017, is shown below:

	Current portfolio			Non-perf portfolio			Total current and non-perf
	National Currency	Appreciated Dollars	Total	National Currency	Appreciated Dollars	Total	
<b>June 30, 2018</b>							
Commercial loans	\$ 5,552,804	1,914,245	7,467,048	140,298	3,373	143,671	7,610,719
Capitalizable lease portfolio	4,078,623	50,059	4,128,682	112,495	-	112,495	4,241,177
Financial income to be accrued	(758,075)	(3,014)	(761,089)	(8,736)	-	(8,736)	(769,825)
Financed insurances	234,222	2,578	236,800	36,671	932	37,603	274,403
Restricted commercial loans (1)	404,506	-	404,506	7,811	-	7,811	412,317
Restricted capitalizable lease portfolio (1)	684,833	-	684,833	5,241	-	5,241	690,074
Financial income to be accrued of restricted portfolio (1)	(82,547)	-	(82,547)	(506)	-	(506)	(83,053)
	<u>\$ 10,114,366</u>	<u>1,963,868</u>	<u>12,078,233</u>	<u>293,274</u>	<u>4,305</u>	<u>297,579</u>	<u>1,2375,812</u>
<b>June 30, 2017</b>							
Commercial loans	\$ 5,596,613	1,365,093	6,961,706	111,096	58,986	170,082	7,131,788
Capitalizable lease portfolio	3,489,868	77,763	3,567,631	153,538	-	153,538	3,721,169
Financial income income	(560,047)	(5,785)	(565,832)	-	-	-	(565,832)
Financial insurances	155,283	1,621	156,904	26,438	-	26,438	183,342
Restricted commercial loans (1)	304,482	-	304,482	3,783	-	3,783	308,265
Restricted capitalizable lease portfolio (1)	627,754	-	627,754	14,406	-	14,406	642,160
Financial income to be accrued of restricted portfolio (1)	(78,415)	-	(78,415)	(1,745)	-	(1,745)	(80,160)
	<u>\$ 9,535,538</u>	<u>1,438,692</u>	<u>10,974,230</u>	<u>307,516</u>	<u>58,986</u>	<u>366,502</u>	<u>11,340,732</u>

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

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Non-performing portfolio:

The non-performing portfolio classification is presented below by seniority as of June 30, 2018 and 2017:

June 30	Days				
	<u>1-180</u>	<u>181-365</u>	<u>1-2 years</u>	<u>More than 2 years</u>	<u>Total</u>
2018	\$ 83,563	96,381	114,043	3,592	297,579
2017	199,336	119,004	47,983	179	366,502
	=====	=====	=====	=====	=====

An analysis of the movements in the non-performing portfolio for the quarters ended on June 30 and March 31, 2018, is shown below:

	<u>Q2 2018</u>	<u>Q1 2018</u>
Balance at the beginning of the year	\$304,361	287,069
Awards	(2,866)	(392)
Write-offs	(31,117)	(15,576)
Collection	(6,593)	(32,819)
Transfer from current to non-performing portfolio	57,454	77,748
Transfer from non-performing to current portfolio	(23,660)	(11,669)
Balance at the end of the year	\$297,579	304,361
	=====	=====

The accrued non-collected interest of the non-performing portfolio, which, according to the accounting criteria, is recorded in memorandum accounts and shall be recognized in the year income until its collection, as of June 30, 2018 and 2017, amounts to \$63,192 and \$38,147, respectively.

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The maturities by year of the loan portfolio are analyzed as follows:

<b><u>Year of Maturity</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
2017	-	7,482,069
2018	6,668,913	1,773,325
2019	2,274,332	1,218,906
2020	1,709,758	628,222
2021	1,094,830	219,652
2022	502,580	12,754
2023	101,645	5,804
2023	<u>23,754</u>	<u>-</u>
	\$ 12,375,812	11,340,732
	=====	=====

**Risk concentration:**

As of June 30, 2018 and 2017, the Company's portfolio comprises 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 during 2016 to a related company, which represents the 11% and 15% of the total portfolio as of June 30, 2017 and 2016 (see note 17).

The loan portfolio concentration by geographic zone as of June 30, 2018 and 2017, is detailed below:

	<b><u>2018</u></b>		<b><u>2017</u></b>	
	<b><u>Portfolio</u></b>	<b><u>%</u></b>	<b><u>Portfolio</u></b>	<b><u>%</u></b>
Mexico City and the State of Mexico	\$ 2,210,662	18%	2,586,783	23%
Center <sup>(1)</sup>	905,465	7%	832,151	7%
North <sup>(2)</sup>	5,527,740	45%	4,435,560	39%
West <sup>(3)</sup>	2,932,308	24%	2,710,806	24%
South <sup>(4)</sup>	<u>799,637</u>	<u>6%</u>	<u>775,432</u>	<u>7%</u>
	\$ 12,375,812	100%	11,340,732	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 Potosi.
- (4) It includes the states of Oaxaca, Veracruz, Chiapas, Tabasco, Quintana Roo, Campeche, and Yucatan.

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**(b) Preventive credit risk estimates-**

As of June 30, 2018 and 2017, the classification of the assessed portfolio and its preventive estimate is analyzed as it is shown below:

<u>Level of risk valuated portfolio</u>	<u>Portfolio</u>		<u>Preventive estimate for credit risks</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
A-1	\$ 8,166,022	7,410,021	46,558	48,541
A-2	1,614,406	1,940,041	19,162	22,982
B-1	597,080	341,056	10,370	5,989
B-2	237,827	64,399	5,328	1,446
B-3	713,268	379,886	23,374	12,943
C-1	172,391	238,614	12,264	18,862
C-2	238,361	148,370	29,070	19,517
D*	499,477	810,228	163,165	273,342
E*	<u>136,980</u>	<u>8,117</u>	<u>108,261</u>	<u>7,929</u>
Total	\$ <u>12,375,812</u>	<u>11,340,732</u>	<u>417,552</u>	<u>411,551</u>

\* Troubled portfolio.

An analysis of the movements in the preventive estimates for credit risk of the years ended on June 30, 2018 and 2017 is presented below:

	<b>Q2 2018</b>	<b>Q1 2018</b>
Balance at the beginning of the year	\$ <u>410,093</u>	<u>382,760</u>
Increment of allowance in income	42,839	47,483
Release of preventive estimates in "other operation income (expenses)" (see note 24)	<u>(4,155)</u>	<u>(2,646)</u>
Effect of reassessment	1,466	(1,238)
Write-offs	<u>(32,691)</u>	<u>(16,266)</u>
Balance at the end of the year	\$ <u>417,552</u>	<u>410,093</u>

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**(c) *Portfolio securitization-***

**NAVISCB 13**

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

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

The obligations on such bonds, which only payment source is the collection of collection rights, yield interest of \$7,019 in June 2017, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 19).

**NAVISCB 15**

On November 5, 2015, the Company, as Settlor, Beneficiary in second place, and Manager, and Invex, as Fiduciary, entered into an agreement to constitute the Irrevocable Trust Agreement Number 2537 (the Trust), with the purpose of establishing a program in Mexico for issue and public offer of Senior Trust Bonds. This Trust shall pay the Company a monthly percentage on the amount of the managed assets.

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Such Trust consisted of the securitization of current loans in Mexican pesos, through the assignment of the loan rights of financial leasing 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.

According to the Trust Agreement, the Company began with a capacity of 1.20, which shall grow to 1.30 (target capacity), in order for the Company to have the right of the surplus in the generated flows once the capacity exceeds the 1.30. As of June 30, 2018 and 2017, the collection rights given to the Trust amounted to \$165,656 and \$396,223, respectively. Any remnant of the issue will be delivered to the Company once all bonds have been settled.

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

As of June 30, 2018 and 2017, the balance of the obligation in the NAVISCB 15 amounts to \$153,551 and \$311,624, respectively (see note 14). Additionally, the interest payable as of June 30, 2018 and 2017, amounts to \$633 and \$1,190, respectively. The obligations on such bonds, which only payment source is the collection of collection rights, yield interest of \$8,859 and \$14,128, respectively, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 19).

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

NAVISCB 16

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

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Such Trust consisted of the securitization of current loans in Mexican pesos, through the assignment of the loan rights of financial leasing 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.

According to the Trust Agreement, the Company began with a capacity of 1.215, which shall 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 June 30, 2018 and 2017, the collection rights given to the Trust amounted to \$269,490 and \$474,042, 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, for \$536,383, which yield interest during the year of issue (1,985 days) at an annual TIIE rate plus 1.55 percentage points. The issue pays interest and principal on a monthly basis.

As of June 30, 2018 and 2017, the balance of the obligation on the NAVISCB 16 amounts to \$222,365 and \$373,750, respectively (see note 14). Additionally, the interest payable, as of June 30, 2018 and 2017, amounts to \$932 and \$1,452, respectively. The obligations on such bonds, which only payment source is the collection of collection rights, as of June 30, 2018 and 2017 yielded interest of \$12,319 and \$17,098, respectively, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 19).

The rating awarded on September 25, 2018 and on October 11, 2017 by HR Ratings de México S. A. de C. V. was "HR AAA(E)" on both dates.

NAVISCB 17

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



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Such Trust consisted of the securitization of current loans in Mexican pesos, through the assignment of the loan rights of financial leasing 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.

According to the Trust Agreement, the Company began with a capacity of 1.195, which shall 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 June 30, 2018, collection rights given to the Trust amounted to \$584,192. Any remnant of the issue shall be delivered to the Company once all bonds have been settled.

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

As of June 30, 2018, the balance of the obligations on the NAVISCB 17 amounts to \$441,763, (see note 14). Additionally, the interest payable as of June 30, 2018, amounts to \$1,902.

The obligations on such bonds, which only payment source is the collection of collection rights, as of June 30, 2018, yielded interest of \$26,421, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 19).

The rating awarded on June 15, 2018 by HR Ratings de México S. A. de C. V. was "HR AAA(E)". Additionally, the rating granted on October 6, 2018 to the NAVISCB 17 issue by Standard & Poors, S. A. de C. V. was "mxAAA(sf)".

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A summary of the Trusts financial situation is presented below:

	<u>Trust 2537</u>		<u>Trust 2844</u>		<u>Trust. 3092</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
<b>Balance sheet:</b>					
Cash and cash equivalents	48,664	43,725	69,515	68,923	116,008
Financial derivative instruments	2,669	6,237	4,718	5,463	2,159
Collection rights, net	157,977	380,645	261,825	461,146	567,571
Other accounts receivable	-	-	-	-	-
Total assets	<u>209,310</u>	<u>430,607</u>	<u>336,058</u>	<u>535,532</u>	<u>685,738</u>
Obligations on bonds, net	147,016	313,029	215,766	375,215	431,833
Accounts payable	<u>2,232</u>	<u>1,932</u>	<u>316</u>	<u>281</u>	<u>1,506</u>
Total obligations on bonds	149,248	314,961	216,082	375,496	433,339
Assets <sup>(1)</sup>	<u>60,062</u>	<u>115,646</u>	<u>119,976</u>	<u>160,036</u>	<u>252,399</u>
Total liabilities and assets	<u>209,310</u>	<u>430,607</u>	<u>336,058</u>	<u>535,532</u>	<u>685,738</u>
<b>Income statement:</b>					
Financial income	18,330	30,540	23,328	33,031	49,126
Financial expenses	(13,33)	(18,542)	(14,976)	(18,702)	(29,512)
Change in the fair value of financial derivative instruments	(2,561)	(4,003)	(2,297)	(4,526)	(1,345)
Impact of collection rights impairment	4,092	6,473	1,188	(3,952)	1,129
Other income (expenses), net	574	152	310	181	4,641
General expenses	<u>(40)</u>	<u>(45)</u>	<u>(31)</u>	<u>(32)</u>	<u>(33)</u>
Year income	<u>6,462</u>	<u>14,575</u>	<u>7,522</u>	<u>6,000</u>	<u>24,006</u>

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

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*(d) Escrow-*

- On January 30, 2015, an Irrevocable Escrow Agreement was executed by Navistar Financial as Settlor and Beneficiary in second place, Banco Invex, S.A, Institución de Banca Múltiple, Invex Grupo Financiero (Invex), as Fiduciary, and CITIBANK, N.A. as Beneficiary in first place. Such Agreement backs a line of credit hired with Banco Nacional de México S.A., member of Grupo Financiero BANAMEX (“BANAMEX”), and it holds a 100% guarantee with the Export-Import Bank of the United States ("Exim"). As of June 30, 2018 and 2017, the Trust assets are represented by the secured collection rights to pay the loan obligations, which amount to \$172,241 and \$357,402, respectively.
- In October 2014, the Company as Settlor and Beneficiary in second place, entered into an Irrevocable Management and Escrow Agreement No. F/2251 with Export Development Canada "EDC", as Beneficiary in first place, and Banco Invex, S.A Institución de Banca Múltiple, Invex Grupo Financiero, as Fiduciary; such Trust is intended to back the line of credit with corporate purposes in favor of the Company in an amount up to 55 million dollars. As of June 30, 2018 and 2017, the assets of this Trust amount to \$690,810 and \$608,087, respectively.
- In November 2013, the Company as Settlor, Beneficiary in second place and Commission Agent, executed an Irrevocable Escrow Agreement with Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria, as Fiduciary and Beneficiary in first place. The purpose of this Trust is to back the line of credit in current account in favor of the Company. As of June 30, 2018 and 2017, the assets of this Trust amounted to \$1,723,144 and \$1,066,576, respectively.

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**(e) Risk sharing fund-**

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

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

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

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

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

The outstanding balances of the portfolio secured under both schemes as of June 30, 2018 and 2017 was \$593,701 and \$721,387, respectively.

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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 June 30, 2018 and 2017, the Company has claimed \$22,559 and \$57,188, respectively, under the umbrella of such program. From which, \$14,908 and \$40,763 have respectively been collected.

**(f) Restructured and renewed loans-**

As of June 30, 2018 and 2017, the restructured and renewed loans of the portfolio amounted to \$338,446 and \$202,091, respectively.

For the years ended as of June 30, 2018 and 2017, the recovery income of the previously non-performing portfolio amounts to \$36,539 and \$12,219, respectively, which is recognized under the heading "Other operation 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 origination costs for the years ended on June 30, 2018 and 2017 are shown below:

<b>Fees for granting loans:</b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Initial balance	\$ 171,461	150,702
Collected fees	36,960	33,938
Amortization (note 19)	<u>(36,058)</u>	<u>(28,838)</u>
Subtotal of fees for granting loans to the next sheet	\$ <u>172,363</u>	<u>155,802</u>

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	<u>2018</u>	<u>2017</u>
<b>Loan origination costs:</b>		
Initial balance	39,014	35,292
Paid costs and expenses	16,383	11,197
Amortization (note 19)	<u>(10,311)</u>	<u>(8,958)</u>
	<u>45,086</u>	<u>37,531</u>
Net balance of fees and costs for loan origination	\$ <u>127,277</u> =====	<u>118,271</u> =====

**(h) *Policies and procedures to grant loans-***

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

- The general policies governing the Company's credit activity are included in the Loan Brochure.
- The loan process includes promotion, request, assessment, approval, implementation, use, follow-up, control, portfolio rating, as well as administrative and legal recovery.
- The loan and risk official analyzes the common risk of the partner borrowers integrating a business group or corporation of companies linked among them.
- The officials and employees shall refrain from the approval of loans with conflict of interest.
- Any withdrawal covered by a specific operation or line of commercial loan shall have the authorization of a proper official.
- The execution of any kind of loan performed under legal instruments (contracts, agreements or credit instruments) shall be authorized by the Company's legal department.

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**(11) Other accounts receivable-**

As of June 30, 2018 and 2017, the accounts receivables are as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Portfolio debtors	\$ 110,317	96,302
Sundry debtors	448,719	671,831
Refundable taxes	61,041	4,268
Related companies (note 17)	<u>366,781</u>	<u>187,324</u>
	986,858	959,725
Less estimate of doubtful accounts payable	<u>(37,153)</u>	<u>(17,473)</u>
	\$ 949,705	942,252
	=====	=====

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

As of June 30, 2018 and 2017, the investment in property, furniture and equipment, as well as equipment and real property intended for operating lease is analyzed as shown below:

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<b><u>Real property, furniture and equipment- for own use:</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>Annual depreciation rate</u></b>
Furniture	\$ 49,638	56,634	2.30%
Transport equipment	2,930	3,091	25%
Furniture and computing equipment	<u>19,529</u>	<u>18,349</u>	10% and 33%
	72,097	78,074	
Accumulated depreciation	<u>(27,406)</u>	<u>(22,082)</u>	
	44,691	55,992	
Land	<u>40,846</u>	<u>41,169</u>	
	\$ 85,537	97,161	
	=====	=====	
<b><u>Transport equipment and furniture intended for operating lease:</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>Annual depreciation rate</u></b>
Leased transport equipment	\$ 2,912,192	2,534,365	Various
Leased computing equipment	3,244	3,244	Various
Leased real property	<u>157,432</u>	<u>150,112</u>	Various
	3,072,868	2,687,721	
Accumulated depreciation and amortization	<u>(875,751)</u>	<u>(661,408)</u>	
	\$ 2,197,117	2,026,313	
	=====	=====	

For the years ended on June 30, 2018 and 2017, the charge to income from real property, furniture and equipment depreciation amounted to \$1,454 and \$1,731, respectively, and for the equipment and real property intended for operating lease amounted to \$184,068 and \$161,687, respectively.



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**(13) Awarded assets-**

As of June 30, 2018 and 2017, the awarded assets are as follows:

	<u>2018</u>	<u>2017</u>
Transport equipment	\$ 49,855	64,937
Real property	<u>51,627</u>	<u>67,394</u>
	101,482	132,331
Less:		
Allowance of awarded assets	(9,332)	(19,976)
Wear and tear	<u>(7,713)</u>	<u>(17,115)</u>
	\$ 84,437	95,240
	=====	=====

**(14) Stock liabilities-**

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

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As of June 30, 2018 and 2017, the stock liabilities at short- and long-term are integrated as shown below:

<u>Issue</u>	<u>Amount</u>	<u>Maturity date</u>	<u>Rate</u>
<u>Short-term:</u>			
NAVISTS02417	170,000	13/09/2018	TIE+2.00%
NAVISTS02917	95,000	19/04/2018	TIE+1.90%
NAVISTS03017	167,000	05/04/2018	TIE+1.90%
NAVISTS03517	115,000	19/04/2018	TIE+1.50%
NAVISTS00118	315,000	13/09/2018	TIE+1.79%
NAVISTS00218	300,000	23/08/2018	TIE+1.60%
NAVISTS00318	38,000	29/11/2018	TIE+1.59%
NAVISTS00418	300,000	18/10/2018	TIE+1.60%
NAVISTS00618	140,000	23/08/2018	TIE+1.60%
Accrued interest	5,136		
NAVISCB15*	129,225	15/01/2021	TIE+1.40%
NAVISCB16*	127,021	15/02/2022	TIE+1.55%
NAVISCB17*	274,784	15/03/2023	TIE+1.80%
Accrued interest	3,466		
Subtotal	\$2,179,632		
<u>Long-term:</u>			
NAVISCB15	24,326	15/01/2021	TIE+1.40%
NAVISCB16	95,344	15/02/2022	TIE+1.55%
NAVISCB17	166,979	15/03/2023	TIE+1.80%
Subtotal	\$ 286,649		
Total stock liabilities	\$2,466,281		

\* Current portion of long-term bonds

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<u>Issue</u>	<u>2017</u>	<u>Maturity</u>	<u>Rate</u>
<u>Short-term:</u>			
NAVISTS00317	230,000	24/08/2017	TIE+2.30%
NAVISTS00417	100,000	07/09/2017	TIE+2.20%
NAVISTS00517	200,000	12/10/2017	TIE+2.20%
NAVISTS00617	225,000	14/12/2017	TIE+2.25%
NAVISTS00817	220,000	12/10/2017	TIE+2.20%
NAVISTS00917	85,000	21/09/2017	TIE+2.20%
NAVISTS01017	85,000	23/11/2017	TIE+2.20%
NAVISTS01117	180,000	10/08/2017	TIE+2.00%
NAVISTS01317	100,000	09/11/2017	TIE+2.15%
NAVISTS01417	70,000	08/02/2018	TIE+2.00%
NAVISTS01517	280,000	13/07/2017	TIE+2.10%
Accrued interest	4,362		
NAVISCB15*	162,087	15/01/2021	TIE+1.40%
NAVISCB16*	155,912	15/02/2022	TIE+1.55%
Accrued interest	<u>2,641</u>		
Subtotal	\$ 2,100,002		
<u>Long-term:</u>			
NAVISCB15	149,537	15/01/2021	TIE+1.40%
NAVISCB16	217,838	15/02/2022	TIE+1.55%
Subtotal	<u>367,375</u>		
Total stock liabilities	\$ 2,467,377		
	=====		

\* Current portion of long-term bonds

As of June 30, 2018 and 2017, the unamortized issue expense balance amounts to \$51,787 and \$65,719, 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 expenses in the years ended on June 30, 2018 and 2017 amounts to \$47,827 and \$53,277, respectively (see note 19).

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**(15) Bank loans and loans from other institutions-**

As of June 30, 2018 and 2017, bank loans and loans from other institutions are integrated as shown below:

	<u>2018</u>	<u>2017</u>
Direct loans in dollars accruing interest at an average weighted rate of 3.07% and 3.24% on LIBOR at the closure of June 2018 and 2017, respectively (see section "a" of this note").	\$ 2,674,482	1,789,391
Direct loans in national currency accruing interest at an average weighted rate of 2.13% and 2.28% on 28-day TIEE in June 2018 and 2017, respectively and at a fixed average weighted rate of 8.73% and 7.69% in June 2018 and 2017, respectively.	5,644,445	5,697,350
Accrued interest	35,877	32,641
Total bank loans	8,354,804	7,519,382
Less current portion of the debt	4,911,140	3,785,889
Total long-term bank loans and long-term loans from other institutions	\$ 3,443,664	3,733,493
	=====	=====

As of June 30, 2018 and 2017, the 35% and 36%, respectively, of the Company's approved credit lines are secured by Navistar International Corporation (holder company) or by Navistar Financial Corporation (affiliated company).

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(a) Bank loans and loans from other institutions in dollars-

As of June 30, 2018 and 2017, there are lines of credit hired with national and foreign financial institutions for 341 and 324 million dollars, respectively. Such lines include a credit line in dollars, hired by the Company and by Navistar Financial Corporation with JP Morgan Chase Bank, N.A. The line of credit allows the Company to obtain up to 80.5 million dollars at variable rate. As of June 30, 2018 and 2017, this line was fully available.

Since August 2012, the Company grants short-term commercial loans to sell International trucks and buses manufactured in Mexico and exported to Colombia, supported by a line of credit of 95 million dollars from Banco Nacional de Comercio Exterior, S.N.C. (Bancomext). Since August 2013, this line can also be used to fund units placed in Mexico. Additionally, in August 2015, an extension of the discount term for export operation, as well as the inclusion of other countries, were authorized. On June 4, 2016, an increase in this line of credit of 25 million dollars was recorded. On May 10, 2017 an extension in the term 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 guarantee of some bank lines and/or as working capital through intercompany loans intended for the acquisition of new units or spare parts (floor plan). As of the end of June 2018 and 2017, this line was not used.

(b) Bank loans in national currency:

As of June 30, 2018 and 2017, there are lines of credit denominated in pesos hired by the Company to national financial institutions for \$5.226 and \$4.621 mbp, respectively.

On January 30, 2015, a new line of credit was executed with a 100% guarantee of the Export-Import Bank of the United States, for \$41 million dollars, to use its equivalent in pesos. As of June 30, 2018, this line has been fully used.

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As of June 30, 2018 and 2017, most of the lines of credit in dollars and in national currency are secured by loan portfolio in the amount of \$9.827 and \$8.550 mbp, respectively.

The lines of credit require compliance with certain obligations, restrictions and financial indexes, which the Company has duly met as of June 30, 2018 and 2017.

As of June 30, 2018, the bank loans and loans from other institutions have maturities as follows:

<u>Maturity year</u>	<u>Pesos</u>	<u>Appreciated dollars</u>
2018	\$ 3,319,520	1,591,620
2019	1,352,585	1,093,056
2020	578,457	2,774
2021	306,212	-
2022	107,339	-
2023	3,241	-
	<hr/>	<hr/>
	\$ 5,667,354	2,687,450
		8,354,804
		=====

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(Thousands of pesos)

**(16) Sundry creditors and other accounts payable-**

As of June 30, 2018 and 2017, the sundry creditors and other accounts payable are as follows:

	<u>2018</u>	<u>2017</u>
Sundry creditors	\$ 54,920	64,301
Security deposits	640,375	500,077
Trust portfolio deposits and collection to be delivered to the Trust	4,558	8,647
Tax payable (Income Tax and Value-Added Tax)	15,119	36,489
Income tax payable	36,259	5,194
Obligation for sharing losses(*)	-	1,507
Provisions for different obligations	8,530	13,074
Related companies (note 17)	100,885	67,910
Employee benefits	36,623	30,925
Other taxes	2,160	1,900
Deposits and balance in favor of clients	124,432	29,249
Employee profit sharing payable	963	1,452
Other	<u>372,334</u>	<u>752,469</u>
	\$ 1,397,158	1,513,194
	=====	=====

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

**(17) Transactions and balance with related companies-**

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

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The balances receivable and payable with related companies as of June 30, 2018 and 2017, are integrated as shown below:

	<u>2018</u>	<u>2017</u>
<b>Balances receivable (note 10):</b>		
Loan portfolio:		
Navistar México, S. de R. L. de C. V.	\$ 1,655,029	1,136,399
Navistar Financial Corporation	3,199	755
International Parts Distribution, S. A. de C. V.	<u>1,557</u>	<u>2,379</u>
	\$ 1,659,785	1,139,533
	=====	=====
<b>Other accounts receivable (note 11):</b>		
Navistar México, S. de R. L. de C. V.	\$ 337,263	169,401
Navistar Comercial, S. A. de C. V.	20,552	10,031
Navistar International Corporation	5,152	3,532
Navistar Inc.	1,598	1,659
Transprotección Agente de Seguros, S. A. de C. V.	1,564	1,244
Navistar Financial Corporation	564	1,379
International Parts Distribution, S. A. de C. V.	<u>88</u>	<u>78</u>
	\$ 366,781	187,324
	=====	=====
<b>Balances payable (note 16):</b>		
Transprotección Agente de Seguros, S. A. de C. V.	\$ 71,177	40,125
Navistar México, S. de R. L. de C.V.	20,955	19,968
Navistar Financial Corporation	6,278	5,325
Navistar Inc.	2,289	2,062
Navistar International Corporation	<u>186</u>	<u>430</u>
	\$ 100,885	67,910
	=====	=====



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Below are the transactions carried out with associated companies in the years ended on June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
<b>Revenues:</b>		
<b>Interest accrued in favor:</b>		
Navistar México, S. de R. L. de C. V.	\$ 152,383	203,815
Navistar Financial Corporation	157,68	7,525
International Parts Distribution, S. A. de C. V.	10,490	12,734
Navistar Comercial, S. A. de C. V.	-	444
	=====	=====
<b>Placement service fees:</b>		
Navistar México, S. de R. L. de C. V. (note 20)	\$ 63,834	100,194
	=====	=====
<b>Administrative services:</b>		
Trasproteccion Agentes de Seguros, S. A. de C. V.	\$ 9,449	8,116
Navistar Financial, S. A. de C. V.	614	474
International Parts Distribution, S. A. de C. V.	273	-
	=====	=====
<b>Other income:</b>		
Navistar México, S. de R. L. de C. V.	\$ 430	4
Navistar Comercial, S. A. de C. V.	356	-
International Parts Distribution, S. A. de C. V.	35	214
	=====	=====

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Notes to the consolidated financial statements

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	<u>2018</u>	<u>2017</u>
<b>Expenses:</b>		
<b>Technical assistance and telephone service expenses:</b>		
Navistar International Corporation	\$ (184)	-
	=====	=====
<b>Other service fees and rates:</b>		
Navistar Financial Corporation (note 21)	\$ (6,325)	(2,740)
	=====	=====
<b>Interest expenses for granting securities:</b>		
Navistar Financial Corporation	\$ (11,165)	(9,835)
Navistar International Corporation	(578)	(1,012)
Navistar México, S. de R. L. de C. V.	(388)	-
	=====	=====
<b>Other expenses:</b>		
Navistar México, S. de R. L. de C. V.	\$ (456)	(1,121)
Navistar Financial Corporation	-	(694)
	=====	=====
<b>Accrued interest</b>		
Transprotección Agente de Seguros, S. A. de C. V.	\$ (1,835)	(1,127)
Navistar México, S. de R.L. de C. V.	-	(116)
	=====	=====

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Notes to the consolidated financial statements

(Thousands of pesos)

**(18) Shareholder's equity-**

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

**(a) Structure of corporate equity-**

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

		<u>Thousands of pesos</u>	
	<u>Number of shares</u> <sup>(1)</sup>	<u>Corporate equity</u>	<u>Share issue premium</u>
Figures as of June 30,			
2018 and 2017	2,425,035	\$ 283,177	111,961
		=====	=====

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

**(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 June 30, 2018 and 2017, is \$122,535, an amount which has reached the minimum required.

The corporate equity refunding and the retained earning distributions, as well as other shareholder's equity accounts for which the income tax that had already been covered, may be performed without any burden. Other refunding and distribution in excess of the amounts intended for fiscal purposes are subject to income tax.

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**(c) Comprehensive income-**

The comprehensive income, showed in the consolidated statements of variations in shareholder's equity for the years ended on June 30, 2018 and 2017, accounts for the income of the Company's total activity during the year and it is shown below.

	<u>2018</u>	<u>2017</u>
Net earnings	\$ 194,364	168,184
Non-controlling sharing	<u>2</u>	<u>1</u>
Comprehensive income	\$ <u>194,366</u>	<u>168,185</u>

**(19) Financial margin-**

The elements of the financial margin for the years ended on June 30, 2018 and 2017 are shown below:

	<u>2018</u>	<u>2017</u>
<b>Interest Income:</b>		
From:		
Loan portfolio	\$ 463,405	416,251
Financial lease	253,161	220,887
Investments and debtors for repurchase (notes 7 and 8)	18,008	20,130
Fees for granting loans (note 10g)	36,058	28,951
Exchange income	<u>29,523</u>	<u>10,245</u>
	<u>800,155</u>	<u>696,464</u>

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**Interest expenses:**

Interest expenses of bonds (note 10c)	(47,599)	(38,245)
Amortization of debt issue expenses (note 14)	(47,827)	(53,277)
Interest expenses of bank loans	(358,634)	(323,338)
Amortization of origination costs (note 10g)	(10,311)	(8,958)
Exchange income	<u>(8,467)</u>	<u>(82,521)</u>
	<u>(472,838)</u>	<u>(506,339)</u>
Total financial margin	\$ 327,317	190,125
	=====	=====

**(20) Collected fees and rates-**

For the years ended on June 30, 2018 and 2017, the collected fees and rates are integrated as it is shown below:

	<u>2018</u>	<u>2017</u>
Placement service fees (note 17)	\$ 63,834	100,194
Other collected fees and rates	<u>34,551</u>	<u>29,862</u>
	\$ 98,385	130,056
	=====	=====

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(Thousands of pesos)

**(21) Paid fees and rates-**

For the years ended on June 30, 2018 and 2017, the paid fees and rates are integrated as shown below:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Fees for collection service and others (note 17)	\$ (6,325)	(3,434)
Bank fees	<u>(2,914)</u>	<u>(2,304)</u>
	\$ <u>(9,239)</u>	<u>(5,738)</u>

**(22) Intermediation income, net-**

For the years ended on June 30, 2018 and 2017, the intermediation income is incorporated as it is shown below:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Trading derivatives (note 9)	\$ (8,091)	(12,576)
Derivate trade (note 9)	(18,100)	(25,883)
Foreign exchange loss due to currency valuation	<u>(8,178)</u>	<u>46,511</u>
	\$ <u>(34,369)</u>	<u>(8,052)</u>

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**(23) Operating lease income-**

For the years ended on June 30, 2018 and 2017, the operating lease income is incorporated as it is shown below:

	<u>2018</u>	<u>2017</u>
Operating lease income	\$ 272,576	249,268
Leased property depreciation (note 12)	(184,068)	(161,687)
	\$ 88,508	87,581
	=====	=====

The Company works only with segments of loans and operating lease. The operating lease income in 2018 and 2017 amounted to \$88,508 and \$87,581, respectively, as shown in this note. The difference of this income compared to the net consolidated income constitutes the loan segment.

**(24) Other operation income, net-**

For the years ended on June 30, 2018 and 2017, other operation income is integrated as it is shown:

	<u>2018</u>	<u>2017</u>
Other operation income (expenses), net	\$ 14,100	4,783
Release of preventive estimate (note 10b)	6,801	64,744
Other lease benefits	12,482	11,744
Loss for awarded assets valuation	(10,629)	(2,193)
Awarded sale income	197	(287)
Recovery of loan portfolio (note 10f)	36,539	12,219
Impact of the estimate for non-recoverable or difficult collection	(21,976)	(3,103)
Real property, furniture and equipment sale earnings	<u>5</u>	<u>-</u>
Total of other operation income	\$ 37,519	87,907
	=====	=====

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**(25) Financial indicators (not audited)-**

The main financial indicators, as of June 30, 2018 and 2017, are presented below:

	<u>2018</u>	<u>2017</u>
Delinquency rate	2.40%	3.23%
Hedge ratio of non-performing loan portfolio	140.32%	112.29%
Operational efficiency (average management and promotion expenses/ total assets)	1.81%	2.13%
ROE (average net earnings/shareholder's equity)	14.98%	19.27%
ROA (average net earnings/total assets)	3.28%	3.90%
Liquidity (liquid assets/liquid liabilities) *	2.48%	6.43%
MIN (Year credit-risk-adjusted financial margin / average performing assets)**	4.12%	1.63%

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

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

**(26) Commitments and contingent liabilities-**

- (a) The Company is involved in several trials and claims resulting from the normal course of its operations. From the point of view of the defense attorneys, it is unlikely that such claims may have any impact on the Company's income.
- (b) As mentioned in note 10, there is an obligation of loss sharing derived from the portfolio sales performed by the Company in previous years.
- (c) 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.



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- (d) As per the Income Tax Law, the companies performing transactions with the associated parties are subject to fiscal limitations and obligations regarding the determination 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 (updates and surcharges), fines on the missed contributions, which could be up to 100% of the updated contribution amount.

- (e) The Company rents the premises occupied by its administrative offices, according to lease agreements with set expiration dates. The total expense for rent amounted \$2,761 in 2018 and \$2,641 in 2017.
- (f) There is a contingent liability derived from the employee benefits mentioned in note 3(t)

**(27) Recently issued regulatory pronouncements-**

The CINIF has issued the following FRSs and Improvements:

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

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

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

Its main characteristics include:

- It establishes the possibility of appraising, after its initial recognition, certain financial liabilities at their fair value when some conditions are met.
- To appraise long-term liabilities at their current value in their initial recognition.
- In restructuring liabilities, without substantially modifying the future cash flows to settle them, the costs and fees paid in this process shall affect the liability amount and shall be amortized on a modified effective interest rate, instead of directly affecting the net profit or loss.
- It adds the provisions in IFRIC 19 "Financial liabilities extinction with equity instruments", an issue that had not been included in the existing regulations.
- The effect of extinguishing a financial liability must be presented as a financial income in the comprehensive income statement.
- It includes the concepts of amortized cost to assess the financial liabilities and the concept of the effective interest method, based on the effective interest rate.

### **Improvements to FRS 2018**

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

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

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

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

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