2018

FIRST QUARTER

NAVISTAR FINANCIAL

VARIATION ANALYSIS

COMMENTS ON THE RESULTS

ABOUT THE FINANCIAL SITUATION

NAVISTAR FINANCIAL MEXICO

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

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

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

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

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

BALANCE SHEET HEADINGS

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

The Company's ***Assets*** show a positive variation of $1.3375 billion Mexican pesos (bmp) in comparison to the 1Q17; such variation is mainly explained by an increment in the current loan portfolio and in the increment in other accounts receivable (net).

Availabilities and Repurchases have a negative variation of $68.1 mmp, with a total balance of $430.8 mmp, comprised of (i) $222.0 mmp in cash restricted by the issue of Senior Trust Bonds ("CBF"), which may be used to pay the liabilities of these same issues, and (ii) $208.8 of availabilities.

On March 28, 2018, an interest rate option was hired. Compared to the closing of March 2017, the heading **Derivatives** as of the closing of March 2018 shows a decrease of $10.8 mmp; this balance comprises three Interest Rate Options acquired in compliance with the Trust Agreement entered into as a result of the issues of CBF as follows: with a notional value of $182 mmp, an Interest Rate Option with notional value of $265 mmp and an Interest Rate Option with notional value of $599 mmp; two Interest Rate Options hired as per the Trust Agreement entered into due to the CBF issues which has been assigned to Navistar Financial as follows: with a notional value of $100 mmp and an Interest Rate Option with notional value of $82 mmp, as well as an Interest Rate Option hired on March 28, 2018 with a notional value of $375 mmp; such instruments show a mark-to-market ("MTM") of $(11.9) mmp. On October 20, 2016, resulting from a new issue of CBF NAVISCB17, an Interest Rate Option was hired in compliance with the Trust Agreement entered into.

The ***total Loan Portfolio (Net)*** shows an increment of $726.6 mmp, equivalent to a positive variation of 6.8%, compared to 1Q17, which is explained mainly through:

(i) Increment in the current loan portfolio of $780.2 mmp, which consists of:
a) Increase in the retail portfolio in the amount of $627.4 mmp, derived from the positive results of the Company's commercial strategies to satisfy the market needs and b) increment of $152.7 mmp in the short-term commercial loan portfolio from the sale of trucks and buses of the brand International manufactured in Mexico and exported to Colombia.

(ii) The **Non-Performing Loan Portfolio,** as of the closing of 1Q18, shows a balance of $304.4 mmp, representing 2.7% of the total portfolio, according to the Exhibit 34 of the Single Circular of Banks (1Q17 3.7%). This improvement is attributable to the strategies and strengthening of the activities in the collection department; which results in a healthier indicator compared to the same period the previous year.

The ***Preventive Credit Risk Estimate*** shows a decrease of $37.9 mmp, maintaining a hedge of 1 time ("x") the expected loss and 1.35 x the non-performing portfolio (1T2017 1.13x). The Preventive Credit Risk Estimate is calculated according to the methodology of expected loss.

It is worth to mention that the Company, as of March 31, 2018, has executed 6 Trusts, which are described below:

A. On October 17, 2017, an Irrevocable Management Trust Agreement was entered into by Navistar Financial as Settlor and Beneficiary in Second Place, and Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary, and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative, related to the public offer of 7,370,000 CBF with a nominal value of MX$100.00. (one hundred 00/100, Mexican Pesos). The trust assets of this trust are comprised of a portfolio of $ 699 mmp as of March 31, 2018.

B. On September 5, 2016, an Irrevocable Management Trust Agreement was entered into by Navistar Financial as Settlor and Beneficiary in Second Place, and Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary, and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative, related to the public offer of 5,363,830 CBF with a nominal value of MX$100.00. (one hundred 00/100, Mexican Pesos). The trust assets of this trust are comprised of a portfolio of $3.723 bmp as of March 31, 2018.

C. On November 05, 2015, an Irrevocable Management Trust Agreement was entered into by Navistar Financial as Settlor and Beneficiary in Second Place, and Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary, and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative, related to the public offer of 6,165,500 CBF with a nominal value of MX$100.00. (one hundred 00/100, Mexican Pesos). The trust assets of this trust are comprised of a portfolio of $243 mmp as of March 31, 2018.

D. On January 30, 2015, an Irrevocable Escrow Agreement was entered into by Navistar Financial as Settlor and Beneficiary in second place, Banco Invex, S.A, Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary, and CITIBANK, N.A. as Beneficiary in first place. Such Agreement backs a line of credit hired with Banco Nacional de México S.A., member of Grupo Financiero BANAMEX ("BANAMEX"), and it holds a 100% guarantee with the Export-Import Bank of the United States ("Exim"). As of the closing of March 2018, the contributed portfolio amounts to $263 mmp.

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

March 31, 2018, amount to $1.229 bmp.

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 security is to back the line of credit in current account in favor of the Company. The trust assets of this Trust, as of March 31, 2018, amount to $3.262 bmp.

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

The net of other ***Accounts Receivable*** and ***Accounts Payable*** show a negative variation of $13.3 mmp, which is mainly due to the increment in the security deposits due to the loan granted as a consequence of the increment in the portfolio and the commercial strategies of this year.

Awarded Assets, as of the closing of March 2018, shows a negative variation in the portfolio award indicator of 20 pbs due to a larger volume in the awarding, of real property meanly, and a lower stock rotation of the inventory of these assets: 0.82% in 1Q18, compared to 0.61% in 1Q17.

In relation to Equipment Intended for Operating Lease, as of 1Q18 there is a $196.2 mmp increment, compared to 1Q17, representing a growth of 10.3%, resulting from the strengthening of the Operating Lease Program permanently focused on big fleets targeted funding.

Other Assets shows a reduction of $20.7 mmp, caused mainly by the reduction in expenses derived from the credit instrument issue and other deferred expenses.

As of the closing of 1Q18, the Company's **Net Liabilities of Liquid Assets** reflect an increase of $360.3 mmp, equivalent to an increment of 3.9% in comparison to the same period of the previous year, which is directly related to the portfolio growth.

Stock Liability shows a balance of $2.7426 bmp, comprised of the equity and interest of a (i) CBF in the amount of $193.3 corresponding to the issue NAVISCB15 (First issue under the a 5-bmp, 5-year revolving program authorized on November 5, 2015) (ii) CBF in the amount of $266.1 mmp corresponding to the issue NAVISCB16 (Second issue under a $5-bmp program), (iii) CBF in the amount of $548.8 mmp corresponding to the issue NAVISCB17 (Third issue under a $5-bmp program), and (iii) [SIC]Short-Term Bonds ("CB") in the amount of $1.7344 bmp from a $1.8-bmp program.

Regarding **Bank Loans,** there is a reduction of $120.9 mmp, compared to 1Q17, consequence of the strategy implemented in the treasury area, which has resulted in resource efficiency and better management of such resources. As of March 31, 2018 and 2017, the 36% and 39%, respectively, of the balance of the aforementioned bank loans is guaranteed by Navistar International Corporation ("NIC") or by Navistar Financial Corporation ("NFC").

In 1Q18 and 1Q17, the bank liabilities are guaranteed by the loan portfolio and the transport equipment intended for operating lease in the amount of $8,641 and $9.478 bmp, respectively. In addition, as of the closing of March 2018, the company has a free current portfolio of $3.937 bmp, getting a 2.28-time indicator of free current portfolio, compared to the outstanding balance of the issue of the current commercial paper.

Moreover, **Deferred Loans and Advanced Collections** show a positive variation of $14.4 mmp, representing a variation of 12.2%, compared to 1T2017. This is mainly because of an increment in the financial income to be accrued and commissions collected in advance, both related to the granting of loans.

The Company shows a financial soundness, which is reflected in a capitalization level (equity / total portfolio) equivalent to 27.9% (1Q17 25.0%) and a net leverage level of the liquid assets of 3.4x (1Q17 3.7x), based on bank covenants.

INCOME STATEMENT HEADINGS

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 1Q18, the ***Financial Margin***, not affected by the exchange rate fluctuation, amounts to $157.5 mmp, which represent a positive variation of $42.6 mmp, compared to the same period in the previous year, which is mainly explained by an increment in the commercial loan volume granted in 2017. The interest hedge ratio for 1Q18, not affected by the exchange rate fluctuation, is 1.7x (1.6x 1Q17); therefore, the Company is in compliance with the required bank obligations.

Preventive Credit Risk Estimates shows a positive variation in relation to the previous year in the amount of $34.3 mmp, representing a reduction of 42%; this is mainly because of an appropriate monitoring and control of the portfolio risk.

Consequently, the ***Financial Margin Adjusted by the Credit Risks***, not affected by exchange rate fluctuation, shows a positive variation of $76.9 mmp.

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

(i) The net of collected and paid fees and rates shows a negative variation reflected in income of $16.6 mmp, as a consequence of the reduction in the heading "collected fees", mainly because of the reduction in the volume of installation of geolocation devices in comparison to the previous year.

(ii) Intermediation income shows a positive impact of $28.7 mmp, resulting from:

a) A negative variation of $15.8 mmp, explained by the fluctuations in the exchange rate and derivative instruments. For analysis purposes, the net impact of the currency position (excluded in the Financial Margin Analysis) must be considered, which in 1T2018 amounts to a profit of $6.3 mmp, compared to the $19.3 mmp profit in this same period the previous year.

b) A positive variation resulting from 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 as of 1Q17, there were negative effects of $59.6 mmp on these instruments, and during 2018 there have been negative effects of $15.1 mmp.

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

(i) ***Management Expenses***: the expenses indicator over the total managed portfolio is 1.97%, a figure 15 pbs lower than the 2.12% of 1Q17. A decrease of $0.5 mmp is shown in comparison to 1Q17, resulting mainly from a change in the commercial strategies, which reduced such expense group.

Within the heading **Caused and Deferred Income Taxes**, a negative variation of $16.3 mmp is shown; this effect is a consequence of the income tax provision which increase is directly related to the fiscal year income.

FUNDING SOURCES

As of March 31, 2018, the Company had $13.3235 bmp in authorized funding sources, which were distributed the following way: (i) 28.8% in domestic and foreign commercial bank, (ii) 50.7% in domestic and foreign development bank, (iii) 7.5% in CBF, and (iv) 12.9% in CB.

The Company maintains $3.2465 bmp in lines available with funding banks.

The available lines with NIC and NFC are still being operated as guarantees of some bank lines and/or as working capital through intercompany loans intended for the acquisition of new units or spare parts of the Floor Plan; in this latter case, as of the end of March 2018, this 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 bmp. 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 March 2018, the balance of this issue is $193.3 mmp. The Company holds 100% of the titles of the 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 bmp. This second issue, NAVISCB16 in the amount of $536.4 mmp, was executed through the Trust 2844, opened with Invex, with a 1985-day term and with monthly amortizations. As of the closing of March 2018, the balance of this issue is $266.1 mmp. The Company holds 100% of the titles of the trust assets of the aforementioned trust.

In October 2017, the third CBF issue was performed under the Senior Bond Certificate program authorized on November 5, 2015 for up to $5 bmp. This third issue, NAVISCB17 in the amount of $737 mmp, was executed through the Trust 3290, opened with Invex, with a 1972-day term and with monthly amortizations. As of the closing of March 2018, the balance of this issue is $548.8 mmp. The Company holds 100% of the titles of the trust assets of the aforementioned trust.

Additionally, the Company has a short-term CBs program of $1.8 bmp; such program was renewed and extended on February 17, 2017, and its balance as of March 31, 2018 is $1.7344 bmp.

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

	Mar-18	%	Mar-17	%
Debt in Pesos fixed rate	3,314,565	43%	3,284,262	41%
Debt in Pesos with hedge of CAP	1,003,709	15%	934, 582	12%
Debt in Pesos variable rate	3,415,567	44%	3,778,464	47%
Subtotal Pesos	**7,733,841**		**7,997,309**	
Interest payable	**35,471**		**29,094**	
TOTAL PESOS	**7,769,311**		**8,026,402**	
Debt in Dollars fixed rate	2,500	2%	0	10%
Debt in Dollars variable rate variable	125,747	99%	95,539	100%
Subtotal Dollars	**128,247**		**95,539**	
Interest payable	**627**		**515**	
TOTAL DOLLARS	**128,874**		**96,054**	

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

As of March 31, 2018, the Company has not hired any CCSwap.

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

- CAP on TIIE
- Notional: 1bmp
- Start date: May 31, 2013
- Maturity date: May 15, 2018
- Counterparty: BANCO NACIONAL DE MÉXICO S.A. MEMBER OF THE GRUPO FINANCIERO BANAMEX
- Strike: 6%
- Premium: 13.5 mmp

- CAP on TIIE

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

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

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

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

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

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

- CAP on TIIE
- Notional: 709.5 mmp
- Start date: November 15, 2017
- Maturity date: August 15, 2022
- Counterparty: BBVA BANCOMER S.A.
- Strike: 9%
- Premium: 3.1 mmp

Additionally, the company hired an Interest Rate Option, with the following conditions:

- CAP on TIIE
- Notional: 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, in compliance with its guidelines, the institutions with which the Company operates or executes the derivatives must be institutions with which the Company 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 relevant institution, considering risk factors, economic soundness and commitment of each selected institution.

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

Consolidated financial statements

March 31, 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 the years ended on March 31, 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 which address is Ejército Nacional 904, Colonia Polanco, Delegación Miguel Hidalgo, Mexico City. Its main activity is the granting of loans and financial lease to individuals or entities for the purchase of automotive vehicles, auto parts, and services related thereto, as well as transport equipment operating lease, mainly of the brand International, through its network of distributors all over the Mexican Republic.

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

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

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

(2) Authorization and presentation

basis- Authorization-

On April 26, 2018, José A. Chacón Pérez (Executive President), Rafael M. Martínez Vila (Chief Financial and Administrative 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.

(Thousands of pesos)

According to the General Business Companies Act, the provisions of the National Banking and Securities Commission (the Commission), as well as the bylaws of the Company, the shareholders and the Commission have the capacity to modify the consolidated financial statements after their issue. The unconsolidated financial statements as of March 31, 2018, issued separately with the same date, will be submitted for approval in the next Shareholder's Meeting of the Company.

Presentation basis

a) Compliance statement

On January 12, 2015, the resolution modifying the general provisions applicable to Regulated Multi-Purpose Financial Companies (SOFOMES) was published in the Official Gazette of the Federation (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 the transactions thereof, 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" of the criteria relative to the basic financial statements for SOFOMES, in force since 2015.

The Accounting Criteria indicated in the previous paragraph set forth that in case there are not specific accounting criteria issued by the Commission for the credit institutions, and in a context broader than the Mexican Financial Reporting Standards (FRS), the general complementary rule bases provided in FRS A-8 shall apply, and only in case that the International Financial Reporting Standards (IFRS) referred to in FRS A-8 do not provide a solution to the accountable recognition, another complementary rule of any other regulatory framework may be applied, provided that such complementary rule complies with all the requirements indicated in the aforementioned FRS. The complementary rule shall be applied in the following order: generally accepted accounting principles in the United States of America (US GAAP) and any accounting standard part of a formal and recognized group of standards, provided that such accounting standard complies with the requirements in the Commission's criterion A-4.

b) Use of judgments and estimates

The preparation of the consolidated financial statements requires that Management carries out estimates and assumptions that affect the recorded amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities up to the date of the consolidated financial statements, in addition to the recorded amounts of income and expenses during the year. The major headings subject to these estimates and assumptions include the valuation of the security investments, repurchases and trading financial derivative instruments, preventive credit risk estimates, 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 or “$”, 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.

(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 (cumulative inflation in the last three years is lower 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 determined by the Banco de Mexico (Banxico) based on the inflation.

(b) Consolidation basis-

The consolidated financial statements include the financial statements of Navistar Financials and its subsidiary, Servicios Corporativos (which 99.97% of corporate equity is held by Navistar Financial). The major balances and transactions between Navistar Financial and Servicios Corporativos have been removed in the preparation of the consolidated financial statements. The consolidation was carried out based on the audited financial statements of Servicios Corporativos for the years ended on March 31, 2018 and 2017.

(c) Availabilities-

Availabilities 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) Security investments-

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

(e) Repurchase debtors-

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. Their accountable treatment is described below:

Interest rate swaps and CSS-

The transactions related to flow exchange or asset performance (swaps and CCS) are recorded in the assets and the liabilities, according to the rights and obligations under the contract. Both the asset position and the liability position are valued at fair value, reflecting the swap net value in the consolidated balance sheet and the corresponding profit or loss in the income under the heading "Intermediation income, net".

Options

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

(g) Loan portfolio-

It mainly 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, recognized in the income as they are accrued.

The Company grants simple loan, fixed-asset loan 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 lease portfolio is recognized against the cash outflows and the corresponding financial income to be accrued considering the difference of the leased property and the lease portfolio value. Such financial income to be accrued is recorded as a deferred loan, which is recognized according to the lease portfolio outstanding balance, against the income of the year, under the heading "Interest income”.

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

Additionally, the Company classifies its portfolio as wholesale and retail trade. The wholesale trade portfolio corresponds to those loans granted to authorized dealers for the commercialization of the International-brand vehicles; the retail trade portfolio consists of loans granted to individuals and entities other than authorized dealers.

(h) Overdue loans and interest-

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

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

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

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

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

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

Any overdue loans which outstanding balance is completely paid (principal and interest, among other) or those any restructured or renewed loans with evidence of sustained payment, which means three consecutive monthly payment according to the original payment schedule, are transferred to the current loan portfolio.

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

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

(i) Operating lease-

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

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

The depreciation is estimated based on the lease 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 requirements of financial asset transfer, in accordance with the provisions of the Accounting Criteria. If such asset transfer does not comply with the requirements for its derecognition, the financial assets granted as guarantee or collateral are presented as restricted assets, the resources obtained by the securitization transaction are recognized under the heading "Availabilities", and the liabilities associated with this transaction due to the issue of the bond are recognized as liabilities under the heading "Stock liabilities”.

(k) Preventive credit risk estimates-

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

(Thousands of pesos)

Since March 31, 2017, the Management determines the preventive credit risk estimates based on studies that analyze and classify the total commercial portfolio according to the “Provisions” for 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 Mexican Pesos, 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 in Mexican Pesos to 14 million UDIs, the estimate is composed as per the implementation of the methodology described in Exhibit 21 of the Provisions.

The classification of the loan portfolio by the level of risk as of March 31, 2018 and 2017, is arranged as indicated below:

Level of risk	Description of level of risk	Preventive allowance percentage ranges		
A1	Without 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%

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:

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

PIi= Default probability of the n-th loan.

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

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

$$PI_i = \frac{1}{1 + e^{\frac{-(500 - \mathit{Total\ credit\ rating}_i) \times \ln(2)}{40}}}$$

Until December 31, 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 internal methodologies, which sets that the severity of the loss and the default probability shall be estimated and the non-performance exposure of each credit shall be obtained.

Internal methodology-

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

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

Where:

R_i=Amount of the allowance to be comprised
Pi = Default probability
SP_i= Severity of the loss
EI_i = Non-performance exposure

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

(l) Other accounts receivable-

Other accounts receivable mainly account for debit balance in portfolio, sundry debtors, refundable taxes and accounts receivable from related companies. In the case of accounts receivable relative to identified debtors, whose balance has not been recovered within 90 calendar days (60 days for non-identified debtors), an estimate for the total debt balance is calculated. Such estimate is not performed for tax balance in favor.

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

(m) Awarded assets-

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

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

Movable property:

Time elapsed from the awarding or accord and satisfaction (months)	**Allowance percentage**
Up to 6	-
More than 6 and up to 12	10
More than 12 and up to 18	20
More than 18 and up to 24	45
More than 24 and up to 30	60
More than 30	100

Real property

Time elapsed from the awarding or accord and satisfaction (months)	**Allowance percentage**
Up to 12	-
More than 12 and up to 24	10
More than 24 and up to 30	15
More than 30 and up to 36	25
More than 36 and up to 42	30
More than 42 and up to 48	35
More than 48 and up to 54	40
More than 54 and up to 60	50
More than 60	100

(n) Real property, furniture and equipment

The real property, furniture and equipment are registered at their acquisition cost and up to December 31, 2007, these were updated by means of factors derived from the National Consumer price Index (INPC). The depreciation is estimated on the updated values with the straight-line method, based on the lifespans of the corresponding assets estimated by the Company's Management.

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

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

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.

The furniture and equipment are canceled upon their sale or when it is expected to obtain no future economic benefits from its use or sale. Any earning or loss at the time of the asset cancellation (estimated as the difference between the net income from the asset sale and its book value), is included in the consolidated income statement.

The Company assesses periodically the net book value of its own real property, furniture and equipment, as well as property intended for operating lease in order to determine the existence of any sign that such value exceeds the recovery value. The recovery value accounts for the amount of net potential income which is reasonably expected to be obtained as a consequence of the asset use or sale. If it is determined that the net book value exceeds their estimated recovery value, the Company records the corresponding deterioration.

(o) Other assets-

Other assets include expenses for allocation of debt which are amortized according to the term thereof, the cost of management of portfolio which is amortized during the term set in the corresponding agreements, as well as the deferred charges for costs and expenses associated to the initial granting of the loan, which are amortized in straight line through 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 loans and loans from other institutions, both national and foreign, are recorded based on the contract value of the obligation. Interest is recognized in income as it is accrued.

(q) Income tax (ISR) and employee profit sharing (PTU)-

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

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, and their relative tax bases and, in the case of the income tax, according to the tax loss to be amortized and other fiscal loans to be recovered. The assets and liabilities derived from deferred ISR and PTU are estimated using the rates provided by the corresponding law, to be applied to the taxable earnings in the years when it is expected the temporary differences to be reversed. The impact of the tax rate changes on the deferred ISR and PTU is recognized in the income of the year when such changes are approved.

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

(r) Deferred loans-

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

(s) Provisions-

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

(t) Employee benefits-

Post-employment benefit

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

The estimate of the obligations derived from defined benefits is carried out annually by actuaries, using the projected unit credit method. When the estimate results in a possible asset for the Company, the recognized asset is limited to the current value of the economic benefits available in the way of future reimbursements of the plan or reductions of future contributions. To estimate the current value of the economic benefits, any minimal funding requirement shall be considered.

The labor cost of the current service, which accounts for the cost of the employee's benefit term for having achieved one more year of work life based on the benefits, is recognized in the operation expenses.

Any changes affecting the past service cost are immediately recognized in the income statement in the year in which the change occurs, without possibility of deferring it in subsequent years. Likewise, the impact of settlement events or obligation reductions during the year, which significantly reduce the cost of future services and/or significantly reduce the population subject to the benefits, respectively, is recognized in the income statement of the year.

The remediations (previously, actuarial earnings and losses) resulting from the differences between the projected actuarial hypothesis and the actual situation at the end of the year are recognized in the year in which they are incurred, as part of the OCI in shareholder's equity.

Additionally, the Company has a plan of determined contribution, where the employees with one year of seniority do voluntary contributions ranging from 2% to 6% of its base salary, depending on their age; the Company provides the 75% of their total contributions.

(u) Recognition of revenues-

The interest income derived from the loan portfolio and capitalizable leases, as well as the rents for operating lease, are recognized in the consolidated income statement as they are accrued.

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

The 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.

(v) Transactions in foreign currency-

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

(w) Contingencies-

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

(4) Implementation of accounting criteria and reclassification-

Implementation of accounting criteria-

The Company, since March 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; the effect of this adaptation was an increment in the preventive estimate in the amount of $49,443.

Reclassifications-

The consolidated financial statements as of and for the year ended on March 31, 2017, include certain reclassifications to be standardized with the presentation used in the consolidated financial statement as of and for the year ended on March 31, 2018.

(5) Foreign exchange position-

The monetary assets and liabilities in foreign currency as of March 31, 2018 and 2017 are shown below:

	Thousands of dollars	
	2018	**2017**
Assets (loan portfolio mainly)	127,027	62,227
Liabilities (bank loans mainly)	(132,853)	(99,095)
Asset position, net	-	(36,868)
Notional hedged by derivative transactions	-	40,000
	(5,826)	3,132
	======	======

As of March 31, 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 March 31, 2018 and 2017, was $18.2709 and $18.7079 pesos per dollar, respectively.

(6) Availabilities-

Availabilities comprise, as of March 31, 2018 and 2017, the elements shown below:

		2018	**2017**
National bank deposits	$	64,368	123,125
Foreign bank deposits		138,398	5,673
National bank deposits (1)		4,607	6,260
	$	207,373	135,058
		======	======

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

(7) Security investments-

As of March 31, 2018 and 2017, the notes in the amount of $493 and $9 have a 5- to 3-day maturity, respectively, and a performance rate of 7.51% and 5.46%, respectively.

The interest yielded by security investments increased to $123 and $3,459, respectively, for the years ended on March 31, 2018 and 2017 (see note 19).

(8) Repurchases-

As of March 31, 2018 and 2017, the investments in repurchases for $222,887 (including $216,959 in restricted securities) and $363,770 (including $337,449 in restricted securities), respectively, are mainly constituted of government paper (Bondes and Udibonos), at 1- and 5-day terms, and 3-day term, respectively, with a rate interest of 7.15% - 7.30% and of 6.10% - 6.48%, respectively. As of March 31, 2018, the restricted bonds correspond to Investments of the Irrevocable Trust No. 2537, the Irrevocable Trust No. 2844, and the Irrevocable Trust 3290. (Until March 31, 2017, the Irrevocable Trust 1455 was also included -see note 10(c)-).

The interest yielded by repurchase investments amounted to $9,221 in 2018, and $7,628 in 2017; which are reported in the consolidated income statement under the heading "Interest Income" (see note 19).

(9) Trading derivatives-

As of March 31, 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 would allow the Company to receive the difference of the spot rate and the agreed rate. The IR CAP are amortized as the principal of the bonds is paid; however, the cash flows of the options are exercised only when the 28-day TIIE interest rate is above its 6% or 5% limit, as applicable.

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)

Additionally, as of March 31, 2017, the Company has hired financial derivative instruments that allowed to exchange rate flows and foreign currency (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 TIIE 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 March 31, 2018 and 2017, are shown below:

					2018		2017	
Instrument	**Underlying**	**Notional(1)**	**Maturity**	**Premium**	**Impact on income**	**Fair value**	**Impact on income**	**Fair value**
IR CAP	28-day TIIE	1,000,000	2018	$ 13,496	(911)	320	(1,230)	3,840
IR CAP	28-day TIIE	800,000	2018	12,150	(323)	385	(944)	3,016
IR CAP	28-day TIIE	616,550	2019	3,690	(1,742)	3488	(2,056)	8,183
IR CAP	28-day TIIE	536,383	2020	4,630	(2,295)	4,720	(2,276)	7,713
IR CAP	28-day TIIE	709,522	2022	3,150	(1,734)	1,769	-	-
IR CAP	28-day TIIE	374,649	2021	1,235	39	1,274	-	-
				$ 38,351	(6,966)	11,956	(6,506)	22,752
				=====	=====	=====	=====	=====

Type of instrument	**Notional amount(1)**	**Average term**	**Agreed exchange rate**	**Assets**
2017				
Peso-dollar CCS	$ 40,000	28 days	$ 20.75	$(40,650)
	======	=====	====	====

(1) The notional amounts of the agreements account for the reference on which the rates and exchange rates set in the agreement of the financial derivative instruments shall be applied, and they do not represent the loss or profit associated with the market risk or credit risk of the instruments. The notional amounts represent the amount to which the rate or the price is applied, in order to determine the amount of cash flow to be exchanged. Regarding the IR CAP, the notional amount is the reference quantity to which the agreed interest rate will be applied. For the CCS, the notional amount is exchanged at the termination of the contract, together with exchange rate fluctuation, at the corresponding rates.

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)

As of March 31, 2018 and 2017, the loss derived from the trade of financial derivative instruments amounted to $8,101 and 8,529 (see note 22).

(10) Loan portfolio-

(a) Classification of the loan portfolio-

The classification of the current and non-performing loans as of March 31, 2018 and 2017 is shown below:

March 31, 2018	Current portfolio			Non-performing portfolio			
	Mexican Pesos	Appreciated Dollars	Total	Mexican Pesos	Appreciated Dollars	Total	Total current and non-performing
Commercial loans	$ 5,419,475	1,641,704	7,061,178	137,956	1,914	139,870	7,201,048
Capitalizable lease portfolio	3,614,292	56,417	3,670,709	131,100	-	131,100	3,801,809
Financial income to be accrued	(645,026)	(3,624)	(648,650)	(12,006)	-	(12,006)	(660,656)
Funded insurances	211,694	2,875	214,569	34,719	637	35,356	249,925
Commercial loans- restricted (1)	488,056	-	488,056	2,791	-	2,791	490,847
Restricted capitalizable lease portfolio (1)	853,509	-	853,509	7,881	-	7,881	861,390
Financial income to be accrued of restricted portfolio (1)	(106,208)	-	(106,208)	(631)	-	(631)	(106,839)
	$ 9,835,792	1,697,372	11,533,163	301,810	2,551	304,361	11,837,524

March 31, 2017	Mexican Pesos	Appreciated Dollars	Total	Mexican Pesos	Appreciated Dollars	Total	Total current and non-performing
Commercial loans	$ 4,708,871	1,805,106	6,513,977	92,689	57,204	149,893	6,663,870
Capitalizable lease portfolio	2,631,062	101,135	2,732,197	130,142	-	130,142	2,862,339
Financial income to be accrued	(438,127)	(7,725)	(445,852)	-	-	-	(445,852)
Funded insurances	142,559	2,250	144,809	26,607	-	26,607	171,416
Commercial loans- restricted (1)	613,555	-	613,555	28,394	-	28,394	641,949
Restricted capitalizable lease portfolio (1)	1,360,592	-	1,360,592	60,821	-	60,821	1,421,413
Financial income to be accrued of restricted portfolio (1)	(166,266)	-	(166,266)				(166,266)
	$ 8,852,246	1,900,766	10,753,012	338,653	57,204	395,857	11,148,869

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

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)

Non-performing portfolio:

The non-performing portfolio classification is presented below by seniority as of March 31, 2018 and 2017.

December		Days				
March		**1-180**	**181-365**	**1-2 years**	**More than 2 years**	**Total**
2018	$	113,849	93,353	95,220	1,939	304,361
2017		255,138	103,086	37,454	179	395,857
		======	=====	=====	===	======

An analysis of the movements in the non-performing portfolio for the years ended on March 31, 2018 and 2017, is shown below.

	Q1 **2018**	**Q1 2017**
Balance at the beginning of the year	$287,069	396,223
Awards	(393)	(683)
Write-offs	(15,576)	(35,677)
Collection	(32,818)	(32,104)
Transfer from current to non-performing portfolio	77,748	98,350
Transfer from non-performing to current portfolio	(11,669)	(30,252)
Balance at the end of the year	$304,361	395,857
	======	======

The accrued non-collected interest of the non-performing portfolio, which, according to the accounting criteria, is recorded in memorandum accounts and which will be recognized in the year income until being collected, as of March 31, 2018 and 2017, amounts to $58,731 and $35,269, respectively.

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)

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

Maturity year		2018	2017
2017		-	7,187,909
2018		7,422,385	1,814,710
2019		1,977,302	1,304,583
2020		1,366,454	619,700
2021		776,308	212,210
2022		261,198	9,433
2023		18,126	324
2023		15,751	-
	$	11,837,524	11,148,869
		========	========

Risk concentration:

As of March 31, 2018 and 2017, the Company's portfolio is comprised of the loans granted to individuals and medium-sized enterprises. No debtor has a credit risk higher than 10% of the total portfolio, except for the loan granted during 2016 to a related company, which represents 11% and 15% of the total portfolio as of December 31, 2017 and 2016, respectively (see note 17).

The loan portfolio concentration by geographic zone as of March 31, 2018 and 2017, is detailed below:

		2018		2017	
		Portfolio	%	Portfolio	%
Mexico City and State of Mexico	$	2,140,554	18%	2,388,201	21%
Center (1)		848,810	7%	755,128	7%
North (2)		5,278,195	45%	4,542,178	41%
West (3)		2,815,914	24%	2,722,654	24%
South (4)		754,051	6%	740,708	7%
	$	11,837,524	100%	11,148,869	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.

(Thousands of pesos)

(b) Preventive credit risk estimates-

As of March 31, 2018 and 2017, the classification of the assessed portfolio and its preventive estimate is analyzed as shown below:

Level of risk of assessed portfolio	**Portfolio**		**Preventive estimates for credit risks**	
	2018	**2017**	**2018**	**2017**
A-1	$ 7,536,331	7,406,624	42,500	50,393
A-2	1,587,120	1,460,147	16,249	17,060
B-1	557,057	389,934	9,265	6,654
B-2	588,372	123,196	12,924	2,812
B-3	505,720	404,806	18,228	14,951
C-1	218,435	107,305	17,134	8,303
C-2	165,803	246,438	20,955	31,698
D*	564,590	999,982	186,566	306,432
E*	114,096	10,437	86,272	9,704
Total	$ 11,837,524	11,148,869	410,093	448,007
	========	========	======	======

* Troubled portfolio.

An analysis of the movements of the preventive credit risk estimates for the years ended on March 31, 2018 and 2017, is shown below:

		2018	**2017**
Balance at the beginning of the year	$	382,760	420,516
Increment of the allowance in income		47,483	81,814
Release of preventive estimates in "Other operating income (expenses)" (see note 24)		(2,646)	(14,846)
Effect of the reassessment		(1,238)	-
Write-offs		(16,266)	(39,477)
Balance at the end of the year	$	410,093	448,007
		======	======

(c) Portfolio securitization-

NAVISCB 13

On April 30, 2013, the Company, as Settlor, Beneficiary in second place and Administrator, 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 for the issue and public offer in Mexico of Senior Trust Bonds.

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

As of March 31, 2017, the collection rights given to the Trust amounted to $920,353.

As of March 31, 2017, obligation balance on the NAVISCB 13 amounted to $485,832, respectively (see note 14). Additionally, the interest payable as of March 31, 2017 amounts to $628. The obligations on such bonds, which only payment source is the collection of collection rights, yielded interest of $5,938 in March 2017, respectively, 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 Administrator, and Invex, as Fiduciary, entered into an agreement to create the Irrevocable Trust Agreement Number 2537 (the Trust), with the purpose of establishing a program for the issue and public offer in Mexico of Senior Trust Bonds. This Trust will pay the Company a monthly percentage on the amount of the managed assets.

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

Under the Trust Agreement, the Company began with a capacity of 1.20, which will 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 March 31, 2018 and 2017, the collection rights given to the Trust amounted to $237,572 and $455,821, 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, in the amount of $616,550, which yield interest during the issue term (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 March 31, 2018 and 2017, the balance of the obligation on the NAVISCB 15 amounts to $192,461 and $351,710, respectively (see note 14). Additionally, the interest payable as of March 31, 2018 and 2017, amounts to $839 and $1,332, respectively. The obligations on such bonds, which only payment source is the collection of collection rights, yielded interest of $4,806 and $7,172, 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)."

<u>NAVISCB 16</u>

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

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

Under the Trust Agreement, the Company began with a capacity of 1.215, which will grow to 1.305 (target capacity), in order for the Company to have the right of the surplus in the generated flows once the capacity exceeds the 1.305. As of March 31, 2018 and 2017, the collection rights given to the Trust amounted to $329,388 and $520,922, respectively. Any remnant of the issue will be delivered to the Company once all bonds have been settled.

The first issue of bonds was 5,363,830 of bonds with a par value of $100 pesos each, under the ticker symbol NAVISCB 16, in the amount of $536,383, which yield interest during the issue term (1,985 days) at an annual TIIE rate plus 1.55 percentage points. The issue pays interest and principal on a monthly basis.

As of March 31, 2018 and 2017, the balance of the obligation on the NAVISCB 16 amounts to $264,915 and $419,189, respectively (see note 14). Additionally, the interest payable as of March 31, 2018 and 2017, amounts to $1,173 and $1,617, respectively. The obligations on such bonds, which only payment source is the collection of collection rights, as of March 31, 2018 and 2017, yielded interest of $6,499 and $8,701, 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 Administrator, and Invex as Fiduciary entered into an agreement to create the Irrevocable Trust Agreement Number 3290 (the Trust), with the purpose of establishing a program for the issue and public offer in Mexico of Senior Trust Bonds. This Trust will pay the Company a monthly percentage on the amount of the managed assets.

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

Under the Trust Agreement, the Company began with a capacity of 1.195, which will grow to 1.295 (target capacity), in order for the Company to have the right of the surplus in the generated flows once the capacity exceeds the 1.295. As of March 31, 2018 collection rights given to the Trust amounted to $678,438. Any remnant of the issue will 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, in the amount of $737,000, which yield interest during the issue term (1,972 days) at an annual TIIE rate plus 1.80 percentage points. The issue pays interest and principal on a monthly basis.

As of March 31, 2018, obligation balance on the NAVISCB 17 amounts to $251,964, respectively (see note 14). Additionally, the interest payable as of March 31, 2018 amounts to $2,487.

The obligations on such bonds, which only payment source is the collection of collection rights, as of December 31, 2018, yielded interest of $14,325, which is recorded in the consolidated income statement under the heading "Interest Expenses” (see note 19).

The rating awarded on March 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)".

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 summary of the Trusts financial situation is presented below:

		Trust 1455(1)	Trust 2537		Trust 2844		Trust 3092
		2017	**2018**	**2017**	**2018**	**2017**	**2018**
Balance sheet:							
Cash and cash equivalents	$	231,887	30,805	41,629	60,864	70,244	129,459
Financial derivative instruments		6,856	3,488	8,183	4,721	7,713	1,769
Collection rights, net		759,188	196,957	402,628	290,909	476,618	602,707
Other accounts receivable		10,498	2,332	2,509	1,702	1,456	1,544
Total asset	$	1,008,429	233,582	454,949	358,196	556,031	735,479
		=======	======	======	======	======	======
Obligations on bonds, net	$	164,311	183,613	353,042	257,238	420,806	535,468
Accounts payable		21,826	3,976	8,294	5,377	9,216	13,965
Total obligations on bonds		186,137	187,589	361,336	262,615	430,022	549,433
Assets(1)		822,292	45,993	93,613	95,581	126,009	186,046
Total liabilities and assets	$	1,008,429	233,582	454,949	358,196	556,031	735,479
		=======	======	======	======	======	======
Income statement:							
Financial income	$	37,277	10,847	16,663	13,043	17,876	27,735
Financial expenses		(14,833)	(9,104)	(11,426)	(10,130)	(11,731)	(17,539)
Impact of collection rights impairment		1,138	1,191	2,928	(199)	(3,399)	1,306
Other income (expenses), net		5,343	10	39	69	115	2,309
Year income	$	28,925	2,944	8,204	2,783	2,861	13,811
		=======	===?===	======	======	======	=====

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

(d) Escrows-

- On January 30, 2015, an Irrevocable Escrow Agreement was executed by Navistar Financial as Settlor and Beneficiary in second place, Banco Invex, S.A, Institución de Banca Múltiple, Invex Grupo Financiero ("Invex"), as Fiduciary, and CITIBANK, N.A. as Beneficiary in first place. Such agreement backs a line of credit hired with Banco Nacional de México S.A., member of Grupo Financiero BANAMEX ("BANAMEX"), which holds a 100% guarantee with the Export-Import Bank of the United States ("Exim"). As of March 31, 2018 and 2017, the Trust assets are represented by the secured collection rights to pay the loan obligations, which amount to $207,263 and $367,343, 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 for back the line of credit with corporate purposes in favor of the Company in an amount up to 55 million dollars. As of March 31, 2018 and 2017, the assets of this Trust amount to $700,202 and $692,485, 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 March 31, 2018 and 2017, the assets of this Trust amounted to $2,131,038 and $1,138,020, respectively.

(e) Risk sharing fund-

On October 24, 2008, the Company signed with Nacional Financiera, S. N .C. Institución de Banca de Desarrollo (NAFIN) a fund-sharing agreement -the latter in its capacity as Fiduciary of the Trust 1148-0 of the Risk-Sharing Fund (the Fund)-, which purpose is to recover the amount of the first losses of the portfolio that the Company grants to small- and medium-sized enterprises registered in the Fund and, consequently, subject to its support. In this Agreement, 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 March 31, 2018 and 2017 was $708,710 and $490,557, respectively.

(Thousands of pesos)

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 March 31, 2018 and 2017, the Company has claimed $49,740 and $67,110, respectively, under such program. Of which, $40,060 and $42,284, respectively, have been collected.

(f) Restructured and renewed loans-

As of March 31, 2018 and 2017, the restructured and renewed loans of the portfolio amounted to $131,658 and $115,071, respectively.

For the years ended on March 31, 2018 and 2017, the recovery income of the previously non-performing portfolio amounts to $10,976 and $3,047, respectively, which is recognized under the heading "Other operating income, net" in the consolidated income statement (see note 24).

(g) Fees for granting loans and origination costs-

The movements in the balance of the fees for granting loans and origination costs for the years ended on March 31, 2018 and 2017 are shown below.

Fees for granting loans:		**2018**	**2017**
Initial balance	$	171,461	150,702
Collected fees		19,747	17,601
Amortization (note 19)		(18,936)	(14,343)
Subtotal of fees for granting of loan to next page	$	172,272	153,960

(Thousands of pesos)

		2018	2017
Loan origination costs:			
Initial balance		39,014	35,292
Paid costs and expenses		6,409	5,535
Amortization (note 19)		(4,938)	(4,285)
		40,485	36,542
Net balance of fees and costs for loan origination	$	131,787	117,418

(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 area official analyzes the common risk of the partner borrowers integrating a business group or corporation of companies linked among them.
- Officials and employees refrain from participating in loan approvals where there may exist a conflict of interest.
- Any use of a specific line of credit or specific transaction of commercial loan shall have the authorization of a proper official.
- The execution of any kind of loan is performed in the legal instruments (contracts, agreements or credit instruments) authorized by the Company's legal department.

(Thousands of pesos)

(11) Other accounts receivable-

As of March 31, 2018 and 2017, the accounts receivables are as follows:

		2018	2017
Portfolio debtors	$	113,878	105,003
Sundry debtors		553,888	40,183
Refundable taxes		66,121	10,918
Related companies (note 17)		27,037	50,886
		753,619	205,226
Less estimate of doubtful accounts payable		(33,531)	(17,777)
	$	727,393	189,213
		======	======

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

As of March 31, 2018 and 2017, the investment in real property, furniture and equipment, as well as equipment and real property intended for operating lease is analyzed as shown below:

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

Notes to the consolidated financial statements

(Thousands of pesos)

Real property, furniture and equipment for own use:		**2018**	**2017**	**Annual depreciation rate**
Real property	$	49,638	57,008	2.30%
Transport equipment		2,930	18,057	25%
Furniture and computing equipment		22,808	3,091	10% and 33%
		75,376	78,156	
Accumulated depreciation		(27,426)	(21,145)	
		47,950	57,011	
Land		40,846	41,169	
	$	88,796	98,180	
		======	======	

Transport equipment and Equipment intended for operating lease:		**2018**	**2017**	**Annual depreciation rate**
Leased transport equipment	$	2,767,856	2,509,766	Various
Leased real property		157,432	-	Various
		2,925,288	2,509,766	
Accumulated depreciation and		(821,613)	(602,251)	
	$	2,103,675	1,907,515	
		=======	=======	

For the years ended on March 31, 2018 and 2017, the charge to income derived from real property, furniture and equipment depreciation amounted to $723 and $795, respectively, and for the equipment and real property intended for operating lease amounted to $88,473 and $80,822, respectively.

(Thousands of pesos)

(13) Awarded assets-

As of March 31, 2018 and 2017, the awarded assets are as follows:

		2018	2017
Transport equipment	$	59,849	68,512
Land		-	18,548
Real property		51,627	18,280
		111,476	105,340
Less:			
Allowance of awarded assets		(7,178)	(19,976)
Wear and tear		(7,739)	(17,115)
	$	96,559	68,249
		======	=====

(14) Stock liabilities-

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

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)

As of March 31, 2018 and 2017, the stock liabilities at short- and long-term are composed as shown below:

Issue	Amount	Maturity Date	Rate
Short-term:			
NAVISTS02417	$ 170,000	13/09/2018	TIIE+2.00%
NAVISTS02517	120,000	19/04/2018	TIIE+1.70%
NAVISTS02617	100,000	05/04/2018	TIIE+1.90%
NAVISTS02817	120,000	19/04/2018	TIIE+1.85%
NAVISTS02917	95,000	13/09/2018	TIIE+1.90%
NAVISTS03017	167,000	23/08/2018	TIIE+1.90%
NAVISTS00118	315,000	29/11/2018	TIIE+1.79%
NAVISTS00218	300,000	18/10/2018	TIIE+1.60%
NAVISTS00318	38,000	23/08/2018	TIIE+1.59%
NAVISTS00418	300,000	24/01/2019	TIIE+1.60%
Accrued interest	9,396		
NAVISCB15*	143,837	15/01/2021	TIIE+1.40%
NAVISCB16*	137,281	15/02/2022	TIIE+1.55%
NAVISCB17*	294,369	15/03/2023	TIIE+1.80%
Accrued interest	4,499		
Subtotal	2,314,382		
Long-term:			
NAVISCB15	48,625	15/01/2021	TIIE+1.40%
NAVISCB16	127,634	15/02/2022	TIIE+1.55%
NAVISCB17	251,964	15/03/2023	TIIE+1.80%
	428,223		
Total stock liability	$ 2,742,605		

* Current portion of long-term bonds.

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)

Issue	2017	Maturity	Rate
Short-term:			
NAVISTS00916	100,000	06/04/2018	TIIE+2.40%
NAVISTS01416	78,000	06/04/2018	TIIE+2.35%
NAVISTS02216	84,145	11/05/2018	TIIE+2.30%
NAVISTS02316	160,000	27/04/2018	TIIE+2.25%
NAVISTS02416	85,000	04/05/2018	TIIE+2.25%
NAVISTS00117	280,000	23/02/2017	TIIE+2.25%
NAVISTS00217	70,000	01/06/2017	TIIE+2.20%
NAVISTS00317	230,000	24/08/2017	TIIE+2.35%
NAVISTS00417	100,000	07/09/2017	TIIE+2.25%
NAVISTS00517	200,000	12/10/2017	TIIE+2.25%
Accrued interest	4,192		
NAVISCB13*	163,683	15/05/2018	TIIE+1.50%
NAVISCB15*	164,202	15/01/2021	TIIE+1.40%
NAVISCB16*	160,543	15/02/2022	TIIE+1.55%
Accrued interest	3,577		
Subtotal	1,883,342		
Long-term:			
NAVISCB15	187,508	15/01/2021	TIIE+1.40%
NAVISCB16	258,646	15/02/2022	TIIE+1.55%
Subtotal	446,154		
Total stock liability	$ 2,329,496		
	=======		

*   * Current portion of long-term bonds.

As of March 31, 2018 and 2017, the balance of issue expenses to be amortized amounts $62,259 and $76,172, respectively, and it is recorded under the heading "Other assets, net" in the consolidated balance sheet. The charge to income derived from the amortization of such expenses in the years ended on March 31, 2018 and 2017, amounts to $5,371 and $8,918, respectively (see note 19).

(Thousands of pesos, unless otherwise indicated)

(15) Bank loans and loans from other institutions-

As of March 31, 2018 and 2017, the bank loans and loans from other institutions, at short- and long-term, are composed as shown below:

		2018	2017
Direct loans in dollars accruing interest at an average weighted rate of 3.10% and 3.22% on LIBOR at the closing of March 2018 and 2017, respectively, and an average fixed weighted rate of 5.25% in March 2018 (see section "a" of this note).	$	2,343,193	1,795,708
Direct loans in Mexican Pesos accruing interest at an average weighted rate of 2.26% and 2.28% on 28-day TIIE in March 2018 and 2017, respectively, and an average fixed weighted rate of 8.37% and 7.43% in March 2018 and 2017, respectively.		5,005,132	5,675,581
Accrued interest		33,027	30,998
Total of bank loans		7,381,352	7,502,287
Less current portion of the debt		4,163,754	3,546,080
Total of bank loans and loans from other institutions at long-term	$	3,217,598	3,956,207
		=======	=======

As of March 31, 2018 and 2017, the 36% of the Company’s lines of credit were secured by Navistar International Corporation (holding company) or by Navistar Financial Corporation (affiliated company).

(a) *Bank loans and loans from other institutions in dollars:*

As of March 31, 2018 and 2017, there are lines of credit hired with national and foreign financial institutions in the amount of 304 and 479 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 March 31, 2018 and 2017, this line was fully available.

Since August 2012, the Company has granted short-term commercial loans to sell International trucks and buses manufactured in Mexico and exported to Colombia, supported by a line of credit of 95 million dollars from Banco Nacional de Comercio Exterior, S.N.C. (Bancomext). Since August 2013, this line has also been available to be used to fund units placed in Mexico. Additionally, in August 2015, an extension of the discount term for export operation, as well as the inclusion of other countries, were authorized. On March 4, 2016, an increase in this line of credit of 25 million dollars was recorded. On May 10, 2017 a term extension of the line of 120 million dollars was authorized.

The Company has lines available with Navistar International Corporation and Navistar Financial Corporation, which are still being operated as guarantees of some bank lines and/or as working capital through intercompany loans intended for the acquisition of spare parts or new units (floor plan), in this last case, as of the closing of March 2018 and 2017, this line has not been used.

(b) *Bank loans in Mexican Pesos:*

As of March 31, 2018 and 2017, there are lines of credit denominated in pesos hired by the Company to national financial institution for $5,037 and $5,325 billion pesos 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 March 31, 2017, this line has been fully available.

(Thousands of pesos, unless otherwise indicated)

As of March 31, 2018 and 2017, most of the lines of credit in dollars and in Mexican Pesos are secured by the loan portfolio in the amount of $8,640 1782 and $9,478,306, respectively.

The lines of credit require compliance with certain obligations, restrictions and financial indexes, which the Company has duly met as of March 31, 2018 and 2017.

As of March 31, 2018, the maturities of the bank loans and loans from other institution are as follows:

Maturity year	**Pesos**	**Appreciated Dollars**
2018	$ 2,833,758	1,329,996
2019	1,481,513	1,021,264
2020	454,295	3,385
2021	210,328	-
2022	45,487	-
2023	1,326	-
	$ 5,026,707	2,354,645
	7,381,352	
	=======	

(Thousands of pesos)

(16) Sundry creditors and other accounts payable-

As of March 31, 2018 and 2017, the sundry creditors and accounts payable are as follows:

		2018	2017
Sundry creditors	$	63,642	66,422
Security deposits		588,865	511,320
Trust portfolio deposits and collection to be delivered to the Trust		8,990	15,572
Tax payable (Income Tax and Value-Added Tax)		27,359	37,901
Obligation for sharing losses(*)		-	1,507
Provisions for different obligations		26,014	18,041
Related companies (note 17)		122,119	62,098
Employee benefits		34,824	29,333
Other taxes		3,515	8,264
Deposits and balance in favor of clients		74,039	63,706
Other		500,279	85,980
	$	1,449,646	900,144

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

(17) Transactions and balances 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.

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)

The balances receivable and payable with related companies as of March 31, 2018 and 2017, are composed as shown below:

		2018	2017
Balances receivable (note 10):			
Loan portfolio:			
Navistar México, S. de R. L. de C. V.	$	1,370,687	1,583,963
International Parts Distribution, S. A. de C. V.		1,671	2,275
Navistar Financial Corporation		2,938	1,080
	$	1,375,296	1,587,318
		=======	=======
Other accounts receivable (note 11):			
Navistar México, S. de R. L. de C. V.	$	18,152	33,758
Navistar Comercial, S. A. de C. V.		501	10,027
Navistar International Corporation		4,757	3,481
Navistar Inc.		1,479	1,734
Transprotección Agente de Seguros, S. A. de C. V.		1,552	1,829
Navistar Financial Corporation		527	-
International Parts Distribution, S. A. de C. V.		69	57
	$	27,037	50,886
		=======	======
Balances payable (note 16):			
Navistar México, S. de R. de C.V.	$	47,588	31,443
Navistar Financial Corporation		9,927	7,775
Navistar Inc.		2,113	2,167
Transprotección Agentes de Seguros, S.A. de C. V.		61,672	20,054
Navistar International Corporation		448	659
International Parts Distribution, S.A. de C.V.		371	-
Navistar Comercial, S. A. de C. V.		-	-
	$	122,119	62,098
		=======	=======

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

Notes to the Consolidated Financial Statements

(Thousands of pesos)

Below are the transactions carried out with associated companies for the years ended on March 31, 2018 and 2017.

		2018	2017
Revenues:			
Interest accrued in favor:			
Navistar México, S. de R. L. de C. V.	$	84,666	78,059
International Parts Distribution, S. A. de C. V.		5,305	5,725
Navistar Financial Corporation		4,873	3,569
Navistar Comercial, S. A. de C. V.		-	213
		======	======
Placement-service fees:			
Navistar México, S. de R. L. de C. V. (note 20)	$	26,566	42,620
		======	======
Administrative services:			
Trasproteccion Agentes de Seguros, S. A. de C. V.	$	4,718	4,361
Navistar México S. A. de C. V		160	9
International Parts Distribution, S. A. de C. V.		124	-
		======	======
Other income:			
Navistar México, S. de R. L. de C. V.	$	209	-
Navistar Comercial, S. A de C. V.		41	-
International Parts Distribution, S. A. de C. V.		17	82
		======	======

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)

		2018	2017
Expenses:			
Technical assistance and telephone service expenses:			
Navistar International Corporation	$	(90)	-
		=====	=====
Other service fees and rates:			
Navistar Financial Corporation (note 21)	$	(2,430)	(1,545)
		=====	=====
Interest expenses for granting securities:			
Navistar Financial Corporation	$	(5,459)	(4,852)
Navistar International Corporation		(262)	(500)
Navistar México, S. de R. L. de C. V.		(238)	-
		=====	=====
Other expenses:			
Navistar México, S. de R. L. de C. V.	$	(228)	(571)
		=====	=====
Accrued interest:			
Transprotección Agentes de Seguros, S. A de C. V.	$	(689)	(315)
Navistar México, S. de R.L. C. V.		-	(55)
	==========		

(18) Shareholder's equity-

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

(a) Structure of corporate equity-

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

	l Number of shares(1)		Thousands of pesos Corporate equity	Thousands of pesos Additiona paid-in capital
Figures as of March 31 2018 and 2017	2,425,035	$	283,177	111,961
			======	======

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

(b) Shareholder's equity restrictions-

The year profit is subject to the separation of 10% to comprise the legal reserve, until it represents one fifth of the corporate equity. The legal reserve as of March 31, 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, which income tax had already been covered, can be performed without any burden. Other refunding and distributions in excess of the amounts intended for tax purposes are subject to ISR tax.

(Thousands of pesos)

(c) Comprehensive income-

The comprehensive income, showed in the consolidated statements of variations in shareholder's equity for the years ended on March 31, 2018 and 2017, accounts for the income of the Company’s total activity during the year and it is shown below.

		2018	2017
Net earnings	$	68,257	30,749
Non-controlling interest		1	1
Comprehensive income	$	68,258	30,749
		======	======

(19) Financial margin-

The elements of the financial margin for the years ended on March 31, 2018 and 2017, are analyzed below:

		2018	2017
Interest Income:			
Derived from:			
Loan portfolio	$	244,461	191,482
Financial lease		112,001	95,392
Investments and debtors derived from repurchase (notes 7 and 8)		9,344	11,087
Fees for granting loans (note 10g)		18,936	14,343
Exchange income		3,027	8,488
		387,769	320,792

(Thousands of pesos)

Interest expenses:			
Interest expenses derived from bonds (note 10c)		(25,630)	(21,811)
Amortization of debt issue expenses (note 14)		(5,371)	(8,918)
Interest expenses of bank loans		(191,335)	(162,372)
Amortization of origination costs (note 10g)		(4,938)	(4,285)
Exchange income		(1,766)	(9,969)
		(229,040)	(207,355)
Total financial margin	$	158,729	113,437

(20) Collected fees and rates-

For the years ended on March 31, 2018 and 2017, the collected fees and rates are composed as shown below:

		2018	2017
Placement service fees (note 17)	$	26,566	42,620
Other fees and rates collected		16,284	15,701
Asset administration		-	-
	$	42,850	58,321

(Thousands of pesos)

(21) Paid fees and rates-

For the years ended on December 31, 2018 and 2017, the paid fees and rates are composed as shown below:

		2018	2017
Fees for collection service and others (note 17)	$	(2,430)	(1,545)
Bank fees		(1,192)	(895)
	$	(3,622)	(2,440)
		=====	=====

(22) Intermediation income, net

For the years ended on March 31, 2018 and 2017, the intermediation income is comprised as shown below:

		2018	2017
Derivatives with trade purposes (note 9)	$	(6,966)	(6,506)
Derivate trade (note 9)		(8,101)	(6,529)
Foreign exchange loss due to currency valuation		5,007	(23,722)
	$	(10,060)	(38,757)
		=====	=====

(Thousands of pesos)

(23) Operating lease income-

For the years ended on March 31, 2018 and 2017, the operating lease income is composed as shown below:

		2018	2017
Operating lease income	$	118,400	126,081
Leased property depreciation in operating lease (note 12)		(88,473)	(80,822)
	$	29,927	45,259

The Company works only with loan and operating lease segments. The operating lease income in 2018 and 2017 amounted to $29,927 and $45,259, respectively, as shown in this note. The difference of this income against the net consolidated income constitutes the loan segment.

(24) Other operating income, net-

For the years ended on March 31, 2018 and 2017, other operating income is composed as shown:

		2018	2017
Other operating income (expenses), net-	$	1,163	266
Release of preventive estimate (note 10b)		2,646	14,846
Other lease benefits		5,258	6,781
Loss for awarded assets valuation		(6,663)	(2,686)
Awarded sale income		894	643
Recovery of loan portfolio (note 10f)		10,976	3,047
Impact of the estimate for non-recoverable or difficult collection		(17,406)	(3,017)
Real property, furniture and equipment sale earnings		10	-
Total of other operating income	$	(3,122)	19,880

(Thousands of pesos)

(25) Financial indicators (not audited)-

The main financial indicators as of March 31, 2018 and 2017 are presented below.

	2018	**2017**
Delinquency rate	2.57%	3.70%
Hedge ratio of non-performing loan portfolio	134.74%	113.17%
Operational efficiency (management and promotion expenses/ average total assets)	1.82%	1.96%
ROE (net earnings/average shareholder's equity)	8.35%	4.44%
ROA (net earnings/average total assets)	1.81%	0.87%
Liquidity (liquid assets/liquid liabilities) *	4.98%	3.81%
MIN (Year risk-adjusted financial margin / average performing assets)**	3.67%	1.08%

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

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

(26) Contingent commitments and liabilities-

(a) The Company is involved in several trials and claims resulting from the normal course of its business. From the point of view of the 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 losses sharing derived from the portfolio sales performed by the Company in the 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.

(d) As per the Income Tax Law, the companies performing transactions with related parties are subject to fiscal limitations and obligations regarding the setting of agreed prices, since these shall be comparable to those performed by or between independent parties in similar transactions.

If the tax authorities review the prices and reject the amounts agreed, they could require, in addition to the corresponding payment of tax and accessories (restatement and surcharges), fines on the missed contributions, which could be up to 100% respect of the restated contribution amount.

(e) The Company rents the premises occupied by its administrative offices, according to lease agreements with set term. The total expense corresponding to rent amounted $1,381 in 2018 and $1,326 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. The main aspects this FRS covers 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.

FRS C-19 ***Financial instruments payable"***- It comes into force in the year beginning on January 1, 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 changes include:

- It establishes the possibility of valuating, after its initial recognition, certain financial liabilities at their fair value when some conditions are met.

- It valuates 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 will affect the liability amount and they will be amortized on a modified effective interest rate, instead of directly affecting the net profit or loss

- It includes the provisions in IFRIC 19 " Financial liabilities extinction with equity instruments", a topic not 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 March 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:

FRS B-2 *"Cash flow statement"*- It requires new disclosures about the liabilities associated with funding activities whether they 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 and its early application is not allowed. The accounting changes resulting from it must be retrospectively recognized.

The Company's Management considers that the implementation of this improvement to FRSs will 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 return with which the company will work during the next year. This improvement comes into force in the year beginning on January 1, 2018 and its early application is not allowed. 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.