2018

FOURTH 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 $812.4 million Mexican pesos (mmp) in comparison to the 4QT17; such variation is mainly explained by an increment in the current loan portfolio and in the equipment intended for operating lease.

Availabilities and Repurchases have a negative variation of $496.1 mmp, with a total balance of $496.1 mmp, comprised of (i) $244.8 mmp in cash restricted by the issue of Senior Trust Bonds ("CBF"), which may be used to pay the liabilities of this same issue, and (ii) $251.3 of availabilities.

On September 20, 2018, two interest rate options were hired. Compared to the closing of September 2017, the heading **Derivatives** as of the closing of December 2018 shows an increase of $8.8 mmp; this balance comprises three Interest Rate Options acquired in compliance with the Trust Agreements entered into as a result of the issues of CBF as follows: with a notional value of $616.5 mmp, an Interest Rate Option of notional value of $536.4 mmp, an Interest Rate Option of notional value of $709.5 mmp, and three Interest Rate Options hired on March 28, 2018 with a notional value of $374.6 mmp, on September 20, 2018 with a notional value of $225.8 mmp, and on September 20, 2018 with a notional value of $ 819.7 mmp; such instruments show a mark-to-market ("MTM") of $(26.5 mmp.

The ***total Loan Portfolio (Net)*** shows an increment of $404.0 mmp, equivalent to a positive variation of 3.5%, compared to 4QT17, which is explained mainly through:

(i) An increment in the current loan portfolio of $363.6 mmp, which consists of: Increase in the retail portfolio in the amount of $937.5, resulted from the company's commercial strategies to satisfy the market's needs and to accomplish this year financing goals, and from the reduction of the balance in the current account portfolio of the assembly plant, which has been reduced this year according to the corporate program included in our plan.

(ii) The **Non-Performing Loan Portfolio**, as of the closing of 4QT18, shows a balance of $349.9 mmp, representing 2.8% of the total portfolio, according to the Exhibit 34 of the Single Circular of Banks (4QT17 3.4%); such increment is derived from the negative performance of some clients, including a client who started a process of insolvency; the foregoing, in compliance with the current regulations.

The ***Preventive Credit Risk Estimate*** shows an increment of $22.5 mmp, maintaining a hedge of 1 time ("x") the expected loss and 1.2x the non-performing portfolio (4Q2017 1.3x). The Preventive Credit Risk Estimate is calculated according to the methodology of expected loss.

It is worth to mention that the Company, as of December 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 $416 mmp as of December 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 $171 mmp as of December 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 $91 mmp as of December 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 December 2018, the contributed portfolio amounts to $32 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 December 31, 2018, amount to $2.539 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 December 31, 2018, amount to $3.613 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***, except for the effect of foreign exchange trading, show a positive variation of $32.3 mmp, which results mainly from the increment of security deposits for the loans granted and the payments in advance from the clients, which have been higher in comparison to the previous year.

Awarded Assets, as of the closing of December 2018, shows a positive variation in the portfolio award indicator of 28 pbs due to a higher stock rotation of the inventory of these assets: 0.61% in 4QT18, compared to 0.89% in 4QT17.

In relation to ***Equipment Intended for Operating Lease,*** as of 4QT18 there is a $450.4 mmp increment, compared to 4QT17, representing a growth of 22.1%. This is due to the funding program focused on big fleets that the Company has maintained as part of our commercial offer.

Other Assets shows a reduction of $20.3 mmp, caused mainly by the reduction in expenses derived from the credit instrument issue and by the amortization of intangible assets which was adjusted this quarter.

As of the closing of 4QT18, the Company's **Net Liabilities of Liquid Assets** reflect an increase of $282.1 mmp, equivalent to an increment of 2.8% in comparison to the same period of the previous year, which is a normal effect derived from the portfolio growth.

The heading **Stock Liability** show a balance of $1.7504 bmp comprised of the principal and interest of (i)CBF in the amount of $74.2 mmp in the NAVISCB15 issue (first issued under a $5 bmp, 5-year revolving program authorized on November 5, 2015), (i) CBF in the amount of $140.4 mmp corresponding to the issue NAVISCB 16 (second issue under a $5 bmp program), (ii) CBF in the amount of $340.4 mmp corresponding to the NAVISCB17 issue (third issue under a 5 mmp program), and (iii)[SIC] Short-Term Bonds ("CB") in the amount of $1.1954 bmp of a $3 bmp program.

In **Bank Loans** there is an increase of $1.4517 bmp against 4QT17, resulting from the hiring and availability of funding sources with the commercial and development bank during this year. As of December 31, 2018, NFCx shows no balance in the aforementioned bank loans, which are guaranteed by the Navistar International Corporation ("NIC") or by Navistar Financial Corporation ("NFC"); in 2017 the 41% of the balance of the aforementioned bank loans are guaranteed by Navistar International Corporation ("NIC") or by Navistar Financial Corporation ("NFC").

In 4QT18 and 4QT17, the bank liabilities are guaranteed by the loan portfolio and the transport equipment intended for operating lease in the amount of $10.082 and $ 8.701 bmp, respectively. Additionally, as of the closing of December 2018, the company has a free current portfolio in the amount of $4.125 bmp, obtaining a 3.47-time indicator of free current portfolio respect of the outstanding balance of the issue of the current commercial paper.

The Company shows a financial soundness, which is reflected in a capitalization level (equity / total portfolio) equivalent to 30.4% (4QT17 26.9%) and a net leverage level of the liquid assets of 3.1x (4QT17 3.5x), 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 4QT18, the ***Financial Margin***, not affected by the exchange rate fluctuation, amounts to $633.1 mmp, which represent a positive variation of $66.0 mmp, compared to the same period in the previous year, which is mainly explained by an increment in the commercial loan volume granted in 2018. The interest hedge ratio for 4QT18, not affected by the exchange rate fluctuation, is 1.6x (1.6x 4QT17); therefore, the Company is in compliance with the required bank obligations.

The ***Preventive Credit Risk Estimates*** show a negative variation of $45.9 mmp, representing 39% more compared to the previous year; this is mainly because of an increment in the default probability of some clients, including Grupo Senda, who started a process of insolvency; the foregoing in compliance with the current regulations.

Consequently, the ***Financial Margin Adjusted by the Credit Risks***, not affected by exchange rate fluctuation, shows a positive variation of $20.1 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 $26.8 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 negative impact of $85.3 mmp, resulting from:

a) A negative variation of $78.1 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 4Q2018 amounts to a profit of $3.8 mmp, compared to the $46.7 mmp loss 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 4QT17, there were negative effects of $33.6 mmp on these instruments, and during 2018 there have been negative effects of $40.8 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 1.87%, a figure 26 pbs lower than the 2.13% of 4QT17. A reduction of $20.6 mmp is shown in comparison to 4QT17, resulting from a decrease in the volume of expenses for marketing of the geolocation device launched in 2017.

Within the heading **Caused and Deferred Income Taxes**, a positive variation of $104.7 mmp is shown; this is a consequence of two effects: current tax with positive variation of $39.7 mmp mainly due to the increase of non-accountable tax deductions (write-offs, uncollectible accounts receivable and other deferred loan) and, the remaining, to the positive variation of the deferred taxes due to an increment in the fixed assets, client's payments in advance, and the cancellation of the provision corresponding to allowances for fiscal loans recorded in 2015.

FUNDING SOURCES

As of December 31, 2018, the Company had $14.852.2 bmp in authorized funding sources, which were distributed the following way: (i) 29.5% in domestic and foreign commercial bank, (ii) 58.8% in domestic and foreign development bank, (iii) 3.7% in CBF, and (iv) 8% in CB.

The Company maintains $4.1906 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 December 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 an 1893-day term and with monthly amortizations. As of the closing of December 2018, the balance of this issue is $74.2 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 December 2018, the balance of this issue is $140.3 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 December 2018, the balance of this issue is $340.4 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 December 31, 2018 is $1.1954 bmp.

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

	Dec -18	%	Dec -17	%
Debt in Pesos fixed rate	4,549,635	50%	3,493,706	43%
Debt in Pesos with hedge of CAP	1,805,134	20%	1,188,675	15%
Debt in Pesos variable rate	2,755,842	30%	3,421,000	42%
Subtotal Pesos	**9,110,611**		**8,103,381**	
Interest payable	42,020		35,188	
TOTAL PESOS	**9,152,631**		**8,138,569**	
Debt in Dollars fixed rate	0	0%	3,750	3%
Debt in Dollars variable rate	78,921	100%	113,267	97%
Subtotal Dollars	**78,921**		**117,017**	
Interest payable	380		601	
TOTAL DOLLARS	**79,301**		**117,618**	

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 December 31, 2018, the Company has not hired any CCSwap.

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

- CAP on TIIE
- 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 three Interest Rate Options, 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

- CAP on TIIE
- Notional: 819.6 mmp
- Start date: September 19, 2018
- Maturity date: August 03, 2021
- Counterparty: BBVA BANCOMER S.A.
- Strike: 8.5%
- Premium: 11.6 mmp

- CAP on TIIE
- Notional: 225.8 mmp
- Start date: September 24, 2018
- Maturity date: August 03, 2021
- Counterparty: BBVA BANCOMER S.A.
- Strike: 8.5%
- Premium 3.2 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

December 31, 2018 and 2017

Public

(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 February 27, 2019, José A. Chacón Pérez (Chief Executive Officer), 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.

Public

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

Presentation basis

a) Compliance statement

On January 12, 2015, the resolution modifying the general provisions applicable to Regulated Multi-Purpose Financial Companies (SOFOMES) was published in the Official Gazette of the Federation (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.

Public

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.

Public

(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 December 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.

Public

(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”.

Public

(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:

Public

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.

Public

(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.

Public

(Thousands of pesos)

Since March 30, 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 national currency 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 December 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%

Public

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.

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

Until December 30, 2016, the Company's Management performed its estimates according to the following internal methodology, considering the guidelines set forth in the Provisions of Credit Institutions required to use 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:

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

Public

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.

Public

(Thousands of pesos)

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

Public

(n) Real property, furniture and equipment

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

Public

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) 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.

Public

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

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

(u) Transactions in foreign currency-

Transactions in foreign currency are recorded at the exchange rate valid on the date of 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.

(v) 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.

Reclassifications-

The consolidated financial statements as of and for the year ended on December 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 December 31, 2018.

Public

(5) Foreign exchange position-

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

	Thousands of dollars	
	2018	2017
Assets (loan portfolio mainly)	82,402	115,005
Liabilities (bank loans mainly)	(81,719)	(120,927)
Asset (liability) position, net	(683)	(5,922)
	======	======

As of December 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 December 31, 2018 and 2017, was $19.6512 and $19.6629 pesos per dollar, respectively.

(6) Availabilities-

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

	2018	2017
National bank deposits	$ 114,739	89,660
Foreign bank deposits	132,102	53,269
Restricted national bank deposits (1)	4,427	7,875
	$ 251,268	150,804
	======	======

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

(7) Security investments-

As of December 31, 2018 and 2017, the notes in the amount of $314 and $14 have a 2- to 4-day maturity, respectively, and a performance rate of 8.21% and 6.27%, respectively.

The interest yielded by security investments increased to $3,623 and $3,997, respectively, for the years ended on December 31, 2018 and 2017 (see note 19).

(8) Repurchases-

As of December 31, 2018 and 2017, the investments in repurchases for $244,486 (including $153,364 in restricted securities) and $367,638 (including $237,214 in restricted securities), respectively, are mainly constituted of government paper (Bondes and Udibonos), at 2- and 4-day terms, respectively, with a rate interest of 7.80%-7.90% and of 7.00%-7.05%, respectively. As of December 31, 2018, the restricted bonds correspond to Investments of the Irrevocable Trust No. 2537, the Irrevocable Trust No. 2844, and the Irrevocable Trust 3290.

The interest yielded by repurchase investments amounted to $29,446 in 2018, and $34,272 in 2017; which are reported in the consolidated income statement under the heading "Interest Income" (see note 19).

(9) Trading derivatives-

As of December 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.

Public

(Thousands of pesos)

Additionally, as of December 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 December 31, 2018 and 2017, are shown below:

					2018		2017	
Instrument	**Underlying**	**Initial Notional(1)**	**Maturity**	**Premium**	**Impact on income**	**Fair value**	**Impact on income**	**Fair value**
IR CAP	28-day TIIE	1,000,000	2018	$ 13,496	(1,231)	-	(3,839)	1,231
IR CAP	28-day TIIE	800,000	2018	12,150	(708)	-	(3,252)	708
IR CAP	28-day TIIE	616,550	2019	3,690	(4,385)	845	(5,010)	5,230
IR CAP	28-day TIIE	536,383	2020	4,630	(3,836)	3,179	(2,974)	7,015
IR CAP	28-day TIIE	709,522	2022	3,150	(1,557)	1,946	353	3,503
IR CAP	28-day TIIE	374,649	2021	1,235	(232)	1,003	-	-
IR CAP	28-day TIIE	225,811	2022	3,195	928	4,123	-	-
IR CAP	28-day TIIE	819,644	2021	11,635	3,729	15,364	-	-
				$ 53,181	(7,292)	26,460	(14,722)	17,687
				=====	=====	=====	=====	=====

(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.

As of December 31, 2018 and 2017, the loss derived from the trade of financial derivative instruments amounted to $40,833 and $33,628 (see note 22).

(Thousands of pesos)

(10) Loan portfolio-

(a) *Classification of the loan portfolio-*

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

	Current portfolio			Non-perf portfolio			
December 31, 2018	**Mexican Pesos**	**Appreciated Dollars**	**Total**	**Mexican Pesos**	**Appreciated Dollars**	**Total**	**Total current and non-performing**
Commercial loans	$ 6,116,355	1,133,360	7,249,714	107,458	1,864	109,322	7,359,036
Capitalizable lease portfolio	4,815,560	35,126	4,850,686	216,941	-	216,941	5,067,627
Financial income to be accrued	(904,969)	(2,080)	(907,049)	(27,131)	-	(27,131)	(934,180)
Financed insurances	265,561	1,170	266,731	40,198	1,091	41,289	308,020
Commercial loans-restricted (1)	262,479	-	262,479	3,388	-	3,388	265,867
Restricted capitalizable lease portfolio (1)	455,371	-	455,371	6,353	-	6,353	461,724
Financial income to be accrued of restricted portfolio (1)	(49,841)	-	(49,841)	(282)	-	(282)	(50,123)
	$10,960,516	1,167,576	12,128,091	346,925	2,955	349,880	12,477,971
	========	=======	========	======	======	======	========
December 31, 2017							
Commercial loans	5,490,965	1,692,243	7,183,208	130,527	2,060	132,587	7,315,795
Capitalizable lease portfolio	3,476,985	71,303	3,548,288	120,035	172	120,207	3,668,495
Financial income to be accrued	(581,539)	(4,882)	(586,421)	(10,008)	-	(10,008)	(596,429)
Financed insurances	190,945	4,003	194,948	31,473	427	31,900	226,848
Commercial loans-restricted (1)	556,294	-	556,294	5,275	-	5,275	561,569
Restricted capitalizable lease portfolio (1)	999,438	-	999,438	7,904	-	7,904	1,007,342
Financial income to be accrued of restricted portfolio (1)	(131,297)	-	(131,297)	(796)	-	(796)	132,093)
	10,001,791	1,762,667	11,764,458	284,410	2,659	287,069	12,051,527
	========	=======	========	======	=====	======	========

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

(Thousands of pesos)

Non-performing portfolio:

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

December 31	Days 1-180	181-365	1-2 years	More than 2 years	Total
2018	$ 173,128	85,272	88,374	3,106	$ 349,880
2017	126,217	68,190	92,406	256	287,069
	======	=====	=====	=====	======

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

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Balance at the beginning of the year	$ 300,281	297,579	304,361	287,069
Awards	-	(611)	(2,866)	(393)
Write-offs	(58,079)	(20,423)	(31,117)	(15,576)
Collection	(62,262)	(28,862)	(6,593)	(32,819)
Transfer from current to non-performing portfolio	186,264	61,535	57,454	77,749
Transfer from non-performing to current portfolio	(16,324)	(8,937)	(23,660)	(11,669)
Balance at the end of the year	$ 349,880	300,281	297,579	304,361
	========	=======	========	========

The accrued non-collected interest of the non-performing portfolio, which, according to the accounting criteria, is recorded in memorandum accounts, as of December 31, 2018 and 2017, amounts to $59,142 and $49,566, respectively. Until its collection, such interest will be recognized in the year income.

Public

(Thousands of pesos)

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

Maturity year		**2018**	**2017**
2018	$	-	7,852,401
2019		7,554,115	1,923,014
2020		2,173,936	1,307,294
2021		1,560,717	726,449
2022		871,992	233,154
2023		272,248	9,215
2024 onwards.		44,963	-
	$	12,477,971	12,051,527
		========	========

Risk concentration:

As of December 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 7% and 11% of the total portfolio as of December 31, 2018 and 2017, respectively (see note 17).

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

		2018		**2017**	
		Portfolio	**%**	**Portfolio**	**%**
Mexico City and State of Mexico	$	1,998,419	16%	2,523,880	21%
Center (1)		956,228	8%	850,332	7%
North (2)		5,159,734	41%	5,309,233	44%
West (3)		3,246,300	26%	2,729,039	23%
South (4)		1,117,290	9%	639,043	5%
	$	12,477,971	100%	12,051,527	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.

Public

(Thousands of pesos)

(b) Preventive credit risk estimates-

As of December 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 2018	Portfolio 2017	Preventive estimates for credit risks 2018	Preventive estimates for credit risks 2017
A-1	$ 8,241,034	8,317,611	$ 37,972	48,631
A-2	1,815,004	1,258,928	19,746	12,544
B-1	573,708	577,255	9,981	10,604
B-2	421,400	405,610	9,271	9,020
B-3	321,612	443,120	10,449	14,656
C-1	240,528	188,633	19,878	14,482
C-2	219,883	244,527	27,381	30,657
D*	491,522	519,559	174,034	172,929
E*	153,280	96,284	96,536	69,237
Total	$ 12,477,971	12,051,527	$ 405,248	382,760

* Troubled portfolio.

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

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Balance at the beginning of the year	$ 445,996	417,552	410,093	382,760
Increment of the allowance in income	16,021	56,270	42,839	47,483
Release of preventive estimates in "Other operating income (expenses)" (see note 24)	214	(4,817)	(4,155)	(2,646)
Effect of the reassessment	1,169	(702)	1,491	(1,238)
Write-offs	(58,152)	(22,307)	(32,716)	(16,266)
Balance at the end of the year	$ 405,248	445,966	417,552	410,093

(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.

The obligations on such bonds, which only payment source is the collection of collection rights, yielded interest of $7,019 in December 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.

Public

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 December 31, 2018 and 2017, the collection rights given to the Trust amounted to $90,940 and $289,300, respectively. Any remnant of the issue shall 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 December 31, 2018 and 2017, the balance of the obligation on the NAVISCB 15 amounts to $73,922 and $232,412, respectively (see note 14). Additionally, the interest payable as of December 31, 2018 and 2017, amounts to $300 and $971, respectively. The obligations on such bonds, which only payment source is the collection of collection rights, yielded interest of $14,066 and $26,315, respectively, which is recorded in the consolidated income statement under the heading “Interest Expenses” (see note 19).

The rating awarded on November 15, 2018 and on September 25, 2017 by HR Ratings de México S. A. de C. V. was "HR AAA(E)" in both years.

<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 December 31, 2018 and 2017, the collection rights given to the Trust amounted to $170,790 and $373,510, 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 December 31, 2018 and 2017, the balance of the obligation on the NAVISCB 16 amounts to $139,807 and $300,268, respectively (see note 14). Additionally, the interest payable as of December 31, 2018 and 2017, amounts to $577 and $1,276, respectively. The obligations on such bonds, which only payment source is the collection of collection rights, as of December 31, 2018 and 2017, yielded interest of $20,921 and $32,475, respectively, which is recorded in the consolidated income statement under the heading “Interest Expenses” (see note 19).

The rating awarded on November 15, 2018 and on September 25, 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.

Public

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 of equipment or transport. 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 December 31, 2018 and 2017, the collection rights given to the Trust amounted to $415,738 and $774,008, respectively. Any remnant of the issue shall be delivered to the Company once all bonds have been settled.

The first issue of bonds was 7,730,000 of bonds with a par value of $100 pesos each, under the ticker symbol NAVISCB 17, 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 December 31, 2018 and 2017, the balance of the obligation on the NAVISCB 17 amounts to $338,984 and $655,995, respectively (see note 14). Additionally, the interest payable as of December 31, 2018 and 2017, amounts to $1,434 and $2,865, respectively.

The obligations on such bonds, which only payment source is the collection of collection rights, as of December 31, 2018 and 2017, yielded interest of $46,472 and $13,092, respectively, which is recorded in the consolidated income statement under the heading “Interest Expenses” (see note 19).

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

Public

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 2537		Trust 2844		Trust 3092	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Balance sheet:						
Cash and cash equivalents	$ 21,250	34,160	$ 44,551	66,287	$ 91,552	143,852
Financial derivative instruments	845	5,230	3,179	7,015	1,946	3,503
Collection rights, net	85,515	277,528	162,881	364,641	395,183	756,252
Other accounts receivable	2,758	2,515	1,167	647	1,816	621
Total asset	$ 110,368	319,433	$ 211,778	438,590	$ 490,497	904,228
Obligations on bonds, net	70,353	$ 233,383	$ 134,263	301,544	$ 330,515	658,861
Accounts payable	1,915	1,964	429	1,013	512	3,911
Total obligations on bonds	$ 72,268	235,347	$ 134,692	302,557	$ 331,027	662,772
Assets(1)	38,100	84,086	77,086	136,033	159,470	241,456
Total liabilities and assets	$ 110,368	319,433	$ 211,778	438,590	$ 490,497	904,228
Income statement:						
Financial income	$ 29,879	56,013	$ 40,192	62,213	$ 86,371	32,314
Financial expenses	(23,756)	(35,801)	(26,231)	(36,727)	(52,929)	(14,001)
Change in the fair value of financial derivative instruments	(4,385)	(5,010)	(3,836)	(2,974)	(1,557)	353
Impact derived from collection rights impairment	6,341	10,278	922	75	(2,895)	(17,756)
Other income (expenses), net	4,181	417	2,217	489	7,793	131
General expenses	(76)	(86)	(60)	(63)	(80)	-
Year income	$ 12,184	25,811	$ 13,204	23,013	$ 36,703	1,041

(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 December 31, 2018 and 2017, the Trust assets are represented by the secured collection rights to pay the loan obligations, which amount to $93,362 and $221,090, 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 December 31, 2018 and 2017, the assets of this Trust amount to $1,012,733 and $804,267, 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 December 31, 2018 and 2017, the assets of this Trust amounted to $1,972,140 and $2,131,072, respectively.

(e) Risk sharing fund-

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

On June 22, 2018, 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 $42,000, in relation to the first losses of the registered loan portfolio, which amounts to $1,218,250.

The outstanding balances of the portfolio secured under both schemes as of December 31, 2018 and 2017 was $1,605,669 and $789,188, 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 December 31, 2018 and 2017, the Company has claimed $50,318 and $57,124, respectively, under such program. From which, $41,908 and $38,006, have been respectively collected.

(f) Restructured and renewed loans-

As of December 31, 2018 and 2017, the restructured and renewed loans of the portfolio amounted to $527,085 and $225,030, respectively.

For the years ended on December 31, 2018 and 2017, the recovery income of the previously non-performing portfolio amounts to $46,306 and $33,179, 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 December 31, 2018 and 2017 are shown below.

Fees for granting loans:	**2018**	**2017**
Initial balance	$ 171,461	150,702
Collected fees	81,202	77,569
Amortization (note 19)	(64,848)	(56,810)
Subtotal of fees for granting of loan to next page	$ 187,815	171,461

(Thousands of pesos)

	2018	2017
Loan origination costs:		
Initial balance	$ 39,014	35,292
Paid costs and expenses	37,279	22,005
Amortization (note 19)	(20,519)	(18,283)
	55,774	39,014
Net balance of fees and loan origination costs	$ 132,041	132,447
	=======	=======

(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 December 31, 2018 and 2017, the accounts receivables are as follows:

		2018	2017
Portfolio debtors	$	138,589	107,141
Sundry debtors		408,170	455,597
Refundable taxes		112,414	54,009
Related companies (note 17)		52,388	33,308
		711,561	650,055
Less estimate of doubtful accounts payable		(47,507)	(18,304)
	$	664,054	631,751
		=======	=======

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

As of December 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:

(Thousands of pesos)

Real property, furniture and equipment for company's use:		2018	2017	Annual depreciation rate
Real property	$	21,734	49,638	2.30%
Transport equipment		2,930	2,930	25%
Furniture and computing equipment		21,092	18,354	10% and 33%
		45,756	70,922	
Accumulated depreciation		(23,590)	(26,390)	
		22,166	44,532	
Land		40,846	40,846	
	$	63,012	85,378	
		======	======	

Transport equipment and real property intended for operating lease:	2018	2017	Annual depreciation rate
Leased transport equipment	$ 3,254,574	2,634,943	Various
Leased computing equipment	3,244	3,244	Various
Leased real property	185,336	157,432	Various
	3,443,154	2,795,619	
Accumulated depreciation and amortization	(955,766)	(758,602)	
	$ 2,487,388	2,037,017	
	=======	=======	

For the years ended on December 31, 2018 and 2017, the charge to income derived from real property, furniture and equipment depreciation amounted to $2,797 and $3,379, respectively, and for the equipment and real property intended for operating lease amounted to $391,057 and $331,210, respectively.

(Thousands of pesos)

(13) Awarded assets-

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

		2018	2017
Transport equipment	$	38,877	64,006
Real property		51,627	51,627
		90,504	115,633
Less:			
Allowance of awarded assets		(7,761)	(2,194)
Wear and tear		(6,497)	(6,066)
	$	76,246	107,373

(14) Stock liabilities-

On October 20, 2017, the Company carried out a securitization of credit claims under the ticker symbol NAVISCB 17 with September 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.

(Thousands of pesos)

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

Issue		**2018**	**Maturity**	**Rate**
Short-term:				
NAVISTS00418	$	300,000	24/01/2019	TIIE+1.60%
NAVISTS00718		160,000	04/04/2019	TIIE+1.55%
NAVISTS00918		180,000	28/03/2019	TIIE+1.55%
NAVISTS01018		300,000	27/06/2019	TIIE+1.60%
NAVISTS01118		250,000	07/02/2019	TIIE+1.40%
Accrued interest		5,405		
NAVISCB15*		73,922	15/01/2021	TIIE+1.41%
NAVISCB16*		112,374	15/02/2022	TIIE+1.55%
NAVISCB17*		235,049	15/06/2021	TIIE+1.80%
Accrued interest		2,310		
Subtotal		1,619,060		
Long-term:				
NAVISCB15		-	15/01/2021	TIIE+1.41%
NAVISCB16		27,433	15/02/2022	TIIE+1.55%
NAVISCB17		103,935	15/06/2021	TIIE+1.80%
		131,368		
Total stock liability	$	1,750,428		
		=======		

* Current portion of long-term bonds.

(Thousands of pesos)

Issue		2017	Maturity	Rate
Short-term:				
NAVISTS01417	$	70,000	08/02/2018	TIIE+2.00%
NAVISTS01917		230,000	08/02/2018	TIIE+1.80%
NAVISTS02117		355,000	22/03/2018	TIIE+1.70%
NAVISTS02217		85,000	25/01/2018	TIIE+2.00%
NAVISTS02317		50,000	25/01/2018	TIIE+1.50%
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%
NAVISTS02717		180,000	25/01/2018	TIIE+1.60%
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%
Accrued interest		6,628		
NAVISCB15*		152,928	15/01/2021	TIIE+1.40%
NAVISCB16*		145,317	15/02/2022	TIIE+1.55%
NAVISCB17*		339,423	15/03/2023	TIIE+1.80%
Accrued interest		5,112		
Subtotal		2,391,408		
Long-term:				
NAVISCB15		79,484	15/01/2021	TIIE+1.40%
NAVISCB16		154,951	15/02/2022	TIIE+1.55%
NAVISCB17		316,572	15/03/2023	TIIE+1.80%
		551,007		
Total stock liability	$	2,942,415		
		=======		

As of December 31, 2018 and 2017, the balance of issue expenses to be amortized amounts $51,453 and $68,469, 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 December 31, 2018 and 2017, amounts to $93,380 and $98,035, respectively (see note 19).

(Thousands of pesos, unless otherwise indicated)

(15) Bank loans and loans from other institutions-

As of December 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 2.98% and 3.12% on LIBOR at the closing of December 2018 and 2017, respectively, and an average fixed rate of 5.2% in December 2017 (see section "a" of this note).	$	1,550,892	2,300,885
Direct loans in Mexican Pesos accruing interest at an average weighted rate of 2.02% and 2.25% on 28-day TIIE in both years, 2018 and 2017, and an average fixed weighted rate of 9.23% and 8.23% in December 2018 and 2017, respectively.		7,367,899	5,172,706
Accrued interest		41,765	35,273
Total of bank loans		8,960,556	7,508,864
Less current portion of the debt		4,348,553	4,079,450
Total of bank loans and loans from other institutions at long-term	$	4,612,003	3,429,414
		========	========

As of December 31, 2018 and 2017, the 12% and 35%, respectively, 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 December 31, 2018 and 2017, there are lines of credit hired with national and foreign financial institutions in the amount of 396 and 306 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 December 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. On September 28, 2018, an increment of 40 million dollars was authorized, resulting in a total of 160 million.

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

(b) *Bank loans in Mexican Pesos:*

As of December 31, 2018 and 2017, there are lines of credit denominated in pesos hired by the Company to national financial institution for $5.337 and $5.298 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 December 31, 2018, this line has been fully used.

(Thousands of pesos, unless otherwise indicated)

As of December 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 $10,082,550 and $8,701,252, respectively.

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

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

Maturity year	Pesos	Appreciated Dollars
2019	$ 3,482,925	$ 865,628
2020	1,229,478	4,725
2021	2,246,547	688,001
2022	321,584	-
2023	100,456	-
2024	21,212	-
	$ 7,402,202	$ 1,558,354
	$ 8,960,556	

(Thousands of pesos)

(16) Sundry creditors and other accounts payable-

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

	2018	2017
Sundry creditors	$ 68,265	166,849
Security deposits	723,326	575,694
Trust portfolio deposits and collection to be delivered to the Trust	2,333	6,552
Tax payable (Income Tax and Value-Added Tax)	481	703
Provisions for different obligations	6,800	9,956
Related companies (note 17)	28,675	51,277
Employee benefits	33,713	33,025
Other taxes	3,075	1,906
Deposits and balance in favor of clients	91,252	58,135
Creditors for settlement of transactions	314,900	403,520
Other	103,081	65,408
	$ 1,375,901	1,373,025

(17) Transactions and balance with related companies-

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

(Thousands of pesos)

The balances receivable and payable with related companies as of December 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.	$	927,019	1,336,076
International Parts Distribution, S. A. de C. V.		2,711	1,869
Navistar Financial Corporation		2,693	1,434
	$	932,423	1,339,379
		=======	=======
Other accounts receivable (note 11):			
Navistar Comercial, S. A. de C. V.	$	25,028	10,055
Navistar México, S. de R. L. de C. V.		19,127	16,466
Navistar International Corporation		5,105	3,652
Navistar Inc.		1,588	1,591
Transprotección Agente de Seguros, S. A. de C. V.		1,456	1,504
International Parts Distribution, S. A. de C. V.		59	40
Navistar Financial Corporation		25	-
	$	52,388	33,308
		=======	======
Balances payable (note 16):			
Navistar Inc.	$	23,060	2,274
Navistar México, S. de R. de C.V.		3,303	41,879
Navistar Financial Corporation		2,043	5,179
Navistar International Corporation		185	219
International Parts Distribution, S.A. de C.V.		84	-
Transprotección Agentes de Seguros, S.A. de C. V.		-	1,726
	$	28,675	51,277
		=======	=======

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 December 31, 2018 and 2017.

		2018	2017
Revenues:			
Interest accrued in favor:			
Navistar México, S. de R. L. de C. V.	$	329,542	413,547
Navistar Financial Corporation		33,885	13,678
International Parts Distribution, S. A. de C. V.		24,612	24,852
		======	======
Placement-service fees:			
Navistar México, S. de R. L. de C. V. (note 20)	$	153,337	185,204
		======	======
Administrative services:			
Trasproteccion Agentes de Seguros, S. A. de C. V.	$	18,984	16,862
Navistar Comercial S. A. de C. V.		4,462	-
Navistar México S. A. de C. V		2,044	1,401
		======	======
Other income:			
Navistar Comercial, S. A de C. V.	$	1,439	934
Navistar México, S. de R. L. de C. V.		871	485
International Parts Distribution, S. A. de C. V.		621	465
Navistar International Corporation		-	5
		======	======

(Thousands of pesos)

		2018	2017
Expenses:			
Technical assistance and telephone service expenses:			
Navistar México, S. de R. L. de C. V.	$	(348)	(180)
		======	======
Other service fees and rates:			
Navistar Financial Corporation (note 21)	$	(13,105)	(7,254)
		======	======
Interest expenses for granting securities:			
Navistar Financial Corporation	$	(17,961)	(20,964)
Navistar International Corporation		(1,130)	(1,785)
Navistar México, S. de R. L. de C. V.		(631)	(208)
		======	======
Other expenses:			
Navistar México, S. de R. L. de C. V.	$	(934)	(2,025)
		======	======
Accrued interest:			
Transprotección Agentes de Seguros, S. A de C. V.	$	(4,221)	(2,934)
		======	======

(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 Add-in capital are described below:

		Thousands of pesos	
	Number of shares(1)	Corporate equity	Additional paid-in capital
Figures as of December 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 December 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 December 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	$ 546,489	483,409
Non-controlling interest	4	2
	546,493	483,411
Employee benefit remediation		
Remediation	6,886	(1,104)
Deferred income tax	(921)	233
Deferred PTU	(579)	148
	5,386	(723)
Comprehensive income	$ 551,879	482,688
	======	======

(19) Financial margin-

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

	2018	2017
Interest Income:		
Derived from:		
Loan portfolio	$ 1,018,393	937,228
Financial lease	498,437	419,189
Investments and debtors derived from repurchase (notes 7 and 8)	33,069	38,249
Fees for granting loans (note 10g)	64,848	56,810
Exchange income	81,597	32,905
	$ 1,696,344	1,484,381

(Thousands of pesos)

Interest expenses:		
Interest expenses derived from bonds (note 10c)	(81,459)	(78,901)
Amortization of debt issue expenses (note 14)	(93,380)	(98,035)
Interest expenses of bank loans	(786,264)	(689,105)
Amortization of origination costs (note 10g)	(20,519)	(18,283)
Exchange income	(18,610)	(98,449)
	(1,000,232)	(982,773)
Total financial margin	$ 696,112	501,608
	========	=======

(20) Collected fees and rates-

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

	2018	2017
Placement service fees collected from related companies (note 17)	$ 153,337	185,204
Placement service fees	18,305	16,024
Other fees and rates collected	54,635	44,744
	$ 226,277	245,972
	=======	=======

(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)	$	(13,105)	(7,254)
Bank fees		(6,484)	(5,272)
	$	(19,589)	(12,526)

(22) Intermediation income, net

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

		2018	2017
Trading derivatives (note 9)	$	(7,292)	(14,722)
Derivate trade (note 9)		(40,833)	(33,628)
Foreign exchange loss due to currency valuation		(51,926)	33,591
	$	(100,051)	(14,759)

(Thousands of pesos)

(23) Operating lease income-

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

	2018	2017
Operating lease income	$ 558,092	526,760
Leased property depreciation (note 12)	(391,057)	(331,210)
	$ 167,035	195,550
	======	======

The Company works only with loan and operating lease segments. The operating lease income in 2018 and 2017 amounted to $167,035 and $195,550, 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 December 31, 2018 and 2017, other operating income is composed as shown:

	2018	2017
Other operating income, net	$ 44,061	10,467
Release of preventive estimates (note 10b)	11,404	62,277
Other lease benefits	27,962	24,806
(Loss) profit for awarded assets valuation	(11,715)	17,119
Awarded sale income	3,758	(8,636)
Recovery of loan portfolio (note 10f)	46,306	33,179
Impact of the estimate for non-recoverable or difficult collection	(37,002)	(7,912)
Real property, furniture and equipment sale earnings	53	97
Asset deterioration loss	(26,422)	(2,951)
Total of other operating income $	58,405	128,446
	======	=====

(Thousands of pesos)

(25) Financial indicators (not audited)-

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

	2018	2017
Delinquency rate	2.80%	2.38%
Hedge ratio of non-performing loan portfolio	115.82%	133.33%
Operational efficiency (management and promotion expenses/ average total assets)	1.80%	2.02%
ROE (net earnings/average shareholder's equity)	15.56%	16.14%
ROA (net earnings/average total assets)	3.50%	3.24%
Liquidity (liquid assets/liquid liabilities) *	5.78%	3.70%
MIN (Year risk-adjusted financial margin / average performing assets)**	4.28%	3.15%

* 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 terms. The total expense corresponding to rent amounted $5,526 in 2018 and $5,266 in 2017.

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

(27) Recently issued regulatory pronouncements-

Improvements to FRS 2019

The main improvements producing accounting changes are shown below:

FRS B-9, *Interim Financial Reporting*

New disclosure requirements for the notes of the condensed financial statements at interim times on the fair value of financial instruments and revenues from contracts with customers; for example, changes in the economic or business circumstances affecting the fair value of financial assets and liabilities, transfer between hierarchical levels of fair value of financial instruments, changes in the classification of financial assets resulting from a change in the purpose or use of such assets, or changes in the contingent liabilities and assets, regardless of the date of the latest annual report.

The provisions in this Improvements became effective on January 1, 2019. The accounting changes resulting from it, as applicable, must be prospectively recognized.

The implementation of this Improvements did not affect the Company's consolidated financial statements.

New regulatory statements issued, applicable since January 1, 2019-

According to the modifications to the General Provisions Applicable to the Bonded Warehouses, Currency Exchange Brokers, Credit Union, and Multi-Purpose Financial Companies, issued by the CNBV in the Official Gazette of the Federation on December 27, 2017, and as per the transitory article four, the following FRS shall enter into force on January 1, 2019:

FRS B-11 "Disposal of long-lived assets and discontinued operations"

In November 2018, the CINIF issued the FRS B-11 "Disposal of long-lived assets and discontinued operations", which purpose is to separate the valuation criteria of long-lived assets, the criteria for presentation and disclosure of the disposal of long lived assets or asset groups classified as held for sale, as well as the discontinued operations; as it is set in Bulletin C-15 "Impairment in the value of the long-lived assets and the disposal thereof" as of the date of this financial statements.

It is provided that long-lived assets and any assets of a class which would be usually deemed as noncurrent by an entity, and acquired exclusively to be sold, must not be classified as current assets unless they meet the criteria to classify them as held for sale, as per FRS B-11. Additionally, as for the assets presented in the statement of financial position according to any criteria based on liquidity, FRS B-11 classifies as noncurrent those assets expected to be recovered within a term longer than twelve months after the general balance sheet date or longer than the operation cycle, when such operation cycle is longer than 12 months.

The FRS B-11 comes into force in the year beginning on January 1, 2020 or later, and its early application is not allowed.

It is important to highlight that the first application of this FRS B-11 will not involve accounting changes in the Company's consolidated financial statements.

FRS B-17 "Fair value determination" - It provides the regulations to determine the fair value and disclosure thereof. A Standard that sets the regulations on the following:

a) Fair value definition
b) Establishment of a regulatory framework to determine the fair value
c) Standardization of the disclosures of the fair value determination

It is important to highlight that this FRS applies when other FRS requires or allows valuations at fair value and/or disclosures, becoming a reference framework according to which the company is in compliance with this FRS.

FRS C-2 "Investment in Financial Instruments" It provides the standards for valuation, presentation and disclosure of the investment in financial instrument. It dismisses the concept "purchase intention" and the use of an investment in a debt or equity financial instrument to determine its classification and it removes the categories held to maturity and available for sale instruments. It adds the concept of "Investment Management Business Model" in financial instruments.

FRS C-3 "Accounts receivable"- It provides the regulations to valuate, present and disclose the initial and subsequent recognition of the commercial accounts receivable and other accounts receivable in the financial statements of an economic entity. It states that the accounts receivable based on a contract represent a financial instrument. The loan portfolio is recorded based on the contract value of every contract according to the CNBV guidelines set in Bulletin B-6, as well as to the guidelines to determine the uncollectibility estimates of the commercial accounts receivable.

The Company's Management estimates that these changes shall not significantly affect the company's consolidated financial statements.

FRS C-9 "Provisions, contingencies and commitments"- It provides the regulations to valuate, present and disclose liabilities, provisions and commitments, removing from its scope the aspects relative to the accountable treatment of financial liabilities, and relocating this topic into FRS C-19.

It modifies the definition of "liabilities" by removing the characteristic of "virtually unavoidable" and including the term "probable".

FRS C-10 "Financial derivative instruments and hedging relationships". It provides the characteristics that a financial instrument must have to be deemed as trading derivative or hedging instruments, determines the regulations for the presentation and disclosure, as well as for the recognition and valuation of the financial derivative instruments, including hedging instruments and instruments applicable to hedging transactions structured through derivatives. It will not be allowed to separate the existing implicit financial derivative instruments when the host instrument is a financial asset; if the amount of the hybrid agreement will be modified, the modified amount will be charged; and a net income and expenses position will be allowed to be assigned as a hedged item if it reflects the risk management strategy of the entity.

FRS C-16 "Impairment of financial instruments receivable"- It provides the regulations for the assessment, accountable recognition, presentation and disclosure of the initial and subsequent recognition of the impairment of financial instruments receivable.

The main changes include the details about when and how the loss derived from impairment of financial instruments receivable must be recognized.

The company employs the method of the expected loss, as per the provisions set by the CNBV for the credit risk estimate applicable to Credit Institutions.

FRS C-19 "Financial instruments payable"- It provides the regulations to valuate, present and disclose the initial and subsequent recognition of the financial instruments payable of an economic entity.

It is added the possibility to valuate certain financial liabilities at their fair value after its initial recognition, provided that certain exceptional conditions are met; as well as the valuation of long-term liabilities at their current value in their initial recognition.

On the other hand, in restructuring liabilities, without substantially modifying the future cash flows to settle them, the costs and payments in this process shall affect the liability amount and they shall be amortized on a modified effective interest rate, instead of directly affecting the net profit or loss; and the amortized cost for the financial liability valuation, based on the actual interest rate, shall be included to perform such valuation.

FRS C-20 "Financing instruments receivable"- It provides the regulations to valuate, present and disclose the initial and subsequent recognition of the financing instruments receivable in the financial statements of an economic entity performing financing activities. It removes the concept of acquisition intention and possession of the financial instrument to determine the assets classification. It adds the concept of Management Business Model. The financial instruments receivable are valuated according to the CNBV guidelines.

FRS D-1 "Revenue from Contracts with Customers"- It provides the regulations to valuate, present and disclose the revenue earned from obtaining or performing Contracts with Customers. It sets the most significant aspect for the recognition of the revenues through the control transfer, identification of the obligations to be complied with derived from a contract, assignment of any operation amount, and recognition of collection rights.

This FRS eliminates the complementary application of the Accounting International Standards (AIS) 18 "Revenue", and the interpretations thereof, according to the provisions in FRS A-8 "Complementary Application". Currently, the Company is preparing an analysis on the line of revenues between rents and interest.

FRS D-2 "Costs from Contracts with Customers"- It provides the regulations to valuate, present and disclose the expenses derived from Contracts with Customers. It sets the regulations relative to the recognition of the expenses derived from Contracts with Customers and includes the accountable treatment of the expenses related to the contracts for construction and manufacture of capital goods, including any expenses related to contracts with customers. This FRS, together with the FRS D-1 "Revenue from Contracts with Customers", derogates the Bulletin D-7 "Contracts for construction and manufacture of certain capital goods", as well as the FRSI 14 "Contracts for construction, sale, and service provision associated with real property".

FRS D-5 "Leases"- It provides de regulations for valuations, presentation and disclosure of the leases by the Lessee through a unique accounting model . It requires the Lessee to recognize, from the beginning of the lease: a) a liability for the lease (rents payable at current value), and b) for this same amount, an asset called right-of-use asset, representing the right to use the leased underlying asset.

It modifies the presentation of the cash flow statement, presenting the payments to reduce the liabilities for lease in the financing activities. Additionally, it modifies the recognition of the leaseback, requiring the seller -lessee to recognize as a sale the rights transferred to the purchaser-lessor which are not leased back.

The Management estimates that the application and implementation of the best standards mentioned in the previous paragraph, in force since January 1, 2019, shall not produce any important impact on the Company's consolidated financial statements.

As a consequence derived from these changes, the Banking Commission has sent the Credit Institutions a draft with the modification proposal to be included in the Provisions and the Exhibit 33 thereto to harmonize these regulations with the entry into force of the new FRS, which mainly include the following:

Loan portfolio.

Changes in the classification category of the Portfolio in the following stages:

a) Stage 1- Financial assets which credit risk have not significantly changed since their granting (less than 30 days of default).

b) Stage 2- Financial assets with a significant increment in the credit risk since its initial recognition (between 30 and 89 days of default)

c) Stage 3- Financial assets with objective evidence of impairment (90 days or more of default and/or according to criterion B-6 "Loan portfolio" for the transfer to non-performing portfolio).

- Proposal of a standard methodology to estimate the credit loss expected according to the stage in which the loan is.
- Possibilities for the Credit institutions request the use of an internal methodology aligned to the provisions in FRS C-16.
- Prospective implementation of the accounting changes according with FRS B-1 "Accounting changes and error correction."
- Recognition of the initial negative financial impact on the accounts of previous Years Income in a deferred manner during a specific period (36 months).

Inclusion of Accounting Criteria B-12 Virtual Assets in Exhibit 33 of Provisions.

It includes the accountable treatment of “Virtual Assets” (e.g. Bitcoin, Ethereum or Ripple, among others) derived from the Law to Regulate the Institutions of Financial Technology, which are initially measured based on the compensation price on the date of the deal. Value changes between the date of the deal and the date of settlement are recognized under the heading OCI, as well as any subsequent changes in its fair value. At the time when the “Virtual Assets” are realized, the valuation previously recognized in OCI will be recycled to the Comprehensive Income Statement in the heading “Intermediation income."

Repeal of different criteria included in Exhibit 33 of the Provisions.

With the new entry into force of the FRS, the following criteria, which are included in Exhibit 33 of the Provisions, are repealed.

B-2 Security Investments.
B-5 Derivative and hedging transactions.
B-11 Collection rights.
C-1 Recognition and cancellation of financial assets
C-3 Related parties.
C-4 Information by segments.

The Credit Institutions will follow the guidelines included in the FRS mentioned at the beginning of this section.

It is estimated that these changes are applied together with the new FRS since January 1, 2020.

As of the issue date of the consolidated financial statement, the Management is assessing the possible expected impact derived from the implementation of these changes in the Provisions and the Exhibit 33 thereto, which shall consider the specific rules issued by the Banking Commission to be adopted and implemented since their entry into force.