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

Consolidated Financial Statements

December 31, 2018 and 2017

Navistar Financial, S. A. de C. V.,

Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Consolidated balance sheets

December 31, 2018 and 2017

(Thousands of pesos)

Assets	**2018**	**2017**
Availabilities (note 6)	$ 565,687	553,893
Stock investments (note 7):		
Held to maturity securities	314	14
Repurchase debtors (note 8)	244,486	367,638
Trading derivatives (note 9)	26,460	17,687
Current loan portfolio (notes 10a and 18):		
Commercial loans:		
Business or commercial activities	12,044,657	11,762,583
Financial entities	82,933	1,276
Government entities	501	599
Total current loan portfolio	12,128,091	11,764,458
Non-performing loan portfolio (note 10a)		
Commercial loans:		
Business or commercial activity	349,880	287,069
Total loan portfolio	12,447,971	12,051,527
Less:		
Preventive credit risk estimates (note 10b)	405,248	382,760
Total loan portfolio, net	12,072,723	11,668,767
Other accounts collectable, net (notes 11 and 18)	376,152	228,662
Awarded assets, net (note 13)	76,247	107,373
Real property, furniture and equipment, net (note 12):		
In operating lease	2,487,388	2,037,017
Used by the company	63,012	85,378
	2,550,400	2,122,395
Deferred income tax and employee profit sharing, net (note 19)	-	6,578
Other assets, net (note 15)	104,293	124,573
Total asset	$16,016,762	15,197,580

Liabilities and shareholders' equity	**2018**	**2017**
Stock liabilities (note 15)	$ 1,750,428	2,942,415
Bank loans and loans from other institutions (note 16):		
Short-term	4,348,553	4,079,450
Long-term	4,612,003	3,429,414
	8,960,556	7,508,864
Other accounts payable:		
Income tax payable	-	1,708
Employee profit sharing payable (note 19)	1,851	2,676
Creditors per transaction settlement (note 17)	314,900	403,520
Sundry creditors and other accounts payable (note 17 and 18)	1,061,001	969,505
	1,377,752	1,377,409
Deferred income tax and employee profit sharing, net (note 19)	5,660	-
Deferred loans (note 10g)	132,041	132,447
Total liabilities	12,226,437	11,961,135
Shareholders' equity (note 20):		
Contributed capital		
Corporate equity	283,177	283,177
Additional paid-in capital	111,961	111,961
	395,138	395,138
Earned capital:		
Capital allowance	122,535	122,535
Previous years income	2,719,852	2,236,443
Remediation derived from employee benefits, net	3,910	(1,095)
Net income	548,871	483,409
	3,395,168	2,841,292
Shareholders' equity – controlling interest	3,790,306	3,236,430
Non-controlling interest	19	15
Total shareholders' equity	3,790,325	3,236,445
Commitments and contingencies (note 29)		
Total liabilities and shareholders' equity	$ 16,016,762	15,197,580

Memorandum accounts

	2018	**2017**
Notional amounts of financial derivative instruments (note 9)	$ 5,082,559	3,662,455
Accrued non-collected rents derived from operating lease transactions	140,863	59,805
Accrued non-collected interest derived from non-performing loan portfolio (note 10)	59,142,	49,566
Loan commitments:		
Lines of credit granted to dealers but not used	6,898,094	6,193,722
Other collateral received	14,309,332	13,672,235
Collateral received derived from repurchases (note 8)	243,949	367,719
Other memorandum accounts	35,589	16,808

See notes attached to consolidated financial statements.

"The historical corporate equity as of December 31, 2018 and 2017, amounts to $242,503."

"These consolidated balance sheets were estimated according to the Accounting Criteria applied to credit institutions, and the criteria relative to basic financial statements for regulated, multi-purpose, financial companies, issued by the National Banking Securities Commission of Mexico, based on the provisions of article 99, 101 and 102 of the Financial institutions Law, with mandatory and general compliance, which were consistently applied, with all the transactions performed by the Company as of the date mentioned above being reflected; such transactions were done and assessed observing healthy banking practices, as well as any applicable legal and administrative provisions."

"These consolidated balance sheets were approved by the Board of Directors, under the liability of the undersigned Officers".

http://www.navistar-financial.com

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[signed]
Jose A. Chacon Chief Executive Officer

[signed]
Rafael M. Martinez Vila
Chief Financial and Administrative Officer

[signed]
Jorge Campos Bedolla
Deputy Comptroller

[signed]
Claudia I. Montiel Olivares
Accounting Manager

[signed]
Nancy. H. Trejo González
Internal Control Manager

Navistar Financial, S. A. de C. V.,

Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Consolidated income statements

Years ended on December 31, 2018 and 2017

(Thousands of pesos)

	2018	**2017**
Interest income (note 21)	$ 1,696,344	1,484,381
Interest expenses (note 21)	(1,000,232)	(982,773)
Financial margin	696,112	501,608
Preventive credit risk estimates (note 10b)	(162,613)	(116,737)
Credit-risk-adjusted financial margin	533,499	384,871
Collected fees and rates (note 22)	226,277	245,972
Paid fees and rates (note 23)	(19,590)	(12,526)
Intermediation income, net (note 24)	(100,051)	(14,759)
Operating lease income, net (note 25)	167,035	195,014
Other operating income, net (note 26)	58,405	128,446
Administrative expenses (note 18)	(279,259)	(300,141)
Operating income	586,316	626,877
Income tax incurred (note 19)	(26,642)	(99,949)
Deferred sharing tax, net (note 19)	(10,799)	(43,972)
Consolidated net income	548,875	483,411
Non-controlling interest	(4)	(2)
Net income derived from controlling interest	$ 548,871	483,409

See notes attached to the consolidated financial statements.

“These consolidated income statements were estimated according to the Accounting Criteria applied to credit institutions, and the criteria relative to basic financial statements for regulated, multi-purpose, financial companies, issued by the National Banking Securities Commission of Mexico, based on the provisions of article 99, 101 and 102 of Financial institutions Law, with mandatory and general compliance, which were consistently applied, with all income and expenses derived from the transactions performed by the Company during the years above mentioned being reflected; such transactions were done and assessed observing healthy banking practices, as well as the applicable legal and administrative provisions.”

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Internal Control Manager

Navistar Financial, S. A. de C. V.,

Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Consolidated statements of changes in shareholders’ equity

Years ended on December 31, 2018 and 2017

(Thousands of pesos)

	Contributed capital		Earned capital						
	Corporate Equity	**Additional paid-in capital**	**Capital Allowance**	**Income from previous years**	**Remediations for employee benefits**	**Net income**	**Controlling interest**	**Non-controlling interest**	**Total shareholders’ equity**
Balance as of December 31, 2016	$ 283,177	111,961	122,535	1,890,773	(372)	345,670	2,753,744	13	2,753,757
Movements inherent to shareholders’ decisions									
Transfer of 2016 net income to the income of previous years	-	-	-	345,670	-	(345,670)	-	-	-
Movements inherent to the comprehensive profit recognition (note 20c)									
Net income	-	-	-	-	-	483,409	483,409	2	483,411
Remediations for employee benefits, net	-	-	-	-	(723)	-	(723)	-	(723)
	-	-	-	-	(723)	483,409	482,686	2	482,688
Balance as of December 31, 2017	287,177	111,961	122,535	2,236,443	(1,095)	483,409	3,236,430	15	3,236,445
Movements inherent to shareholders’ decisions									
Transfer of 2017 net income to the income of previous years	-	-	-	483,409	-	(483,409)	-	-	-
Movements inherent to the comprehensive profit recognition (note 20c)									
Net income	-	-	-	-	-	548,871	548,871	4	548,875
Remediations for employee benefits, net	-	-	-	-	5,005		5,005	-	5,005
	-	-	-	-	5,005	548,871	553,876	4	553,880
Balance as of December 31, 2018	$ 283,177	111,961	122,535	2,719,852	3,910	548,871	3,790,306	19	3,790,325

See notes attached to the consolidated financial statements.

“These consolidated statements of changes in shareholders’ equity were estimated according to the Accounting Criteria applied to credit institutions, and the criteria relative to basic financial statements for regulated, multi-purpose, financial companies, issued by the National Banking Securities Commission of Mexico, based on the provisions of article 99, 101 and 102 of the mandatory and Financial institutions Law, with mandatory and general compliance, which were consistently applied, with all the movements of the accounts of shareholders’ equity derived from the transactions performed by the Company during the years above mentioned being reflected; such transactions were done and assessed observing healthy banking practices, as well as the applicable legal and administrative provisions.”

“These consolidated statements of changes in shareholder’s equity were approved by the Board of Directors, under the liability of the undersigned Officers.”

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Navistar Financial, S. A. de C. V.,

Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiary

Consolidated statements of cash flow

Years ended on December 31, 2018 and 2017

(Thousands of pesos)

	2018	2017
Net income derived from the controlling interest	$ 548,871	483,409
More (less) items that do not produce (require) cash:		
Depreciations and amortizations	396,198	344,690
Deterioration of intangibles	6,813	-
Cancelation of furniture and equipment due to obsolescence	9	-
Provisions	14,768	66,928
Incurred and deferred income tax	37,441	143,466
Incurred and deferred employee profit sharing	1,367	1,619
Derivative valuation	7,292	14,722
Subtotal	1,012,759	1,054,834
Operating activities		
Change in security investment	(300)	(6)
Changes of repurchase debtors	123,152	657,050
Change in derivatives (assets)	(16,065)	2,911
Change in loan portfolio, net	(403,956)	(1,188,087)
Change in equipment and furniture intended to be leased	(818,012)	(568,681)
Change in awarded assets	31,126	(47,851)
Change in other operating assets, net	(123,178)	149,538
Change in stock liabilities	(1,191,987)	(34,460)
Change in interbank loans and loans from other institutions	1,451,692	(486,481)
Change in other operating liabilities	(9,754)	406,713
Income tax payment	(38,672)	(128,285)
Net cash flows derived from operating activities	16,805	(182,805)
Investment activities		
Payments derived from acquisition of real property, furniture and equipment, net	(3,856)	(702)
Furniture and equipment sales, net	-	162
Payment derived from acquisition of intangibles	(1,159)	(3,570)
Net cash flows derived from investment activities	(5,015)	(4,110)
Net cash flows derived from funding activities due to increase in non-controlling interest.	4	2
Increase (reduction) of availabilities	11,794	(186,913)
Availabilities at the beginning of the year	553,893	740,806
Availabilities at the end of the year	$ 565,687	553,893

See notes attached to the consolidated financial statements.

"These consolidated statements of cash flow were estimated according to the Accounting Criteria applied to credit institutions, and the criteria relative to basic financial statements for regulated, multi-purpose, financial companies, issued by the National Banking Securities Commission of Mexico, based on the provisions of article 99, 101 and 102 of the Financial institutions Law with mandatory and general compliance, which were consistently applied, being reflected all the origins and applications of cash derived from the transactions performed by the Company during the years above mentioned, which transactions were done and assessed observing healthy banking practices, as well as the applicable legal and administrative provisions."

"These consolidated statements of cash flows were approved by the Board of Directors, under the liability of the undersigned Officers."

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

Notes to the consolidated financial statements

For the years ended on December 31, 2018 and 2017

(Thousands of pesos)

(1) Company's activity-

Navistar Financial, S. A. de C. V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada (Navistar Financial) is a company incorporated under the Mexican law which address is Ejercito Nacional 904, Colonia Polanco, Alcaldia 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 dealer network 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 management services provision 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 March 29, 2019, Jose A. Chacon Perez (Chief Executive Officer), Rafael M. Martinez 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.

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

(Continued)

Presentation basis

a) Compliance statement

On January 12, 2015, the resolution modifying the general provisions applicable to Regulated Multi-Purpose Financial Companies (SOFOMES) was published in the Official Gazette of the Federation (DOF), which set forth that those SOFOMES with debt securities registered in the National Security Registry, as it is the case of the Company (see note 15), for the registration of the transactions thereof, shall apply the accounting criteria for credit institutions in Mexico (Accounting Criteria) provided by the Commission in Exhibit 33 of the general provisions applicable to credit institutions (the Provisions), except for the series "D" of such provisions, 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 the International Financial Reporting Standards (IFRS) referred to in FRS A-8 do not provide a solution to the accountable recognition, another complementary rule of any other regulatory framework may be applied, provided that such complementary rule complies with all the requirements indicated in the aforementioned FRS. The complementary rule shall be applied in the following order: generally accepted accounting principles in the United States of America (US GAAP) and any accounting standard part of a formal and recognized group of standards, provided that such accounting standard complies with the requirements in the Commission's criterion A-4

b) Use of judgments and estimates

The preparation of the consolidated financial statements requires that Management carries out estimates and assumptions that affect the recorded amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities up to the date of the consolidated financial statements, in addition to the recorded amounts of income and expenses during the year. The actual income may differ from these estimates and assumptions.

Judgments-

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

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

Assumptions and uncertainties in the estimates-

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

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

c) Operation and reporting currency

The 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.

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

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

(3) Summary of the main accounting policies-

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

(a) Recognition of the inflationary impact-

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

The annual inflation percentage and the cumulative inflation percentage for the last three fiscal years prior to each date indicated, as well as the UDI value (in pesos) to determine the inflation, are shown below:

		Inflation	
December 31,	UDI	Annual	Cumulative
2018	6.2266	4.92%	15.71%
2017	5.9345	6.68%	12.60%
2016	5.5628	3.38%	9.97%
	=====	=====	======

(Continued)

(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 important balances and transactions between Navistar Financial and Servicios Corporativos have been removed in the preparation of the consolidated financial statements.

(c) Availabilities-

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

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

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

(d) Settlement accounts-

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

(e) Security investments-

It includes the debt securities acquired for the Company Management’s purpose and capacity of holding them until their maturity. They are classified using the following category:

Held to maturity securities-

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

(Continued)

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

For the years ended on December 31, 2018 and 2017, no security transfers between categories were performed.

(f) Repurchase transactions-

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

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

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

(g) Transactions with trading financial derivative instruments-

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

Such instruments are initially and subsequently recognized at fair value. Their accounting 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".

(Continued)

Options-

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

(h) 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, under the heading “Interest income”.

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

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

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

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

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

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

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

- At the beginning of the lease, the current value of the minimal lease payment amount, at least at the significantly all fair value of the leased asset.

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

(Continued)

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

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

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

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

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

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

(i) Overdue loans and interest-

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

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

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

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

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

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

When such overdue interest is received, they are recognized in the year income under the heading “Interest income”.

(Continued)

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

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

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

Sustained payment-

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

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

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.

(j) Operating lease-

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

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

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

(Continued)

(Thousands of pesos)

(k) Securitization transactions-

The Company performs loan portfolio securitization transactions where it assesses whether such transaction complies with the requirements of financial asset recognition and writing off, in accordance with the provisions of the Accounting Criteria. If such asset writing off does not comply with the requirements for its derecognition, the financial assets granted as guarantee or collateral are presented as restricted assets, the resources obtained by the securitization transaction are recognized under the heading "Availabilities", and the liabilities associated with this transaction due to the issue of the bond are recognized as liabilities under the heading "Stock liabilities".

(l) Preventive credit risk estimates-

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

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

- In the case of loans granted to entities or persons with business activities, with income higher or equal to the equivalent in national currency to 14 million UDIs, the estimate is calculated according to the general methodology set forth in the Exhibit 22 of the Provisions. On the other hand, in the case of net income or sale income lower than the equivalent in national currency to 14 million UDIs, such estimate is calculated according to the general methodology described in the Exhibit 21 of the Provisions.
- In the case of the loans granted to state and municipal entities, as well as financial entities, such estimate is calculated according to the application of the general methodology described in the Exhibit 18 and Exhibit 20, respectively, of the Provisions.

The classification of the commercial loan portfolio according to its level of risk as of December 31, 2018 and 2017, is arranged as indicated below:

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

(Continued)

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 integrated for the n-th loan.

PIi= Default probability of the n-th loan.

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

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

(m) Other accounts receivable, net-

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

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

(n) Awarded assets, net-

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

(Continued)

(Thousands of pesos)

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

Movable property:

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

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

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

Real property, furniture and equipment owned by the Company-

The depreciation is estimated on the updated values with the straight-line method, based on the lifespans of the corresponding assets estimated by the Company's Management.

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

(Continued)

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

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

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

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

Leased real property, furniture and equipment-

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

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

Real property	Varied
Transport equipment	25%
Computing equipment	25%

The real property, furniture and equipment are canceled upon their sale or when it is expected to obtain no future economic benefits from its use or sale. Any profit or loss derived from the asset cancellation (estimated as the difference between the net income from the asset sale and its net book value), is included in the consolidated income statement, under the heading "Other operating income (expenses), net".

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

(Continued)

(p) Other assets-

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

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

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

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

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

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

The deferred income tax and PTU (assets and liabilities) are recorded according to the asset and liability method that compares their carrying and fiscal amounts. The deferred ISR and PTU (assets and liabilities) are recognized according to the future tax consequences attributable to the temporary differences between the values reflected in the consolidated financial statements of the existing assets and liabilities, as well as their relative tax bases and, in the case of the income tax, according to the tax loss to be amortized and other fiscal loans to be recovered. The assets and liabilities derived from the deferred ISR and PTU are estimated using the rates provided in the corresponding law to be applied to the taxable earnings in the years when the temporary differences are expected 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 year income, except for those derived from a transaction recognized in the Other Comprehensive Income (OCI) or directly under the heading of the shareholder's equity.

(Continued)

(s) Deferred loans-

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

(t) Provisions-

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

(u) Employee benefits-

Short-term direct benefits

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

Post-employment benefit

Established contribution plan

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

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

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

(Continued)

Defined benefits

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

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

The labor cost of the current service, which accounts for the year cost of the employee benefits for having achieved one more year of work life based on the benefits, is recognized in the operating expenses. The company determines the net interest expenses (income) on the net liabilities (assets) derived from the year defined benefits multiplying the discount rate used to measure the defined benefit obligation by the net liabilities (assets) determined at the beginning of the reporting year, considering the changes in the net liabilities (assets) derived from defined benefits during the year, resulting from contribution estimates and benefit-payment estimates. The net interest is recognized under the heading “Administrative Expenses".

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

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

(v) Recognition of income-

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

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

(Continued)

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.

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

(w) Transactions in foreign currency-

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

(x) Contingencies-

The 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 and assets are recognized until there is certainty about their realization.

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

a) Accounting changes-

In December 2017, the Mexican Financial Reporting Standards Board (Consejo Mexicano de Normas de Información Financiera, A. C. , CINIF) issued the document "Improvements to FRSs 2018" which contains specific changes to some of the already existing FRSs. The FRS improvements mentioned below, which came into force on January 1, 2018, for the years indicated, did not produce significant effects on the Company’s consolidated financial statements.

- FRS B-2 “Cash flow statement”
- FRS B-10 “Inflationary impact”

b) Accounting criteria implementation-

The Company, since March 2017, adapted its internal methodology for assessing its loan portfolio to the general methodology set forth by the Commission with respect to borrowers with net income or net sales lower or equal to 14 million UDIs in determining the preventive credit estimates of the consolidated balance sheet. The consequence of this implementation in 2017 was an increment of the preventive estimates in
$49,443.

(Continued)

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c) Reclassifications-

The consolidate balance sheet, consolidated income statement and consolidated cash flow statement, as of and for the year ended on December 31, 2017 were reclassified to make them appropriate for the presentation used as of and for the year ended on December 31, 2018, as shown below:

Consolidated balance sheet as of December 31, 2017		**Figures previously reported**	**Reclassified amount**	**Reclassified figures**
Availabilities [1]	$	150,804	403,089	553,893
Current loan portfolio, commercial loans – Business or commercial activity[2]		11,764,458	(1,875)	11,762,583
Financial entity current loan portfolio[2]		-	1,276	1,276
Government entity current loan portfolio[2]		-	599	599
Other accounts receivable, net[1]		631,751	(403,089)	228,662
Real property, furniture and equipment, net – In operating lease[3]		2,034,309	2,708	2,037,017
Real property, furniture and equipment, net – For own use[3]		88,086	(2,708)	85,378
Sundry creditors and other accounts payable[4]		1,373,025	(403,520)	969,505
Creditors for settlement of transactions[4]		-	403,520	403,520
		=======	======	======

(1) To present the foreign exchange trading as restricted availabilities
(2) To classify the financial and government entities loans based on the type of loan, independently from the business and commercial activity portfolio.
(3) To present the computing equipment in operating lease previously classified as for own use.
(4) To present the liability derived from the settlement of foreign exchange trading transactions independently from the sundry creditors and other accounts payable-

(Continued)

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Consolidated income statement for the year ended as of December 31, 2017		**Figures previously reported**	**Reclassified amount**	**Reclassified figures**
Collected fees and rates[1]	$	246,159	(187)	245,972
Operating lease income[2]		195,550	(536)	195,014
Other operating income, net [(1) and (3)]		129,270	(824)	128,446
Administrative Expenses [(2) and (3)]		(301,688)	1,547	(300,141)
		======	====	======

Consolidated cash flow statement for the year ended as of December 31, 2017				
Change in other operating assets, net [(4) and (5)]	$	(383,625)	519,360	135,735
Income tax payment [(4)]		-	(116,271)	(116,271)
Availabilities at the end of the year [(5)]		149,544	403,089	552,633
		======	======	======

[(1)] To present other concepts under the heading "Other operating income, net"
[(2)] To present net depreciation of the leased computing equipment in the operating lease income.
[(3)] To present the deferred PTU under the heading "Administrative Expenses, net" of the reclassified amount in number (1).
[(4)] To present separately the payments corresponding to income tax.
[(5)] To present the foreign exchange trading under the heading of availabilities at the end of the year.

(5) Position in foreign currency-

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

	Thousands of dollars	
	2018	**2017**
Assets (mainly loan portfolio and foreign exchange trading)	82,402	115,074
Liabilities (mainly bank loans)	(81,719)	(120,927)
Asset (liability) position, net	683	(5,853)
	=====	======
Asset (liability) position appreciated in pesos, net	$ 13,422	(115,087)
	=====	======

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).

(Continued)

(Thousands of pesos, unless otherwise indicated)

The dollar-peso exchange rate, as of December 31, 2018 and 2017, was $19.6512 and $19.6629 pesos per dollar, respectively. As of March 29, 2019, which is date of the issue of the consolidated financial statements, the exchange rate was $19.3779 pesos per dollar.

(6) Availabilities-

This heading is, as of December 31, 2018 and 2017, as shown below:

		2018	2017
National bank deposits	$	115,170	89,661
Foreign bank deposits		131,671	53,269
Restricted availabilities:			
24- and 48-hour foreign exchange trading (note 17) [1]		314,419	403,089
National bank deposits [2]		4,427	7,874
	$	565,687	553,893
		======	======

[1] As of December 31, 2018 and 2017, the currency to be received for trades to be settled in 24 and 48 hours amounts 16,000 and 20,500 dollars, respectively.
[2] It corresponds to security trust balances in banks (see note 10c).

(7) Security investments-

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

The interest yielded investments in securities increased to $4,046 and $4,908, respectively, for the years ended on December 31, 2018 and 2017 (see note 21).

(8) Repurchase transactions-

As of December 31, 2018 and 2017, the balance of “Repurchase debtors” amounted $244,486 and $367,638, respectively, where the position of the restricted bonds is compounded mainly of government paper corresponding to issues of CETES, BONDESD and UDIBONOS at 2 and 4 day term, respectively, with an interest rate from 7.80% to 7.90% and from 7.00% to 7.05%, respectively. As of December 31, 2018 and 2017, the restricted bonds correspond to investments of Servicios Corporativos and Investments of the Irrevocable Trust No. 2537, the Irrevocable Trust No. 2844, and the Irrevocable Trust 3290 (see note 10c).

As of December 31, 2018 and 2017, the bonds received as collateral in the repurchase transactions amount to $243,949 and $367,719, respectively, which correspond to government paper of issue of CETES, BONDESD and UDIBONOS.

The interest yielded by repurchase transactions amounted to $29,023 in 2018, and $33,341 in 2017; which are reported in the consolidated income statement under the heading "Interest Income" (see note 21).

(Continued)

(Thousands of pesos)

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

The quantity of the notional amounts and the book value of the transactions with financial derivative instruments as of December 31, 2018 and 2017 is shown below:

					2018		2017	
Instrument	Underlying	Notional (1)	Maturity	Premium	Effect on income	Fair Value	Effect 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 (2)	28-day TIIE	374,649	2021	1,235	(232)	1,003	-	-
IR CAP (2)	28-day TIIE	819,644	2021	11,635	3,729	15,364	-	-
IR CAP (2)	28-day TIIE	225,811	2021	3,195	928	4,123	-	-
IR CAP	28-day TIIE	709,522	2022	3,150	(1,557)	1,946	353	3,503
				$ 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.

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

For the years ended on December 31, 2018 and 2017, the loss for the trade of financial derivative instruments amounted to $40,833 and $33,628, respectively (see note 24).

(10) Loan portfolio-

(a) Classification of the commercial loan portfolio-

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

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		Current portfolio			Non-performing portfolio			
December 31, 2018		**National Currency**	**Appreciated Dollars**	**Total**	**National Currency**	**Appreciated Dollars**	**Total**	**Current and non-performing Total**
Business or Commercial activity [2]:								
Commercial loans	$	6,033,383	1,133,360	7,166,743	107,458	1,864	109,322	7,276,065
Capitalizable lease		4,815,097	35,126	4,850,223	216,941	-	216,941	5,067,164
Financial income to be accrued		(904,969)	(2,080)	(907,049)	(27,131)	-	(27,131)	(934,180)
Funded insurances		265,561	1,170	266,731	40,198	1,091	41,289	308,020
Restricted portfolio(1):								
Commercial loans		262,479	-	262,479	3,388	-	3,388	265,867
Capitalizable lease		455,371	-	455,371	6,353	-	6,353	461,724
Financial income to be accrued		(49,841)	-	(49,841)	(282)	-	(282)	(50,123)
Financial entities		82,933	-	82,933	-	-	-	82,933
Government entities		501	-	501	-	-	-	501
	$	**10,960,515**	**1,167,576**	**12,128,091**	**346,925**	**2,955**	**349,880**	**12,477,971**
		========	=======	========	======	====	======	========
December 31, 2017								
Business or Commercial activity [2]:								
Commercial loans	$	5,489,689	1,692,243	7,181,932	130,527	2,060	132,587	7,314,519
Capitalizable lease		3,476,386	71,303	3,547,689	120,035	172	120,207	3,667,896
Financial income to be accrued		(581,539)	(4,882)	(586,421)	(10,008)	-	(10,008)	(596,429)
Funded insurances		190,945	4,003	194,948	31,473	427	31,900	226,848
Restricted portfolio(1):								
Commercial loans		556,294	-	556,294	5,275	-	5,275	561,569
Capitalizable lease		999,438	-	999,438	7,904	-	7,904	1,007,342
Financial income to be accrued		(131,297)	-	(131,297)	(796)	-	(796)	(132,093)
Financial entities		1,276	-	1,276	-	-	-	1,276
Government entities		599	-	599	-	-	-	599
	$	**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.
[2] As of December 31, 2018 and 2017, there are restricted loans in the amount of $10,082,550 and $8,701,252, respectively, to guarantee most of the lines of credits granted to the Company (see note 16b)

(Continued)

(Thousands of pesos)

The average annual return rate of the loan portfolio in pesos as of December 31, 2018 and 2017, was 12.43% and 11.70%, respectively, and of the loan portfolio in dollars was 8.17% and 8.03%, respectively.

Non-performing portfolio:

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

		Days				
December 31		**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 years ended on December 31, 2018 and 2017 is shown below:

		2018	**2017**
Balance at the beginning of the year	$	287,069	396,223
Awards		(3,870)	(11,703)
Sanctions		(125,195)	(75,192)
Collection		(130,536)	(110,094)
Transfer from current to non-performing portfolio		383,002	285,780
Transfer from non-performing to current portfolio		(60,590)	(197,945)
Balance at the end of the year	$	349,880	287,069
		======	======

As of December 31, 2018 and 2017, the accrued non-collected interest of the non-performing loan portfolio recognized in the memorandum accounts and which will be recognized in the year income until being collected amount to $59,142 and $49,566, respectively.

(Continued)

(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		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 to a related company, which represents 7% and 11% of the total portfolio as of December 31, 2018 and 2016, respectively (see note 18).

The loan portfolio concentration by geographic zone as of December 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 Querétaro, 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.

(Continued)

(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:

Assessed-portfolio level of risk		Portfolio 2018	Portfolio 2017	Preventive estimate for credit risks 2018	Preventive estimate 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.

The analysis of the movements in the preventive credit risk estimates for the years ended as of December 31, 2018 and 2017 is shown below.

		2018	2017
Balance at the beginning of the year	$	382,760	420,516
Increment of the allowance in income		162,613	116,737
Release of preventive estimate in "Other operating income, net" (see note 26)		(11,404)	(62,277)
Effect of preventive estimate in year income		151,209	54,460
Sanctions		(128,721)	(92,216)
More:			
Year movement, net		22,488	(37,756)
Balance at the end of the year	$	405,248	382,760
		======	======

(Continued)

(c) Portfolio securitization-

NAVISCB 13

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

Such Trust consisted of the securitization of current loans in Mexican pesos, through the assignment of the 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 in full, so the remnant assets in this Trust were charged back to the Company, as Beneficiary in Second Place.

The obligations on such certificates, which only payment source was the collection of the collection right, yielded interest of $7,019 in 2017, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 21).

NAVISCB 15

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

Such Trust consisted of 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 had been settled.

The first issue of bonds was 6,165,500 bonds with a par value of $100 pesos each, under the ticker symbol NAVISCB 15, for $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.

(Continued)

As of December 31, 2018 and 2017, the balance of the obligation in the NAVISCB 15 amounts to $73,922 and $232,412, respectively (see note 15). Additionally, the interest payable as of December 31, 2018 and 2017, amounts to $300 and $971, respectively. The obligations on such certificates, which only payment source is the collection of collection rights, as of December 31, 2018 and 2017 yielded interest of $14,066 and $26,315, respectively, which is recorded in the consolidated income statement under the heading "Interest Expenses" (see note 21).

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 16

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

Such Trust consisted of 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 shall be delivered to the Company once all bonds had been settled.

The first issue of bonds was 5,363,830 bonds with a par value of $100 pesos each, under the ticker symbol NAVISCB 16, for $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 in the NAVISCB 16 amounts to $139,807 and $300,268, respectively (see note 15). Additionally, the interest payable as of December 31, 2018 and 2017, amounts to $577 and $1,276, respectively. The obligations on such certificates, which only payment source is the collection of collection rights for the years ended on 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 21).

(Continued)

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.

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

Under the Trust Agreement, the Company began with a capacity of 1.195, which will grow to 1.295 (target capacity), in order for the Company to have the right of the surplus in the generated flows once the capacity exceeds the 1.295. As of 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 7,370,000 bonds with a par value of $100 pesos each, under the ticker symbol NAVISCB 17, for $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 in the NAVISCB 17 amounts to $338,984 and $655,995, respectively (see note 15). Additionally, the interest payable as of December 31, 2018 and 2017, amounts to $1,433 and $2,865, respectively. The obligations on such certificates, which only payment source is the collection of collection rights for the years ended on 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 21).

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

(Continued)

Navistar Financial, S. A. de C. V.,
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(Thousands of pesos)

A summary of the Trust financial situation is presented below

		Trust 2537		Trust 2844		Trust 3290	
		2018	2017	2018	2017	2018	2017
Balance sheet:							
Cash and cash equivalent	$	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	246,214	162,881	334,854	395,183	688,432
Other accounts receivable		2,758	2,515	1,167	647	1,816	621
Total asset	$	110,368	288,119	211,778	408,803	490,497	836,408
		======	======	======	======	======	======
Obligations on bonds, net	$	70,353	233,383	134,263	301,544	330,515	658,861
Accounts payable		1,915	5,798	429	6,956	512	17,180
		72,268	239,181	134,692	308,500	331,027	676,041
Assets		38,100	48,938	77,086	100,303	159,470	160,367
Total liabilities and assets	$	110,368	288,119	211,778	408,803	490,497	836,408
		======	======	======	======	======	======
Income statement:							
Financial income	$	29,879	59,306	40,192	65,604	86,371	32,314
Financial expenses		(23,756)	(40,811)	(26,231)	(39,701)	(52,929)	(13,648)
Change in the fair value of financial derivative instruments		(4,385)	-	(3,836)	-	(1,557)	-
Effects of collection right deterioration		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)	-	(60)	-	(80)	-
Year income	$	12,184	29,190	13,204	26,467	36,703	1,041
		=====	=====	=====	=====	=====	====

(Continued)

(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 collection rights that the Company granted as security 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 (NAFIN) as Fiduciary and Beneficiary in first place.

  The purpose of this Trust is to back the line of credit in current account in favor of the Company. As of December 31, 2018 and 2017, the assets of this Trust amounted to $1,972,140 and $2,131,072, respectively.

As of December 31, 2018 and 2017, the assets of the Escrows entered into with Exim, EDC and NAFIN, previously described, correspond to the collection rights of the commercial loan portfolio granted by the Company as security, which are restricted.

(e) Risk sharing fund-

On October 24, 2008, the Company entered into a fund-sharing agreement with NAFIN -the latter in its capacity as Fiduciary of the Trust 1148-0 of the Risk-Sharing Fund (the Fund)-, which purpose is to recover the amount of the first losses of the portfolio that the Company grants to small- and medium-sized enterprises registered in the Fund and, consequently, subject to its support. In this Agreement, the Fund shall share up to $20,000, with respect to the first losses of the loan portfolio registered in the Fund.

(Continued)

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 will share up to $23,000, in relation to the first losses of the loan portfolio registered in the Fund.

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, with respect to the first losses of the registered loan portfolio, which amounts to $1,000,000.

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

On November 11, 2016, the Company entered into an agreement with NAFIN for the Risk Sharing, focused on federal freight transport. In this agreement, the Fund will share up to $40,000, with respect 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, with respect 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 were $1,605,669 and $789,188, respectively.

The fee paid by the hired first-loss schemes amounted to $12,240, which is amortized in straight line based on the life of the registered contracts.

As of December 31, 2018 and 2017, there are 546 and 233 contracts, respectively, registered in the pari-passu program with NAFIN, with an outstanding balance of $784,408 and $388,089, and a fee paid equivalent to 1.8%.

As of December 31, 2018 and 2017, the Company has claimed $50,329 and $57,124, respectively, under the umbrella of such program. From which, $41,908 and $38,006, respectively, have been collected, which were applied against the loan portfolio that is part of the program.

(Continued)

(Thousands of pesos)

(f) Restructured and renewed loans-

During the years ended on December 31, 2018 and 2017, the Company did 128 and 89 loan restructuring and renewals, respectively, which outstanding balance as of the restructuring date amounted to $527,085 and $225,030, after modifying the payment schedule and the loan terms, without impact on the year income. Derived from such restructuring during 2018 and 2017, additional securities were received in the amount of $91,943 and $325,859, 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 26).

(g) Fees for granting loans and origination costs fees-

The movements in the balance of the fees for granting loans and origination cost fees for the years ended on December 31, 2018 and 2017 are shown below:

		2018	2017
Fees for granting loans:			
Initial balance	$	171,461	150,702
Collected fees		81,202	77,569
Amortization (note 21)		(64,848)	(56,810)
		187,815	171,461
Loan origination costs:			
Initial balance		39,014	35,292
Costs and expenses paid		37,279	22,005
Amortization (note 21)		(20,519)	(18,283)
		55,774	39,014
Net balance of fees and loan origination costs	$	132,041	132,447
		======	======

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:

(Continued)

(Thousands of pesos)

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

(11) Other accounts receivable, net-

As of December 31, 2018 and 2017, the accounts receivable are as follows:

		2018	2017
Portfolio debtors	$	138,589	107,141
Sundry debtors		93,751	52,508
Recoverable taxes		138,930	54,009
Related companies (note 18)		52,389	33,308
		423,659	246,966
Less:			
Estimates for doubtful collection accounts		(47,507)	(18,304)
	$	376,152	228,662
		======	======

(Continued)

(Thousands of pesos)

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

As of December 31, 2018 and 2017, the investments in property, furniture and equipment intended for operating lease and for own use are analyzed as shown below:

		2018	2017	Annual depreciation rate
Real property, transport equipment and computing equipment in operating lease:				
Real property[1]	$	185,336	157,432	Varied
Transport equipment		3,254,574	2,634,943	Varied
Computing equipment		3,244	3,244	25%
		3,443,154	2,795,619	
Less:				
Accumulated depreciation		(955,766)	(758,602)	
	$	2,487,388	2,037,017	
		=======	=======	
Real property, furniture and equipment for own use:				
Real property[1]	$	21,734	49,638	3%
Transport equipment		2,930	2,930	25%
Retrofitting and improvements		434	434	10%
Furniture and computing equipment		20,659	17,920	10% and 25%
		45,757	70,922	
Less:				
Accumulated depreciation		(23,590)	(26,389)	
		22,167	44,533	
Lands		40,845	40,845	
	$	63,012	85,378	
		=====	=====	

For the years ended on December 31, 2018 and 2017, the charge to income for the concept of depreciation of real property, transport equipment and computing equipment in operating lease amounted to $391,057 and $331,210, respectively (see note 25) and for real property, furniture and equipment for own use amounted to $2,797 and $3,379, respectively.

[1] For the year ended on December 31, 2018, the Company performed a transfer of real property from own use to operating lease in the amount of $27,904.

(Continued)

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(13) Awarded assets, net-

As of December 31, 2018 and 2017, the awarded assets are integrated as shown below:

		2018	2017
Transport equipment	$	38,877	64,006
Furniture		51,627	51,627
		90,504	115,633
Less:			
Awarded assets allowance		(7,760)	(2,194)
Deterioration	(	6,497)	(
	6,066)		
	$	76,247	107,373
		=====	======

(14) Employee benefits-

Currently, the Company recognizes the benefit of seniority premium, legal compensation before retirement, as well as legal compensation upon retirement, covering all the permanent and full-time personnel, as well as the pension plan corresponding to the legal compensation substituting retirement payment. The previously mentioned benefits are based on the work years and on the amount of the employee compensation.

The elements of the cost of the defined benefit for the years ended on December 31, 2018 and 2017 are shown below:

		Seniority premium		Legal Compensation		Pension Plan	
		2018	2017	2018	2017	2018	2017
Current service cost	$	76	60	3,131	2,997	1,562	1,258
Net interest on net defined benefits liability (NDBL)		60	45	1,164	966	1,352	1,087
Recycling of ANBD remediations recognized in OCI		(6)	(20)	428	451	(193)	(368)
Seniority recognition		-	1	-	106	-	1
Net year cost	$	130	86	4,723	4,520	2,721	1,978
		===	==	====	====	====	====

(Continued)

(Thousands of pesos, unless otherwise indicated)

		Seniority premium		Legal Compensation		Pension Plan	
		2018	2017	2018	2017	2018	2017
Initial balance of NDBL remediations in OCI	$	(41)	(159)	2,998	3,607	(1,347)	(2,944)
Remediations recognized in OCI		(14)	98	(3,460)	(158)	(3,183)	1,229
Recycling of remediations		6	20	(428)	(451)	192	368
Final balance of NDBL remediations in OCI	$	(49)	(41)	(890)	2,998	(4,338)	(1,347)
NDBL initial balance	$	772	568	14,919	13,413	17,334	13,759
Defined benefit cost		136	106	4,295	4,069	2,913	2,346
NDBL remediations		(14)	98	(3,460)	(158)	(3,183)	1,229
Payments credited to NDBL		-	-	-	(2,405)	-	-
NDBL final balance (note 17)	$	894	772	15,754	14,919	17,064	17,334

As of December 31, 2018 and 2017, the Company has not funded the defined benefit obligation. The most important assumptions used to determine the NDBL are shown below:

	2018	2017
Discount nominal rate used to estimate the current value of the obligations	7.80%	7.80%
Nominal increase rate on salary level	5.80%	5.80%
Employee's average remaining work life	15 years	12 years

For the years ended on December 31, 2018 and 2017 the charge to income relative to the Company's contributions for the defined contribution plan amounted to $1,619 and $1,375, respectively, under the heading "Administrative Expenses" in the consolidated income statement.

(15) Stock liabilities-

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

(Continued)

(Thousands of pesos, unless otherwise indicated)

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

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

Issue		Amount 2018	Date of maturity	Rate
Short-term:				
Company's-				
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		
		1,195,405		
Securitized portfolio-				
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		
Total short-term		1,619,060		
Long-term:				
Securitized portfolio-				
NAVISCB16		27,433	15/02/2022	TIIE+1.55%
NAVISCB17		103,935	15/06/2021	TIIE+1.80%
Total long-term		131,368		
Total stock liabilities	$	1,750,428		
		=======		

* Current portion of securitized-portfolio bond issues at long term.

(Continued)

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Issue		Amount 2017	Date of maturity	Rate
Short-term:				
Company's-				
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		
		1,748,628		
Securitized portfolio-				
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		
Total short-term		2,391,408		
Long-term:				
Securitized portfolio-				
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%
Total long-term		551,007		
Total stock liabilities	$	2,942,415		
		========		

* Current portion of securitized-portfolio bond issues at long term.

(Continued)

(Thousands of pesos, unless otherwise indicated)

As of December 31, 2018 and 2017, the issue expenses balance to be amortized amounts $26,367 and $43,918, respectively, and it is recorded under the heading "Other assets, net" in the consolidated balance sheet. The charge to income from the amortization of such expenses in the years ended on December 31, 2018 and 2017 amounts to $39,555 and $46,607, respectively (see note 21).

(16) Bank loans and loans from other institutions-

As of December 31, 2018 and 2017, bank loans and loans from other institutions at short- and long- term are integrated 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 closure of December 2018 and 2017, respectively, and an average fixed weighted rate of 5.25% in 2017 (see section "a" of this note").	$	1,550,892	2,300,885
Direct loans in national currency accruing interest at an average weighted rate of 2.02% and 2.25% on 28-day TIIE in December 2018 and 2017, respectively, and an average fixed weighted rate of 9.23% and 8.23% in 2018 and 2017, respectively.		7,367,899	5,172,706
Accrued interest:		41,765	35,273
Total bank loans		8,960,556	7,508,864
Less:			
Current debt portion		4,348,553	4,079,450
Total of bank loans and loans from other institutions at long-term	$	4,612,003	3,429,414
		=======	=======

The interest expenses corresponding to the bank loans and loans from other institutions, as well as to stock liabilities of the Company for the years ended on December 31, 2018 and 2017 amount to $786,264 and $689,105, respectively, which is recorded in the consolidated income statement under the heading "Interest Expenses” (see note 21).

(Continued)

As of December 31, 2018 and 2017, the balance corresponding to fees paid for loan disposal pending to be amortized amounts to $25,086 and $24,551, respectively, and it is recorded under the heading "Other assets, net" in the consolidated balance sheet. The charge to income due to the amortization of such fees in the years ended on December 31, 2018 and 2017 amounts to $24,304 and $24,979, respectively (see note 21).

As of December 31, 2018 and 2017, the Company holds 12% and 35%, respectively, of the lines of credit approved and secured by Navistar International Corporation (holding company) or by Navistar Financial Corporation (affiliated company).

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

As of December 31, 2018 and 2017, there are lines of credit hired with national and foreign financial institutions for 397 and 306 million dollars, respectively. Such lines include a line of credit 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 to 5 years, beginning on August 7, 2017 was approved for the line of 120 million dollars. On June 18, 2018, an increment of 40 million dollars was authorized, resulting in a total of 160 million dollars for the year ended on December 31, 2018. In such line of credit, as of December 31, 2018 and 2017, there is an amount of 44 and 55 million dollars, respectively, at disposal.

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 new units or spare parts (floor plan). As of the end of December 2018 and 2017, this line was not used.

(b) *Bank loans in national currency:*

As of December 31, 2018 and 2017, there are lines of credit denominated in pesos hired by the Company to national financial institution for $5,559 and $5,298, respectively.

As of December 31, 2018 and 2017, most of the lines of credit in dollars and in national currency are secured by loan portfolio in the amount of $10,082,550 and $8,701,252, respectively (note 10 a).

(Continued)

Navistar Financial, S. A. de C. V.,
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(Thousands of pesos)

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 institutions 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 onwards		21,212	-
	$	7,402,202	1,558,354
		$	8,960,556
			=======

(17) Sundry creditors and other accounts payable-

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

		2018	2017
Creditors for settlement of transactions:			
24- and 48-hour foreign exchange trading (note 6)	$	314,900	403,520
Sundry creditors and other accounts payable:			
Sundry debtors		68,265	166,850
Security deposits		723,326	575,694
Trust portfolio deposits and collection to be delivered to the Trust		2,333	6,551
Tax payable (Income Tax and Value-Added Tax)		481	703
Provisions for different obligations		6,800	9,956
Related companies (note 18)		28,676	51,277
Employee benefits (note 14)		33,712	33,025
Other taxes		3,075	1,906
Deposits and balance in favor of clients		91,252	58,135
Other		103,081	65,408
	$	1,375,901	1,373,025
		=======	=======

(Continued)

(Thousands of pesos)

(18) Transactions and balance with related companies-

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

The balances receivable and payable with respect to related companies as of December 31, 2018 and 2017, are integrated 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 México, S. de R. L. de C. V.	$	19,127	16,466
Navistar Inc.		1,588	1,591
Navistar International Corporation		5,106	3,652
Navistar Financial Corporation		25	-
International Parts Distribution, S. A. de C. V.		59	40
Transprotección Agentes de Seguros, S. A. de C. V.		1,456	1,504
Navistar Comercial, S. A. de C. V.		25,028	10,055
	$	52,389	33,308
		=====	=====
Balances payable (note 17):			
Navistar Inc.		23,060	2,274
Navistar Financial Corporation		2,043	5,179
Navistar México, S. de R. L. de C. V.		3,304	41,879
Transprotección Agentes de Seguros, S. A. de C. V.		-	1,726
International Parts Distribution, S. A. de C. V.		84	-
Navistar International Corporation		185	219
	$	28,676	51,277
		=====	=====

(Continued)

Navistar Financial, S. A. de C. V.,
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Below are the transactions carried out with associated companies for the years ended on December 31, 2018 and 2017.

		2018	2017
Income:			
Interest accrued in favor:			
Navistar México, S. de R. L. de C. V.	$	329,542	413,547
International Parts Distribution, S. A. de C. V.		24,612	24,852
Navistar Financial Corporation		33,885	13,678
Placement service fees:			
Navistar México, S. de R. L. de C. V. (note 22)		153,337	185,204
Administrative services:			
Navistar México, S. de R. L. de C. V.		2,044	1,401
Transprotección Agentes de Seguros, S. A de C. V.		18,984	16,862
Navistar Comercial, S. A. de C. V.		4,462	-
Other income:			
Navistar México, S. de R. L. de C. V.		871	485
International Parts Distribution, S. A. de C. V.		621	466
Navistar International Corporation		-	5
Navistar Comercial, S. A. de C. V.		1,439	934
		=======	======
Expenses:			
Other service fees and service rates:			
Navistar Financial Corporation (note 23)	$	13,104	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 management expenses			
Navistar México, S. de R. L. de C. V.		934	2,025
Navistar International Corporation		348	180
Accrued interest:			
Transprotección Agentes de Seguros, S. A de C. V.		4,221	2,934
		=====	======

(Continued)

(Thousands of pesos)

(19) Income tax and PTU-

The Income Tax Law provides a 30% rate.

The income tax expenses for the years ended on December 31, 2018 and 2017, are integrated as shown below:

		2018	2017
In the year income:			
Income tax on tax basis	$	26,642	99,494
Deferred year income tax, net		10,879	43,972
Deferred previous-year income tax, net		(80)	-
		37,441	143,466
In the OCI:			
Deferred income tax		1,074	(233)
	$	38,515	143,233
		=====	======

The Company did not apply the tax consolidation with its subsidiary as per the current tax provisions.

The expenses (income) for the legal and deferred PTU of Servicios Corporativos corresponding to the years ended on December 31, 2018 and 2017, including in the consolidated income statement under the heading "Administrative Expenses" and in the consolidated balance sheet under the heading "OCI", are as follows:

		2018	2017
In the year income:			
Legal PTU	$	1,809	2,630
Deferred PTU		(391)	(1,011)
Deferred PTU from previous years (*)		(51)	-
		1,367	1,619
In the OCI:			
Deferred PTU		676	(148)
	$	2,043	1,471
		====	====

(*)Impact of deferred ISR and PTU recognized in OCI credited to deferred ISR and PTU in the consolidated income statement.

(Continued)

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Below is a summary of the reconciliation between the accounting income and the income for ISR and PTU purposes as of December 31, 2018 and 2017, as well as the basis to determine the PTU incurred by Servicios Corporativos.

		2018		2017	
		ISR	PTU	ISR	PTU
Income before income tax	$	586,316	586,316	626,877	626,877
Income before income from Navistar Financial		-	(559,603)	-	(608,573)
(Less) plus differences between accounting income and tax income:					
Inflationary impact, net		(110,168)	(5,301)	(18,756)	(6,022)
Preventive credit risk estimate		162,613	-	116,737	-
Deductions derived from uncollectible accounts		(373,376)	-	(22,748)	-
Difference between accounting depreciation and tax depreciation		(292,579)	1,143	(281,939)	1,457
Debt issue costs and expenses		(1,064)	-	(3,754)	-
Net income for sale of equipment in lease		36,505	-	(42,218)	-
Client's payment in advance		75,267	-	-	-
Provisions, net		(13,120)	(4,078)	(3,804)	5,320
Other deferred loans, net		16,369	205	(80,274)	-
Non-deductible expenses and extinguished taxes		11,222	5,063	10,805	5,068
Legal and deferred PTU		1,367	1,367	1,619	1,619
Amortization payments in advance, net		(4,825)	(4,825)	249	249
Other		(3,086)	(2,199)	30,473	302
Tax profit		91,441	18,088	333,267	26,297
PTU paid in the year		(2,635)	-	(1,622)	-
Tax income and taxable income for PTU		88,806	18,088	331,645	26,297
ISR and PTU rate		30%	10%	30%	10%
Incurred ISR and PTU	$	26,642	1,809	99,494	2,630

(Continued)

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Very briefly, the effects of the temporary differences that generates significant portions of assets and liabilities derived from the deferred income tax and deferred PTU are detailed, as of December 31, 2018 and 2017.

		Assets (liabilities) as of December 31		Year movements (debit) credit	
		2018	**2017**	**2018**	**2017**
ISR:					
Preventive credit risk estimate	$	84,005	101,921	(17,916)	(13,357)
Furniture and equipment		1,665	1,923	(258)	2,071
Intangibles		8,310	7,081	1,229	(932)
Different provisions		10,547	7,486	3,061	7,687
Deferred credits (debits), net		12,145	7,558	4,587	1,240
Client's payment in advance		22,580	-	22,580	-
Employee benefit provision		5,360	5,251	109	840
Other		2,391	7,190	(4,799)	(2,960)
		147,003	138,410	8,593	(5,411)
Equipment in lease		(156,728)	(137,463)	(19,265)	(38,337)
Payments in advance		(1,733)	(613)	(1,120)	67
Deductible PTU		(1,710)	(1,549)	(161)	(58)
Total deferred ISR		(13,168)	(1,215)	(11,953)	(43,739)
PTU:					
Furniture and equipment		555	641	(86)	690
Intangibles		2,770	2,360	410	(310)
Employee benefit provision		3,371	3,302	69	528
Different provisions		1,370	1,693	(323)	228
Deferred loans		19	-	19	-
		8,085	7,996	89	1,136
Payments in advance		(577)	(203)	(374)	24
Total deferred PTU		7,508	7,793	(285)	1,160
Deferred (liabilities) assets, net	$	(5,660)	6,578	(12,238)	(42,579)
		====	====	=====	=====

(Continued)

The final realization of the deferred assets depends on the yielding of taxable profit in the years when the temporary differences are deductible. In doing this evaluation, the Management considers the expected reversal of deferred liabilities, projected taxable profit and planning strategies.

(20) 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 additional paid-in capital are described below:

			Thousands of pesos	
	No. 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 from series “A”, corresponding to the fixed portion, and 1,863,249 from series “B”, corresponding to the variable portion, all of them with a par value of $100 pesos each.

(b) Shareholder's equity restrictions-

The year profit is subject to the separation of 10% to comprise the legal reserve, until it represents one fifth of the corporate equity. The legal reserve as of 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 shareholders’ equity accounts respect to which the income tax had already been paid, may be performed without any burden. Other refunding and distribution in excess of the amounts intended for tax purposes are subject to ISR.

(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, represents the income of the Company’s total activity during the year, which is shown below.

(Thousands of pesos)

		2018	2017
Net controlling interest income	$	548,871	483,409
Non-controlling interest		4	2
Consolidated net income		548,875	483,411
Employee benefits remediation		6,886	(1,104)
Other items		(131)	-
Deferred income tax		(1,074)	233
Deferred PTU		(676)	148
		5,005	(723)
Comprehensive income	$	553,880	482,688
		======	======

(21) 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:			
From:			
Loan portfolio	$	1,016,954	936,294
Intercompany loan		1,439	934
Financial lease		498,437	419,189
Investments and repurchase debtors (notes 7 and 8)		33,069	38,249
Fees for granting loans (note 10(g))		64,848	56,810
Exchange income		81,597	32,905
Total interest income		1,696,344	1,484,381
Interest expenses:			
Bond interest expenses (note 10(c))		(81,459)	(78,901)
Amortization of debt issue expenses (note 15)		(39,555)	(46,607)
Other debt issue expenses		(19,722)	(22,957)
Interest expenses for bank loans and loans from other institutions, as well as Company's stock liabilities (note 16)		(786,264)	(689,105)
Expense amortization for disposal of bank loans and loans from other institutions (note 16)		(24,304)	(24,979)
Amortization of origination costs (note 10(g))		(20,519)	(18,283)
Other origination costs		(9,799)	(3,492)
Exchange income		(18,610)	(98,449)
		(1,000,232)	(982,773)
Total financial margin	$	696,112	501,608
		======	======

(Continued)

(Thousands of pesos)

(22) Collected fees and rates-

For the years ended on December 31, 2018 and 2017, the accounts receivable are integrated as shown below:

		2018	2017
Placement service fees collected from related companies (note 18)	$	153,337	185,204
Placement service fees		18,305	15,769
Other collected fees and rates		54,635	44,999
	$	226,277	245,972
		======	======

(23) Paid fees and rates-

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

		2018	2017
Fees for collection service and others (note 18)	$	(13,104)	(7,254)
Bank fees		(6,486)	(5,272)
	$	(19,590)	(12,526)
		=====	=====

(24) Intermediation income, net-

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

		2018	2017
Valuation of trading derivatives (note 9)	$	(7,292)	(14,722)
Derivative trade loss (note 9)		(40,833)	(33,628)
Foreign exchange (loss) profit due to currency valuation (note 6)		(51,926)	33,591
	$	(100,051)	(14,759)
		======	=====

(25) Operating lease income-

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

		2018	2017
Operating lease income	$	558,092	526,224
Depreciation of property in operating lease (note 12)		(391,057)	(331,210)
	$	167,035	195,014
		======	======

(Continued)

(Thousands of pesos)

The Company works only the loan segment and operating lease segment. The operating lease income in 2018 and 2017 amounted to $167,035 and $195,014, respectively, as shown in this note. The difference of this income against the net consolidated income constitutes the loan segment.

(26) Other operating income, net-

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

		2018	2017
Other operating income, net:	$	44,061	10,467
Release of preventive estimates (note 10b)		11,404	62,277
Other lease benefits (call option at reduced price)		27,962	24,806
Effect of estimates and deterioration awarded assets		(11,715)	17,119
Awarded sale income		3,758	(8,636)
Recovery of previously non-performing loan portfolio (note 10 (f))		46,306	33,179
Effect of the estimate for non-recoverable or difficult collection		(37,002)	(7,912)
Loss derived from asset deterioration (mainly software)		(26,422)	(2,951)
Income derived from sale of real property, furniture and equipment		53	97
Total other operating income, net	$	58,405	128,446
		=====	======

(27) Financial indicators

The major 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/ total average assets*)	1.8%	2.02%
ROA (*average net earnings/total assets*)	15.56%	16.14%

(Continued)

(Thousands of pesos)

	2018	**2017**
ROA (*average net earnings/total assets*)	3.50%	3.24%
Liquidity (liquid assets/liquid liabilities) *	5.78%	3.70%
*Year risk-adjusted financial margin / average performing assets***	4.28%	3.15%

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

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

(28) Rating-

The ratings awarded on October 30, 2018, and December 15, 2017, to Navistar Financial by HR Ratings de México S. A. de C. V. were HR BBB with positive prospective for both years.

(29) Commitments and contingent liabilities-

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

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

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

If the fiscal authorities reviewed the prices and rejected the agreed amounts, they could require, in addition to the corresponding tax and accessories payment (updating and surcharges), fines on the missed contributions, which could be up to 100% of the updated contribution amount.

(d) The Company rents the premises occupied by its administrative offices, as well as the employee's parking lots, according to lease agreements with set expiration dates. For the years ended on December 31, 2018 and 2017, the expenses for administrative office and parking lot rents amounted to $7,932 and $7,425, respectively; additionally, the Company rents vehicles for employee's use, according to lease contracts with a set term, which rents amounted $1,523 and $1,276, respectively. The total rents are included in the heading "Administrative Expenses" in the consolidated income statement.

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

(Continued)

(30) Regulatory pronouncement recently issued-

(a) Commission's resolutions-

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

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

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

i. Accounting Criteria A-2 "Application of specific standards"

Certain Financial Reporting Standards issued by CINIF are included in order for they be applicable to credit institutions at their implementation deadline, so these financial entities may be able to comply with such Standards. The mentioned FRSs are the following: B-17 "Fair value determination", C-3 "Accounts receivable", C-9 "Provisions, contingencies and commitments2, C-16 "Deterioration of the financial instruments receivable", C-19 "Financial instruments payable", C-20 "Financial instrument to collect principal and interest", D-1 "Revenue from Contracts with Customers" and D-2 "Expenses derived from Contracts with Customers".

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

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

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

- It eliminates the lease classification as operating lease or capitalizable lease for a lessee, and it must recognize a liability per lease at the payment current value and an asset per right to use in the same amount, of any lease with a term longer than 12 months, unless the underlying asset is a low value asset.

(Continued)

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

- It modifies the presentation of cash outflows related, since the cash outflows derived from operating activity decrease, and the cash outflows derived from the financial activities increase.

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

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

Improvements to FRS 2019

In December 2018, the CINIF issued the document "Improvements to FRSs 2019" which contains specific changes to some of the already existing FRSs. The improvements done to the FRSs do not cause accounting changes in the annual consolidated financial statements.

The Company's Management is in the process of estimating the impact of implementing these FRSs and FRSs improvements on the Company's consolidated financial statements.