Note 2 - Summary of significant accounting policies:

The following is a summary of the main accounting policies applied in preparing the consolidated financial statements. These policies have been applied consistently in each of the years presented, unless otherwise specified.

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB). In accordance with the changes to the Rules for Public Companies traded on the Mexican Stock Exchange, as issued by the National Banking and Securities Commission on January 27, 2009, the Company is required to prepare its financial statements using IFRS as the regulatory framework for accounting purposes.

The consolidated financial statements have been prepared on the historical cost basis of accounting, except for cash and cash equivalents and cash-flow hedges which are both measured at fair value.

Preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. The areas involving a greater degree of judgment or complexity or the areas in which the assumptions and estimates are significant for the consolidated financial statements are described in Note 4.

2.1.1 Going concern

The Company meets its working capital needs through reinvestment of a significant portion of its annual profits, as well as by contracting short and long-term credit lines, while respecting the debt ceiling approved by the Board of Directors. The Company's financial structure allows the Company to take on debt, despite its investments in capital expenditures carried out annually to increase the Company's total sales space by opening new stores and shopping malls. Interest payments are covered more than 9 times by operating income, which is an objective established by the Board of Directors. Taking into account the possible variations in operating performance, the Company believes its budget and projections allow it to operate with its current level of financing and meet all debt obligations. The Company is currently in compliance with its payment obligations and all debt covenants.

Management expects the Company to secure the resources necessary to continue operating as a going concern in the foreseeable future. Consequently, the consolidated financial statements were prepared on a going-concern basis.

2.1.2 Changes in accounting policies and disclosures

New standards, amendments and interpretations issued and outstanding as of January 1, 2016, and which were adopted by the Company, which had no significant impact on the presentation of the consolidated financial statements:

- IAS 1 - Classifies disclosures in relation to 1) Determination of materiality, 2) Grouping of subtotal items and presentation, 3) Accounting policies and 4) Guide on the financial statement structure (adjusting the format of its financial statements to their measurement in particular circumstances and the need of its users).
- IAS 16 or IAS 38 - Classify that the use of income-based methods is not appropriate for the calculation of depreciation or amortization, since it is not based on the consumption of economic benefits.
- IAS 19 - It is clarified that the determination of the discount rate is with reference to the currency in which the benefits are agreed upon and paid.

The Company is in the process of assessing the impact of the following standards issued but not outstanding at January 1, 2015, in the consolidated financial statements:

1. IFRS 9 "Financial Instruments and related amendments to other standards." IFRS 9 replaces the classification and measurement models in IAS 39 "Financial Instruments: Recognition and Measurement" one model that initially has two classification categories: amortized cost and fair value.

   The classification of debt assets will be conducted by the business model in the state to manage the financial assets and the characteristics of contractual cash flows of financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for obtaining contractual cash flows, and b) the contractual cash flows of the instrument merely represent payments of principal and interest.

   The rest of the debt and equity instruments, including investments in debt instruments and complex capital should be recognized at fair value.

   All movements in financial assets go through the income statement, except for equity instruments that are not held for sale, which can be recorded in the income statement or reservations (without being able subsequently recycled to the income statement).

   For financial liabilities that are measured at fair value, entities need to recognize part of the changes in fair value that are due to changes in credit risk in other comprehensive income instead of the income statement.

   The new rules for hedge accounting (issued in December 2014) align hedge accounting with management practices common risks. As a rule, it will be easier to apply hedge accounting. The new standard also introduces additional disclosure requirements and presentation changes.

   In December 2015, the IASB made further to the rules of measurement and classification changes and introduced a new model of deterioration. With these modifications, IFRS is complete. The changes introduced:

   - A third category of measurement (fair value through other comprehensive income [ORI]) for certain financial assets that are equity instruments.

- The main elements to be evaluated by the company is new model of expected credit losses that involves a 3-step approach for financial assets which pass through the three stages by switching their credit quality. The stage gives you as an entity measures impairment losses and applying the method of effective interest rate. A simplified approach allowed for financial assets that do not have significant financial component (eg. Accounts receivable). On initial recognition, entities recorded the day one losses equal to expected credit losses of 12 months (or the life of the expected credit losses for accounts receivable), unless such assets are considered impaired credit .

For financial periods beginning before February 1, 2016, entities may choose early application of IFRS 9 by the following:

- The credit risk requirements for financial liabilities.
- Classification and measurement requirements for financial assets and liabilities and hedge accounting.

  This amendment is effective from January 1, 2018.

2. IFRS 15 "Revenue from contracts with customers and related amendments to other standards." The IASB issued a new standard for revenue recognition. It replaces IAS 18 contracts covering goods and services and covering IAS 11 construction contracts.

   The new standard is based on the principle that revenues are recognized when control of the good or service is transferred to the customer - so the notion of control replaces the current notion of risks and benefits.

   The main changes or effects in the adoption of this Standard are expected to consist of the financial component, because the company within its operations with its customers has the benefits of selling in the long term to months without interest (12 or 18 months) and changes in the Standard contain modification in the registration and determination in this type of transactions.

   A five steps process should be applied before revenue can be recognized:

   - Identify customer contracts.
   - Identify the separate performance obligation.
   - Determine the transaction price in the contract.
   - Allocate the transaction price to each performance obligation, and
   - Recognize revenue when it meets each performance obligation.

   Key changes to the current practice:

   - The revenue can be recognized before the current rules if the consideration varies for any reason (eg. Incentives, rebates, performance fees, royalties, successful outcome, etc.). Should be recognized minimums if they are not at risk reversed.
   - The point at which revenue can be recognized can vary, part of the revenues are now recognized at a point in time at the end of a contract may have been recognized over the term of the contract and vice versa.
   - There are specific rules on new licenses, warranties, nonrefundable prepayments, consignment agreements, to name a few.
   - As with any new standard, additional disclosures are required.

   These accounting changes may have effects on business practices in relation to systems, processes and controls, bonuses and compensation plans, contracts, tax planning and communication with investors.

   Entities have the option to complete retrospective or prospective application with additional disclosures. This amendment is effective from January 1, 2018.

   The company has decided not to adopt this standard in advance.

3. Accounting for the acquisition of interests in joint ventures - Amendments to IFRS 11. The amendments to IFRS 11 clarifies the accounting for acquisitions of interests in joint ventures where operating activities constitute a business. Require an investor to apply the principles of accounting for business combinations when acquires stake in a joint venture that is a business.

This includes:

- Measure identifiable assets and liabilities at fair value.
- Send to costs acquisition costs.
- Recognize deferred income taxes, and
- Recognize the residual as goodwill and annual impairment testing.

  Existing shares in joint ventures are not premeasured at the acquisition of additional shares, considering that control is maintained.

  The amendments also apply when a business is formed and an existing business is contributed. This amendment is effective from January 1, 2016.

4. Classification of acceptable methods of depreciation and amortization - Amendments to IAS 16 and IAS 38. The amendments clarify that the method of depreciation or amortization based on income is generally not appropriate.

   The IASB amended IAS 16 “Property, plant and equipment” to clarify that an income-based method should not be used to calculate depreciation of items of PP&E.

   IAS 38 “Intangible Assets” now includes a rebuttable presumption that the amortization of intangible assets based on income is inappropriate, this presumption can be overcome if the intangible asset is expressed as a measure of income (i.e., when the measure of income is the determining asset value) factor, or it can be shown that the income and consumption of the economic benefits generated by the assets are highly correlated. This modification is effective from of January 1, 2016.

5. Additionally, IFRS 16 “Leases” was issued in January 2016. It will result in almost all leases being recognised on the balance sheet (applicable to the lessee), as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The company is in the process of reviewing impacts that will have this material change. The standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

2.1.3 Recent Developments

Suburbia

On August 10, 2016, the company reached an agreement with Wal-Mart de México, S.A.B. de C.V., or Wal-Mex, to acquire its apparel retail business in Mexico under the brand Suburbia, which includes (i) 100.0% of the equity interests in four legal entities, (ii) the intellectual property rights of the “Suburbia” brand and its private labels, (iii) 119 stores, of which seven are located in properties that the company will acquire from Wal-Mex, 78 are located in properties leased from third parties and 34 are located in properties leased from Wal-Mex, (iv) Wal-Mex’s apparel operating division for stores, purchases, commercial planning, product design, marketing and procurement (CATMex), and (v) a distribution center located in a property leased from a third party. The closing of the transaction is subject to approval by the Federal Competition Commission (COFECE) and to other customary conditions for this type of operations.

Suburbia is a relevant retail chain in Mexico with over 45 years of experience in the market. Its 119 stores are located in 30 out of 32 states in Mexico, including Mexico City. Suburbia offers a broad selection of quality products for value conscious customers. A significant portion of Suburbia’s commercial offer includes its private labels such as “Weekend,” “Contempo,” “Non Stop,” “La Mode” and “Metropolis.”

The company agree to pay an all-cash purchase price of approximately $15,700 million (subject to customary adjustments for this type of transactions), including the assumption of the indebtedness under capital leases in an amount equal to $1,400 million. Prior to the closing of this transaction, the acquired entities will distribute to its current shareholders, in the aggregate, an amount equal to $3,300 million via dividends and capital reductions. The acquisition of Suburbia will be financed with a combination of cash on hand and long-term indebtedness for which the company already have commitments from different financial institutions.

In addition, the company will enter into a transition services contract with Wal-Mex for management, financial and accounting services, as well as information technology processes, all of which will ensure the continuity of the Suburbia’s operations. This agreement will remain effective for the 12 months following the closing of this acquisition.

Suburbia represents an attractive opportunity to expand the company consumer base and enhance the company multi-format strategy. With the integration of Suburbia’s stores, the company expects to significantly strengthen the company presence in the central region of Mexico. This transaction represents one of the most important acquisitions in the company’s history, and one more step in the company growth strategy to consolidate the company platform and reaffirm the company position as the leading omni-channel department store chain in Mexico.

Ripley

On July 5, 2016, the company entered into the Partnership Agreement with Inversiones R Matriz Limitada, Inversiones Familiares Sociedad Colectiva Civil, Inversiones R III Limitada, and International Funds Limitada, all entities owned or controlled by FCV (Calderón Volochinsky) family.

Pursuant to the Partnership Agreement, the company agreed, directly or indirectly, to make a cash tender offer for all of the outstanding fully paid in common shares of Ripley at a purchase price of 420 Chilean pesos, ($ 11.96 Mexican pesos) per share, which represents a 25.5% premium to the price of the share immediately before the announcement of the transaction and 51.0% to the average price of the twelve months prior to such date. The offer is conditioned to the acquisition of share representing at least 25.5% of Ripley's outstanding shares at the time of the offer and other customary conditions for this type of transactions, including without limitation, absence of governmental orders or actions that limiting or prohibiting the consummation of the transaction, no conflicts with laws and agreements, the accuracy of the representations and warranties of the other parties to the Partnership Agreement, absence of material adverse change (as such term is defined in the Partnership Agreement) and delivery of necessary governmental approvals.

The Partnership Agreement includes certain provisions that will become effective only if the tender offer is consummated pursuant to the terms of the Partnership Agreement, including, without limitation, the following restrictions on the transfer of the shares of Ripley: (i) for a period of two years as of the date of the Partnership Agreement, the Calderón Volochinsky family shall, in the aggregate, hold at least 50.0% of the capital stock of Ripley, (ii) for a period of five years as of the date of the Partnership Agreement, each of the Calderón Volochinsky family, in the aggregate, and us shall hold at least 25.1% of the capital stock of Ripley, (iii) rights of first offer and (iv) tag along rights. In addition, under the Partnership Agreement the company has granted to the Calderón Volochinsky family a put option to sell all of their shares representing the capital stock of Ripley at any time following the fifth anniversary of the Partnership Agreement.

The acquisition is still subject to regulatory approval (including the approval of the Chilean Superintendence of Banks and Financial Institutions) (Superintendencia de Bancos e Instituciones Financieras).

2.2 Consolidation

a. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The balances and unrealized profits or losses in intercompany operations are eliminated in the consolidation process. When necessary, accounting policies have been modified in subsidiary entities in order to be consistency with the policies adopted by the Company.

The following is a summary of the Company's interest in subsidiaries at December 31, 2016 and 2015:

Company	Shareholding %	Activity
Operadora Liverpool, S. A. de C. V.	100%	Sub-holding of Distribuidora Liverpool, S. A. de C. V. and other companies that operate the department stores.
Bodegas Liverpool, S. A. de C. V. y Almacenadora Liverpool, S.A. de C.V.	99.99%	Storage and distribution of merchandise.
Servicios Liverpool, S. A. de C. V.	99.99%	Advisory and administrative services provided to the Company's subsidiaries.
Nine real estate companies	99.93%	Development of real-estate projects, mainly shopping malls.

Additionally, the Company consolidates two trusts over which it has control on the basis of the indicators mentioned in IFRS 10 "Consolidated Financial Statements". These are described in Note 13 to the consolidated financial statements.

b. Associates

Associates are all those entities over which the Company exercises significant influence, but not control. Usually, associates are those of which the Company holds between 20% and 50% of the voting rights. Investments in associates are recorded by the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss, if any) identified at the time of the acquisition. The Company's equity in the profits or losses following acquisition of associates is recognized in the statement of income and its equity in the comprehensive results of an associated company, following its acquisition, is recognized in the Company's "Other comprehensive results". Post-acquisition accrued movements are adjusted against the book value of the investment. When the Company's equity in the losses of an entity equals or exceeds its interest in the entity, including any unsecured account receivable, the Company does not recognize a greater loss, unless it has incurred obligations or has made payments on behalf of the associated. The associated companies' accounting policies have been modified when necessary, for consistency with the policies adopted by the Company.

2.3 Segment information
Segmental information is presented to be consistent with the internal reports provided to the Operations Committee, which is the body responsible for making operating decisions, of assigning the resources and evaluating the operating segments' yield.

2.4 Foreign currency transactions
a. Functional and presentation currency
The items included in each of the subsidiaries' financial statements are stated in the currency of the primary economic environment in which the entity operates (the "functional currency").

The Company's currency reporting for preparation of the consolidated financial statements is the Mexican Peso, which in turn is the functional currency of El Puerto de Liverpool, S. A. B. de C. V. and of all its subsidiaries.

b. Transactions and balances
Foreign currency transactions are converted to the functional currency using the exchange rates in effect on the transaction or valuation dates, when the items are re-measured. The profits and losses resulting from such transactions and from other conversion at the exchange rates in effect at the year-end close of all monetary assets and liabilities denominated in foreign currency are recognized as exchange fluctuations under foreign exchange (loss) gain - net in the statement of comprehensive income.

2.5 Financial assets
2.5.1 Classification
The Company classifies its financial assets as loans and accounts receivable, and at fair value through profit and loss. Classification depends on the purpose of the financial assets. Management determines the classification of its financial assets at the date of initial recognition.

a. Loans and accounts receivable
Loans and accounts receivable are non-derivative financial assets allowing for fixed or determinable payments and which are not quoted on an active market. They are classified as current assets, except for those maturing in over 12 months, which are classified as non-current assets.

b. Financial assets held at fair value that affect profit and loss
Financial assets held at fair value that affect profit and loss are financial assets that are held for sale. A financial asset could be classified under such category only if it's acquired mainly with the purpose of selling in the short term. Derivative financial instruments are also classified as held for sale unless they are designated as cash flow hedges. Financial Assets held for sale are classified as current if they are expected to be recovered within a period of less than twelve months; otherwise, they will be classified as a non-current.

2.5.2 Recognition and measurement
a. Investments in highly liquid government bonds with a maturity of less than 28 days, they are included cash and cash equivalents. These assets are stated at fair value and value fluctuations are recorded in the results of the period.

b. Accounts receivable comprise loans granted by the Company to its customers to acquire goods and services at its department stores or establishments affiliated to the VISA system. If recovery of these receivables is expected in a year or less, these loans are classified as current assets; otherwise, they are shown as non-current assets.

c. Accounts receivable are initially recognized at fair value and subsequently measured at their amortized cost, using the effective interest rate method, less the reserve for impairment.

d. Loans and accounts receivable are no longer recognized when the rights to receive cash flows from investments mature or are transferred and the Company has transferred all the risks and benefits arising from ownership. If the Company does not transfer or substantially retain all the risks and benefits inherent to ownership and continues to retain control of the assets transferred, the Company recognizes its equity in the asset and the related obligation with respect to the amounts it would be required to pay.If the Company substantially retains all the risks and benefits inherent to ownership of a financial asset that has been transferred, the Company continues to recognize the financial asset, as well as a liability for the resources received.

2.6 Impairment of non-financial assets
2.6.1 Assets carried at amortized cost
At the end of every reporting period, the Company evaluates whether there is objective evidence of impairment of a financial assets or group of financial assets. Impairment of a financial asset or group of financial assets and the impairment loss are recognized only if there is objective evidence of impairment resulting from one or more events (a 'loss event') and the loss event or events have an impact on the estimated cash flows of the financial asset that can be reliably estimated.

The Company records a provision for impairment of its loan portfolio, when receivables surpass 90 days due with no payment. This provision is done according to an individual assessment of each account and the results of the evaluation of the portfolio's behavior and the seasonality of the business. The increases to this provision are recorded as administrative expenses in the statement of income. The methodology used by the Company in determining the balance of this provision has been applied consistently during at least the last ten years and has historically been sufficient to cover the losses pertaining to the following twelve months arising from irrecoverable loans. See Note 3.3.2.

2.7 Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date on which the derivative financial instrument agreement was entered into and are subsequently re-measured at their fair value. The method for recognizing the profit or loss of changes in fair value of derivative financial instruments depends on whether or not they are designated as cash flow hedge, and if so, on the nature of the item being hedged. The Company has only contracted cash flow hedge derivative financial instruments.

At the outset of the transaction, the Company documents the relationship between the hedging instruments and the items covered, as well as the objectives and Risk Management's strategy to back its hedging transactions. The Company periodically documents whether or not the derivative financial instruments used in hedging transactions are highly effective in hedging the cash flows of the items hedged.

The fair value of the derivative financial instruments used as hedging instruments is disclosed in Note 10. The total fair value of the derivative financial instruments used as hedging instruments is classified as a non-current asset or liability when maturity of the remaining hedge amount is more than twelve months, and is classified as a current asset or liability when the remaining hedge amount is under twelve months.

When a hedging instrument matures or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is recognized in the income statement.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is applied to comprehensive income. The profit or loss related to the ineffective portion is immediately applied to the statement of income as other expenses or income.

2.8 Cash and cash equivalents

Cash and cash equivalents include available cash, deposits in checking accounts, and bank deposits in foreign currency and short-term investments. These short-term investments are highly liquid securities that mature in less than 28 days and are not subject to material changes in value. Cash is shown at its nominal value and cash equivalents are valued at fair value. Fluctuations in value are applied to income for the period. They are included in the statement of income as "Finance Income". Cash equivalents are mainly represented by investments in government instruments. See Note 7.

2.9 Inventories

Inventories are recorded at the lower of cost or its net realizable value. Cost of sales includes the cost of merchandise, plus costs related to importation, freight, handling, shipment, and storage at customs and at distribution centers, less the value of the returns. The net realization value is the selling price estimated in the normal course of operations, less sales costs. The cost is determined by the average cost method.

Physical inventory counts are conducted periodically at the stores, boutiques and distribution centers and inventory records are adjusted to the results of physical inventory counts. Historically, due to the Company's loss prevention programs and control procedures, shrinkage has been immaterial.

2.10 Investment properties

Investment properties are real property (land and buildings) held to obtain economic benefits through collection of rent or for the capital gains, and are initially valued at cost, including transaction costs. After their initial recognition, investment properties continue to be valued at cost, less accumulated depreciation and impairment losses, if any.

The Company owns shopping malls that house their department stores, as well as commercial space it leases to third parties. In such cases, only the portion leased to third parties is considered as Investment Property and the Company's stores are recorded as property, furniture and equipment, in the statement of financial position. See Note 13.

Depreciation is calculated by the straight-line method to distribute the cost at its residual value over their remaining useful lives, as follows:

Shell and core stage of construction	75 years
Structural work	75 years
Fixed facilities and accessories	35 years

2.11 Property, furniture and equipment

The items comprising property, furniture and equipment are recognized at their historical cost, less depreciation and impairment losses. The historical cost includes expenses directly attributable to the acquisition of these assets and all expenses related to the location of assets at the site and in the conditions necessary for them to operate as expected by Management. For qualified assets, the cost includes the cost of loans capitalized in accordance with the Company's policies. (See Note 2.12).

Expansion, remodeling and improvement costs represent an increase in capacity and so they are recognized as an extension of the useful life of goods are they capitalized. Maintenance and repair expenses are charged to income for the period in which they are incurred. The carrying amount of replaced assets is derecognized when they are replaced, recording the entire amount in the income statement.

Works in progress represent stores under construction and includes investments and costs directly attributable to the startup of operations. These investments are capitalized upon opening the store and depreciation is computed from that point.

Land is not depreciated. Depreciation of other assets is calculated by the straight-line method to distribute the cost at its residual value over their remaining useful lives, as follows:

Buildings:

Shell and core stage of construction	75 years
Structural work	75 years
Fixed facilities and accessories	35 years

Other assets:

Operating, communications and security equipment	10 years
Furniture and equipment	10 years
Computer equipment	3 years
Transportation equipment	4 years
Leasehold improvements	Over the term of the lease agreement

The Company assigns the amount initially recorded with respect to an element of property, furniture and equipment, in its different significant parts (components) and depreciates separately each of those components.

The residual values and useful life of the Company's assets are reviewed and adjusted, if necessary, at the date of each statement of financial position. See Note 14.

The book value of an asset is written off at its recovery value if the book value of the asset is greater than its estimated recovery value. See Note 2.14.

Gains and losses from the sale of assets are due to the difference between income from the transaction and the book value of the assets. They are included in the statement of income as services income and other.

2.12 Borrowings Costs

Borrowing costs directly attributable to the acquisition and construction of qualified assets, which constitute assets requiring a substantial period of time up until they are ready for use or sale are added to the cost during that time, until such time as they are ready for use or sale.

Income obtained from the temporary investment of specific loans not yet used on qualified assets is deducted from the cost of loans eligible for capitalization.

At December 31, 2016 and 2015, there was no capitalization of comprehensive financing income due to the fact that during those periods, there were no assets that, according to the Company's policies, qualified as requiring a construction period longer than a year.

2.13 Intangible assets
Activities involved in the development of computer systems and programs include the plan or design and production of a new or substantially improved software or computer system. Expenses pertaining to the development of computer programs are only capitalized when they meet the following criteria:

- It is technically possible to complete the computer program so that it is available for use;
- Management intends to complete the computer program and use it;
- The Company has the capacity to use the computer program;
- It can be proven that the computer program will generate future economic benefits;
- The Company has the technical, financial and other resources necessary to conclude the development of the program for its use; and
- Expenses related to the development of the computer program can be reliably measured.

The licenses acquired for use of programs, software and other systems are capitalized at the value of the costs incurred for their acquisition and preparation for their use. Other development costs failing to meet these criteria and research expenses, as well as maintenance expenses are recognized and expensed as they are incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

The costs incurred in the development of software recognized as assets are amortized over their estimated useful lives, which fluctuate between five (licenses and fees) and ten years (New IT developments). They are included in the statement of income as administrative expenses. See Note 15.

2.14 Impairment of non-financial assets
Non-financial assets subject to depreciation are subject to impairment testing. Impairment losses correspond to the amount at which the book value of the asset exceeds its recovery value. The recovery value of assets is the greater of the fair value of the asset less costs incurred for its sale and its value in use.

For the purposes of impairment assessment, assets are grouped at the lowest levels at which they generate identifiable cash flows (cash-generating units). Non-financial assets subject to write-offs due to impairment are valued at each reporting date to identify possible reversals of the impairment.

2.15 Accounts payable
Accounts payable are obligations of goods or services acquired from vendors in the normal course of operations. Accounts payable are classified as current liabilities if the payment is to be made within a year or less (or in the normal cycle of business operations if it is greater). Otherwise, they are shown as non-current liabilities.

Accounts payable are initially recognized at fair value and subsequently re-measured at their amortized cost, using the effective interest rate method.

2.16 Bank borrowings and issuance of senior notes
Loans from financial institutions and issuance of senior notes are initially recognized at fair value, net of costs incurred in the transaction. This financing is subsequently recorded at its amortized cost. Differences, if any, between the funds received (net of transaction costs) and the redemption value are recognized in the statement of income during the period of the financing, using the effective interest rate method.

Fees incurred to obtain said financing are recognized as transaction costs to the extent that a part of or the entire loan is likely to be received.

2.17 Cancellation of financial liabilities
The Company cancels financial liabilities if, and only if, the Company's obligations are met, cancelled or matured.

2.18 Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of cash flows to settle the obligation and the amount can be estimated reliably required. The amount recognized as a provision is the best estimate on the reporting period, the expenditure required to settle the present obligation, the payment is made by the amount assessed rationally, the Company has to pay to settle the obligation to end of the reporting period under review, or to transfer it to a third party at that time. See Note 16.

2.19 Income tax

The income tax comprises currently-payable and deferred taxes. The tax is recognized in the statement of income, except when it relates to items applied directly to other comprehensive income or losses or to stockholders' equity. In this case, the tax is also recognized in other items pertaining to comprehensive income or directly to stockholders' equity, respectively.

Deferred income tax is recognized on temporary differences arising from comparing the book and tax values of all assets and liabilities of the Group. However, deferred tax liabilities are not recognized if it arises from initial recognition of goodwill; nor deferred income tax is recognized if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the end of the year and are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled.

The charge corresponding to taxes on profits currently payable is calculated according to the tax laws approved as of the balance sheet date in Mexico and in the countries in which the Company's associates operate and generate a taxable base. Management periodically evaluates their tax positions with respect to tax refunds as tax laws are subject to interpretation. According to this assessment as of December 31, 2016 and 2015, there are no uncertain positions.

The deferred tax asset, tax-on-profits, is only recognized to the extent future tax benefits are likely to be achieved and can be applied against any temporary differences in liabilities.

The deferred tax on profits is generated on the basis of the temporary differences between investments in subsidiaries and associates, except when the Company can control when those temporary differences will be reinvested and the temporary difference is unlikely to be reinvested in the foreseeable future.

The balances of deferred asset and liabilities, tax-on-profits, are offset when there is a legal right to offset current tax assets against current tax liabilities and when the deferred tax-on-profit assets and liabilities relate to the same tax entity, or different tax entities where the balances are to be settled on a net basis. See Note 22.

2.20 Employee benefits

a. Pensions and seniority premium

The Company's subsidiaries operate pension plans and seniority premiums that are usually funded through payments to trust funds, based on annual actuarial calculations. The Company also has defined benefit plans. A defined benefit pension plan is a plan that determines the amount of the pension benefits to be received by an employee upon retirement, which usually depends on one or more factors, such as the employee's age, years of service and compensation.

The liability or asset recognized in the balance sheet with respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the plan assets, along with the adjustments arising from unrecognized actuarial profits or losses and the costs of past services. The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of defined benefit obligations is determined, discounting estimated cash flows at the interest rates of government bonds denominated in the same currency as that in which the benefits are to be paid, and that have expiration terms that approximate the terms of pension obligations.

Actuarial remeasurements arising from adjustments based on the experience and changes in actuarial assumptions are charged or credited to stockholders' equity in other comprehensive-income items in the period in which they arise.

b. The plans in Mexico generally expose the Company to actuarial risks, including investment risk, interest rate risk, longevity risk and risk of salary, according to the following:

Investment risk: The rate of return expected for the funds is equivalent to the discount rate, which is calculated using a discount rate determined by reference to long-term government bonds; if the return on assets is less than the fee, this will create a deficit in the plan. Currently the plan has a balanced investment in fixed income instruments and actions. Due to the long term nature of the plan, the Company considers it appropriate that a reasonable portion of the plan assets are invested in equities to leverage the yield generated by the fund, taking at least an investment in government instruments 30% stipulated in the Law on Income Tax.

Interest Rate Risk: A decrease in the interest rate increase plan liabilities; volatility in rates depends exclusively on the economic environment.

Longevity risk: The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of plan participants. An increase in life expectancy of plan participants increased liabilities.

Risk salary: The present value of the defined benefit obligation is calculated by reference to future wages of participants. Therefore, an increase in expectation of salary increase participants plan liabilities.

c. Annual bonus for retaining executives

Some of the Company's executives receive an annual retainer bonus, calculated as a percentage of their annual compensation and depending on the completion of certain goals established for each officer at the beginning of the year. The Company has set up a reserve of $276,525 at December 31, 2016 ($286,670 at December 31, 2015), that is included in Note 16 within Bonds and Compensation paid to employees.

d. Employees' statutory profit sharing and bonuses

The Company recognizes a liability and a bonus expense and employees' statutory profit sharing based on a calculation that considers the profit after certain adjustments. The Company recognizes a provision when it is contractually obligated or when there is a past practice that generates an assumed obligation.

e. Other benefits granted to employees

The Company grants certain benefits to employees that leave the Company either by termination or voluntary decision after 20 years of service. In accordance with IAS 19 (revised) "Employee Benefits", this practice constitutes an assumed obligation of the Company with its employees, which is recorded based on annual actuarial studies prepared by independent actuaries. See Note 19.

f. Benefits paid to employees for severance required by the law

The Company recognizes and pays compensation in the first of the following dates: a) the Company may not withdraw the offer of those benefits and b) when the Company recognizes the costs of restructuring that is within the scope of IAS 37 and involves payment termination benefits.

2.21 Capital stock

Common shares are classified as capital.

2.22 Revenue recognition

Income represents the fair value of cash collected or receivable arising from the sale of goods or the rendering of services in the normal course of Company operations. Income is shown net of discounts granted to customers.

The Company recognizes revenue when the related amount can be measured reliably, the entity is likely to receive future economic benefits and the transaction meets the specific criteria for each of the Company's activities, as described above.

a. Sale of merchandise

Revenues from sales of goods is recognized when the customer purchases in stores or by phone and internet, and takes possession of the property, at the time of delivery of the goods. About half of merchandise sales are settled by customers with the cards operated by the Company, and the remainder is paid in cash or through bank debit and credit cards.

In accordance with IAS 18 "Revenue", the cash received from promotions involving interest free sales on credit for a determined number of months is deferred over time and therefore, its fair value can be less than the nominal amount of the sale. In these cases, the Company determines the fair value of the cash to be received, less all future cash flows, using an interest rate prevailing in the market for a similar instrument.

The difference between the nominal value of the sale at a certain number of months free of interest and the value discounted as per the above paragraph is recognized as interest income. See point c. of this Note.

The Company's policy is to sell a number of products with the right to return them. Customer returns usually involve a change of size, color, etc.; however, in those cases in which the customer wishes to return the product, the Company offers its customers the possibility of crediting the value of the merchandise to their account, if the purchase was made with the Company's own cards, or to return the amount of the purchase in an e-wallet or a credit to the customer's bank credit card, if the purchase was made in cash or with external cards, respectively. In the Company's experience, returns on sales are not material with respect to total sales, therefore, the Company does not set up a reserve in this regard.

b. E-wallets and gift certificates

• E-wallets

The Company offers promotions, some of which involve benefits granted to its customers represented by e-wallets, the value of which is referred to a percentage of the selling price. E-wallets can be used by customers to settle future purchases at the Company's department stores. The Company deducts the amount granted to its customers in e-wallets from revenue. In the Company's historical experience, the likelihood of customers using e-wallets accounts that have been inactive for 24 months is very low. Therefore, e-wallets showing these characteristics are cancelled, with a credit to sales, is included in the deferred revenue account in the statement of financial position.

- Gift certificates

The Company offers its customers gift certificates with no specific expiration date. Upon their sale, gift certificates are recognized in the deferred revenue account in the statement of financial position. This account is cancelled when the customer redeems the gift certificate; whether partially or entirely, through the acquisition of merchandise, recognizing revenue in the same amount. In the Company's historical experience, the likelihood of customers using gift certificates that have been inactive for 24 months being is remote. Therefore, certificates with these characteristics are cancelled against service income.

c. Interest income

In accordance with IAS 18 "Revenue", interest income is recognized by the effective interest rate method. See Note 4.1.1.

Late payment interest is recorded as income as it is earned and late payment interest is not accrued once the credit has remained past due for 90 days.

Income from the recovery of previously-cancelled credit is recorded as service income.

d. Lease revenue

The Company's policy for recognition of operating lease revenue is described in Note 2.25.1

e. Services and other

Income stemming from service agreements is determined as follows:

- Commission income from the sale of insurance policies are recorded as income as they are incurred.
- Service income is recognized when the customer receives the benefit of the service, such as: beauty salon, travel agency, opticians or interior design.

2.23 Deferred income

The Company records deferred income arising from different transactions in which cash was received, and in which the conditions for revenue recognition described in paragraph 2.22, b) have not been met. Deferred revenue is shown separately in the statement of financial position.

2.24 Other accounts receivable

The Company classifies as other accounts receivable all loans or advance payments made to employees and other parties or companies other than the general public. If collection rights or recovery of this amount is realized within 12 months from the period close, they are classified as short term; otherwise, they are shown as long term.

2.25 Leases

Leases are classified as capital leases when the terms of the lease transfer all the risks and benefits inherent in the property to the lessee. All other leases are classified as operating leasing.

2.25.1 Lessor

Rent income pertaining to the Company's Investment Property is recognized by the straight-line method over the term of the lease. Initial direct costs incurred in negotiating an operating lease are added to the book value of the leased asset, and are recognized by the straight-line method over the term of the lease. The Company has no assets leased through capital leasing plans.

2.25.2 Lessee

Rent payments under operating leases are charged to income by the straight-line method during the term of the lease. Variable rent is recognized as an expense in the period in which it is incurred.

2.26 Earnings per share

Basic earnings per ordinary share are calculated by dividing the holding interest by the weighted average of ordinary shares outstanding during the period. Earnings per diluted share are determined by adjusting the holding interest and ordinary shares, under the assumption that the entity's commitments to issue or exchange the Company's own shares would be realized. Basic earnings are the same as diluted earnings due to the fact that there are no transactions that could dilute earnings. See Note 23.

2.27 Supplier rebates

The Company receives rebates from suppliers as reimbursement of discounts granted to customers. Supplier reimbursements related to discounts granted to customers with respect to merchandise sold are negotiated and documented by the purchasing areas and are credited to the cost of sales in the period in which they are received.

2.28 Prepaid payments

The Company recognizes prepaid payments for television advertisement and insurance premiums. Those amounts are recorded at the value that was contracted and are recorded in income when the advertisements are broadcasted and on a straight line basis for insurance premiums. Contracts for television advertisement and insurance policies are less than one year.