Note 3 - Risk management:

The main risks to which the Company is exposed are:

3.1 Real estate risk

3.2 Market risks

- 3.2.1 Exchange rate risk
- 3.2.2 Interest rate risk
- 3.2.3 Inflation risk

3.3 Financial risks

- 3.3.1 Liquidity risk
- 3.3.2 Credit risk

3.1 Real estate risk

The Company owns department stores and either owns or co-owns 25 shopping malls. The Board of Directors is responsible for authorizing the purchase of land and buildings proposed by the Company's real estate area. For every real estate investment, sales are estimated per square meter and the return on the investment to be generated. The Company has no risk concentration in accounts receivable from lessees, as it has a diversified base and periodically evaluates their payment capacity, especially prior to renewing their lease agreements. Although the value of real property in Mexico is relatively stable, economic development and structural changes in the country are risk factors that could affect the supply and demand of real property, and affect rent levels and the risk of vacant commercial space. Commonly, real property in Mexico is quoted in US dollars, and thus an excessive rise in the exchange rate of the peso to the dollar or in the prices of property available to the Company or in construction materials could limit the Company's plans to expand, the rent-related uncollectible rate has historically remained below 2%, thus the credit risk related to lease agreements is considered low. The Company has insurance that duly covers its assets against the risk of fire, earthquake and other natural disasters. All insurance has been contracted with leading companies in the insurance market.

3.2 Market risks

The Company's risk management is handled by the Operations Committee, including interest rate risks, the use of hedge derivative financial instruments and investment of treasury surpluses. Company Management identifies and evaluates the decisions for hedging the market risks to which it is exposed.

The Company contracts derivative financial instruments to reduce the uncertainty of the return on its projects. The derivative financial instruments contracted are assigned for hedge accounting purposes and are closely linked to the financing contracted by the Company. The Company's policies require that quotes be obtained by three different financial instruments in order to guarantee the best rates on derivative contracts.

The Company's internal control policies require that the representatives of the finance and legal areas conduct an analysis prior to contracting financing or to conducting operations with derivative financial instruments. In evaluating the use of derivatives, to cover the financing risks, sensitivity analysis are conducted of the different variables and effectiveness testing is conducted to determine the book treatment of the derivative financial instrument, once contracted.

3.2.1 Exchange rate risk

Except as mentioned in note 18, the Company has not contracted financing in foreign currencies; however, the Company is exposed to risks related to movements in the exchange rate of the peso to the US dollar and the euro with respect to importations of merchandise mainly from Europe and Asia. Purchases of merchandise in a currency other than the Mexico peso represent approximately 20% of total purchases.

At December 31, 2016 and 2015, the Company's exposure to exchange rate risks amounted to US$535,031, €2,043 and US$353,483, €15,671, respectively. In the event of a 20% increase in the exchange rate of the peso to the US dollar, the Company's loss would approximate $210,915 and $184,502. The 20% represents the sensitivity rate used when the exchange risk is reported internally to the Operations Committee, and represents Management's assessment of possible changes in exchange rates. The sensitivity analysis includes only those monetary items not yet settled that are denominated in foreign currency at the period close.

Additionally, the Company maintains an investment in Regal Forest Holding (RFH), and the cash flows received from RFH are denominated in US dollars. The risk of conversion is the risk that the variations in exchange rates will cause volatility in the peso value of these cash flows. The Company has not hedged the cash flows that it receives from this investment.

The Company had the following foreign currency monetary assets and liabilities:

Thousands of US dollars:	December 31, 2016	2015
Monetary assets	US$ 565,641	US$ 15,942
Monetary liabilities	(1,100,672)	(369,425)
Net passive position	US$ (535,031)	US$ (353,483)
Equivalent in pesos	$ (11,032,007)	$ (6,097,122)

Thousands of Euros:	December 31, 2016	2015
Monetary assets	€ 9,717	€ 1,296
Monetary liabilities	(11,760)	(16,967)
Net passive position	€ (2,043)	€ (15,671)
Equivalent in pesos	$ (44,491)	$ (294,416)

The exchange rates of the peso to the dollar, in effect at the date of the consolidated balance sheet and at the date of the independent auditor's report, were as follows:

	February 28 2017	December 31 2016
US dollar	$ 20.4163	$ 20.6194
Euro	$ 21.8056	$ 21.7741

3.2.2 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the Company's net financing cost. Bank borrowings and long-term issues of senior notes are subject to both fixed and variable interest rates and expose the Company to the risk of variability in interest rates, and thus variability its cash flows. Bank borrowings and debt issuances contracted at fixed rates expose the Company to the risk of drops in reference rates, possibly representing a greater financial cost of the liability. The Company's policy is to hedge most of its bank borrowings and issuances of senior notes and its preference is to maintain fixed interest rates for its debt. However, fixed to variable interest rate swaps are also contracted on a temporary basis to streamline financial costs when market rates allow it. The main reason for using derivative financial instruments is to better predict the cash flows that the Company will pay to meet its contractual obligations. With these interest-rate swaps, the Company agrees with other parties to deliver or receive, monthly, the existing difference between the interest amount of variable rates set forth in debt agreements and the interest amount corresponding to fixed rates contracted in derivative financial instruments. 93% of the debt is fixed rate and the remaining part is a variable rate. 100% of the variable rate debt is covered by derivatives financial instruments.

The Company continuously analyzes its exposure to interest rates. A number of different interest rate scenarios are evaluated such as, refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the corresponding impact on results or on its financial position.

Sensitivity analysis for interest rates

The following sensitivity analyses have been determined considering the current derivative financial instruments at December 31, 2016 and assuming the following:

If interest rates had been 10 basis points higher and all the other variables remained constant:

The other items comprising comprehensive income for the year ended December 31, 2016 and 2015 would have increased by $155,690 and $130,418 net of deferred taxes, mainly as a result of the changes in fair value of hedge derivative financial instruments contracted to hedge against exposure to changes in interest rates.

The information corresponding to interest rate derivative financial instruments contracted is shown in Note 11 to the consolidated financial statements.

3.2.3. Inflation risk

At December 31, 2016, the Company had financing denominated in Investment Units (UDIs, the monetary unit linked to inflation in Mexico). The Company contracted a swap to hedge against exposure to the risk that the value of the issuance of senior notes could be affected by the increase in the inflation rate in Mexico. Assuming inflation of 10% or higher in Mexico and maintaining all the other variables constant, the effect on the other comprehensive income items due to exposure of the debt in UDIs, net of deferred taxes, would be a loss of approximately $66,324 and $57,315, respectively.

3.3 Financial risks

3.3.1 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its fund requirements. Company management has established policies, procedures and limits that govern the Treasury function. The Treasury is responsible for ensuring the Company's liquidity and for managing its working capital to guaranty payments to vendors.

The Company finances its operations through a combination of: 1) reinvestment of a significant portion of profits and 2) contracting financing and leasing denominated in pesos.

The Company has immediately available credit lines not used of approximately $22,850,000 as well as overdraft lines of credit to give the Company immediate access to short-term debt instruments.

The following table shows the contractual maturities of the Company's financial liabilities according to the expiration periods. The table was prepared on a cash flow basis without discounting, from the first date on which the Company will be required to pay.

The table includes interest and the main cash flows:

	Between 1 months and 1 year	Between 1 and 5 years	More than 5 years
December 31, **2016**			
Vendors and creditors	$ 29,119,048	$ -	$ -
Senior notes and contractual interests	4,139,863	11,365,989	27,407,474
Bank borrowings	85,788	964,350	-
Standby letters	1,056,608		
Derivative financial instruments	-	31,802	-
	$ 34,401,307	$ 12,362,141	$ 27,407,474

	Between 1 months and 1 year	Between 1 and 5 years	More than 5 years
December 31, 2015			
Vendors and creditors	$ 23,758,460	$ -	$ -
Senior notes and contractual interests	884,543	8,836,018	8,276,758
Bank borrowings	86,979	1,051,567	-
Standby letters	413,130	794,467	68,994
Derivative financial instruments	-	102,050	-
	$ 25,143,112	$ 10,784,102	$ 8,345,752

3.3.2 Credit risk

Credit risk is the risk of the Company suffering losses as a result of customers defaulting on payments, financial institutions in which it maintains investments or the counterparties with which derivative financial statements are contracted.

Loan portfolio

The Company's accounts receivable are comprised of loans granted to our customers through the use of credit cards issued by the Company to purchase merchandise, goods and services at our stores or at establishments affiliated to the Visa system.

Due to the fact that Company sales are made to the general public, there is no risk concentration on one particular customer or group of customers.

The Company has a risk management system for the loan portfolio, whose main components include: 1) the risk of default and loss, 2) the operational risk, which includes the information security, technology infrastructure and processes and procedures, both in-store and corporate, of the Credit Management, 3) the regulatory risk, which includes aspects related to compliance with the provisions issued by the Consumer Advocacy Agency, and 4) the risk of fraud.

Credit application forms are evaluated and approved through automated procedures using parameterized scorecards (grading factors) determined by the Company, both for applicants with credit experience in the credit bureau, and for those with none. Scorecard performance is reviewed periodically and, as required, evaluation of the credit application forms is complemented with a telephone check and visit to corroborate the veracity of the information provided by the applicant. Initial credit limits are also calculated individually and automatically by the Company's system and are periodically monitored by the corporate credit department to increase or decrease them based on the cardholder's record. The Company has a process in place for review of its customer's credit quality, for early identification of potential changes in payment capacity, prompt corrective decision taking and determination of current and potential losses.

Through automated systems, monthly account cutoffs are conducted and any accounts failing to show the requirement payment are detected. Accounts not receiving payment are immediately blocked to prevent the balance from continuing to grow and the automated computation of late-payment interest begins. Based on the evaluation of certain variables, late-payment risks of the accounts in default and the actions to be taken on those accounts are determined. The following actions are taken on accounts in default: telephone calls to customers, sending of letters and home visits, among others. Accounts showing no payment after 150 days are automatically assigned to collection agencies to take over collection efforts, and accounts showing more than 240 days default are written off.

The Company permanently monitors recovery of its portfolio based on a broad range of tools and mathematical models, as well as considering a number of factors that include historical trends of portfolio aging, record of cancellations and future expectations of performance, including trends in unemployment rates in Mexico. In times of economic crisis and with high unemployment indexes, the Company restricts approval of applications and loans made, as well as restricting credit limits of current customers. Given the Company's line of business, there are no real guarantees related to accounts receivable. The best way to represent the maximum exposure to credit risk is the carrying value of accounts receivable.

Financial institutions and counterparties in derivative operations

Cash surpluses are invested in credit institutions with a high credit rating such as in government instruments and counterparties in derivative operations are high credit quality financial institutions. It should be mentioned that none of the Company's derivative financial instruments require the Company to keep cash deposits in margin accounts to guarantee these operations.

3.4 Fair value estimate

The financial instruments in the statement of financial position are recorded at fair value based on the following hierarchy.

- Level 1 fair values are derived from prices quoted (not adjusted) in active markets for identical liabilities or assets.
- Level 2 fair values are derived from indicators different from the quoted prices included in Level 1, but that include indicators that are observable directly to quoted prices or indirectly, that is to say, derived from these prices; and
- Level 3 fair values are derived from valuation techniques that include indicators for assets or liabilities that are not based on observable market information.

December 31, 2016	Book value	Level 1	Level 2	Level 3
Assets arising from hedge derivative financial instruments	$ 4,028,255	$ -	$ 4,028,255	$ -
Cash and cash equivalents	12,336,687	12,336,687	-	-
Liabilities arising from hedge derivative financial instruments	(31,802)	-	(31,802)	-
Total	**$ 16,333,140**	**$12,336,687**	**$ 3,996,453**	**$ -**

December 31, 2015	Book value	Level 1	Level 2	Level 3
Assets arising from hedge derivative financial instruments	$ 1,516,534	$ -	$ 1,516,534	$ -
Cash and cash equivalents	7,904,161	7,904,161	-	-
Liabilities arising from hedge derivative financial instruments	(102,050)	-	(102,050)	-
Total	**$ 9,318,645**	**$ 7,904,161**	**$ 1,414,484**	**$ - .**

During the years ended December 31, 2016 and 2015, there were no transfers between levels 1 and 2. The carrying amount of short-term financial instruments is similar to its fair value due to materialize in the short term.

Financial derivative instruments that are classified at level 2, for determining fair value, the pricing model recognized in the financial sphere was used, (estimated future cash flows brought to present value) using available market information to the valuation date. The key assumptions of market inputs used were as follows: a) futures curve US government bonds b) futures curve Mexican government.