Note 22 - Income Tax:

22.1 The income tax is comprised as follows

	December 31, 2016	2015
Income tax	$ 4,161,336	$ 3,648,242
Deferred income tax	(487,876)	(385,077)
	$ 3,673,460	$ 3,263,165

22.2 The deferred tax balance is composed as follows

Deferred income tax asset:	December 31, 2016	2015
Tax loss carry-forwards	$ 118,407	$ 123,077
Provision for impairment of loan portfolio	999,152	872,743
Provisions	1,362,830	1,018,983
Inventories	169,019	148,004
Other items	76,538	26,754
	2,725,946	2,189,561
Deferred income tax liability		
Real estate and property,furniture and equipment	3,624,548	3,829,595
Investment in associates	452,617	401,921
Other items	1,184,125	981,265
	5,261,290	5,212,781
Deferred income tax	2,535,344	3,023,220
Asset tax recoverable	(52,864)	(57,363)
Total	$ 2,482,480	$ 2,965,857

Deferred tax assets and liabilities are analyzed as follows:

	December 31, 2016	2015
Deferred tax asset:		
Deferred tax asset recoverable over the following 12 months	$ 2,725,946	$ 2,189,561
Deferred tax asset recoverable after 12 months	-	-
	2,725,946	2,189,561
Deferred tax liability:		
Deferred tax liability payable within the following 12 months	476,284	323,537
Deferred tax liability payable after 12 months	4,785,006	4,889,244
	5,261,290	5,212,781
Asset tax recoverable	(52,864)	(57,363)
Deferred tax liability (net)	**$ 2,482,480**	**$ 2,965,857**

Net movements of deferred tax assets and liabilities during the year are explained as follows:

	Unamortized tax losses	Provisions, for impairment of loan portfolio	Provisions	Property furtine and equipment	Investement in associates	Inventory	Other	Total
At January 1,2015	$ 277,214	$ 822,117	$ 467,595	$ (3,910,128)	$ (356,246)	$ 105,911	$ (814,760)	$ (3,408,297)
Charged / credited to the Statement of income	(154,137)	50,626	551,388	80,533	(45,675)	42,093	(139,751)	385,077
At December 31, 2015	**$ 123,077**	**$ 872,743**	**$ 1,018,983**	**$ (3,829,595)**	**$ (401,921)**	**$ 148,004**	**$ (954,511)**	**$ (3,023,220)**
Charged / credited to the Statement of income	$ (4,670)	$ 126,409	$ 343,847	$ 205,047	$ (50,696)	$ 21,015	$ (153,076)	$ 487,876
At December 31, 2016	**$ 118,407**	**$ 999,152**	**$ 1,362,830**	**$ (3,624,548)**	**$ (452,617)**	**$ 169,019**	**$ (1,107,587)**	**$ (2,535,344)**

At December 31, 2016, the Company has unamortized tax loss carry-forwards for income tax purposes, to be indexed in the year in which they are applied, for a restated amount of:

Year	Amortizable tax loss carry-forwards
2017	$ 68
2019	3,221
2020	17,978
2021	11,633
2022	12,987
2023	15,139
2024	256,989
2025	490
2026	698
2027	74,236
	$ 393,439

In determining deferred income tax at December 31, 2016 and 2015, the Company applied to temporary differences, the applicable rates according to their estimated date of reversal.

22.3 The reconciliation of the legal income tax rate and the effective rate, stated as a percentage of the profit before income tax, is as follows

	December 31	
	2016	2015
Pre - tax income	$ 13,863,065	$ 12,476,064
Statutory rate	30%	30%
Income tax at statutory rate	4,158,919	3,742,819
Plus (less) effects of taxes of the following items:		
Non deductible expenses	157,959	218,999
Non taxable income	(85,483)	(22,017)
Annual inflation adjustment	(72,492)	(37,987)
Share of profit of associates	(214,701)	(209,787)
Investment property, furniture and equipment - net	(257,985)	(144,073)
Other permanent items	(12,757)	(284,789)
Income tax in the income statement	$ 3,673,460	$ 3,263,165
Effective income tax rate	26%	26%

22.4 Applicable tax rates

In October 2013 the Chamber of Mexican Parliament, passed major reforms to our tax framework effective on January 1, 2014. Main changes in tax laws and the impact it will have on our operations are described below:

In 2002, the Income Tax Law in effect at that time was repealed and a new one was issued. Under this new tax law, income could be accumulated under installment sales, rather than when collected. The above scheme allowed the company to accumulate tax amounts actually received and beginning with this new tax law, the Company will now have to pay the tax from the time of sales, regardless of when collected, which will impact the cash flow of the Company because the tax must be paid even if the cash is not collected (as in a credit card transaction). Regarding the installment sales made until December 31, 2013, the tax authorities gave companies three years to pay the amounts that would be accumulated in 2014, 2015 and 2016.

The current tax law eliminates the immediate deduction of fixed assets and limits deductions to pension contributions, exempt wages, car leasing and social security contributions. Eliminating these deductions, especially the immediate deduction of fixed assets, will also impact the cash flow that the Company will allocate to the payment of taxes. Now, the Company can no longer rapidly deduct investments in new stores, remodels and other assets, but the Company must do so within normal limits established in the new Income Tax Law, which are significantly longer.

This law also modifies the procedure for determining the tax base for the Employees' Profit Sharing ("PTU"). The Company does not anticipate a significant impact from this change.

An income tax rate beginning in 2014 was also established in the tax law of 30%, in contrast to the previously stated rates of 30%, 29% and 28% for 2013, 2014 and 2015, respectively.

Also, the October 1, 2007 flat tax was repealed in these tax reforms; however, the Company did not recognized any current or deferred flat tax and therefore the repeal had no effect in the financial statements of the Company.

The Company also appealed to the Law on Cash Deposits which had no effect on the results of the Company because this tax is credited against the income tax payable.