Notes to the Consolidated Financial Statements

December 31, 2019 and 2018
Thousands of pesos, unless otherwise specified

Note 1 - General information:

El Puerto de Liverpool, S.A. B. de C.V. and subsidiaries ("the Company" or "Group") operate a chain of department stores, founded in 1847, engaged in selling a broad variety of products such as clothes and accessories for men, women and children, household goods, furniture, cosmetics and other consumer products. The Company is registered on the Mexican Stock Exchange and has an important presence in all Mexican Republic. At December 31, 2019 and 2018, the Company operated a total 123 and 136 department stores, 123 and 95 under the name of Liverpool, 41 under the name Fábricas de Francia in 2018, 133 and 115 specialized boutiques, 157 and 131 under the name of Suburbia, respectively. In 2019, 4 new stores started operations, with Liverpool format (Monclova, Coahuila; Guanajuato, Guanajuato; Santa Anita, Tlajomulco; Monterrey, Nuevo León) and 17 stores with the Suburbia format in addition to one reopening (Coapa). The conversion of the 41 Fábricas de Francia stores was completed, of these 24 were converted into Liverpool stores and 14 converted into Suburbia stores. Finally, 6 stores closed their operations definitively, 3 with Fábricas de Francia format and 3 with Suburbia format. In 2018, 12 new stores started operations, 5 with Liverpool format (Fresnillo, Zacatecas; Paseo Querétaro, Querétaro; Atlixco, Puebla; La isla Mérida, Mérida, Yucatán y Las Antenas, Cd. de México) and 7 with Suburbia format (Tuxtla Ambar, Tuxtla Gutiérrez, Chiapas; Zamora, Michoacán; Atlacomulco, Edo. de México; San Juan del Río, Querétaro; Parque Puebla, Puebla; Antenas y Patio Tlalpan, Cd. de México).

The Company grants its customers financing through the "Liverpool Credit Card", with which customers can make purchases at exclusively at Company stores. Additionally, the Company offers the "Liverpool Premium Card ("LPC")", with which cardholders can acquire goods and services at both stores and boutiques pertaining to the chain, and at any establishment affiliated to the VISA system worldwide. Financing of clients in the form of the Suburbia credit cards began in September 2018, for exclusive use at Suburbia stores, as well as the Suburbia VISA credit card, that can be used by cardholders to acquire goods and services at the chain of stores and at any of the establishments using the VISA system throughout the world.

Additionally, at 31 december 2019 and 2018, the Company is a partner, stockholder or co-owner of shopping malls and holds an interest in 28 different malls, known as "Galerías", through which it leases commercial space to tenants engaged in a broad number of businesses. On October 31, 2019, the operation of the "Santa Anita" shopping center in Guadalajara, Jalisco started operations.

The Company's headquarters and main place of business is:

Mario Pani 200
Col. Santa Fe, Cuajimalpa
05348 Ciudad de México

Note 2 - Summary of significant accounting policies:

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

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 a historical cost basis, except for cash flow hedging financial instruments, trading derivatives and investments in government securities that are 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 New standards and changes adopted by the Company

The Company has applied the following standards and modifications for the first time for the annual reporting period beginning on January 1, 2019:

- IFRS 16 - Leases
- Interpretation 23 – Uncertainly over Income Tax Treatments.

The Company has changed its accounting policies as a result of the adoption of IFRS 16. The Company elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on 1 January 2019. See information disclosed in Note 2.1.3.

2.1.2 New standards and interpretations not yet adopted

A number of new standards and interpretations have been published which are not effective for reporting periods at December 31, 2019 and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.1.3 Changes in accounting policies

This note explains the impact of adopting IFRS 16 Leases on the Company's financial statements.

As indicated in Note 2.1.1 above, the Company has adopted IFRS 16 "Leases" retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening statement of financial position on 1 January 2019.

The new accounting policies are disclosed in Note 2.25.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 9.5%.

i. Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics for the vehicles portfolio;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review: there were no onerous contracts as at January 1, 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 "Determining whether an Arrangement contains a Lease".

i. Measurement of lease liabilities

	2019
Operating lease commitments disclosed as at December 31, 2018	$ 21,083,504
Discounted using the lessee's incremental borrowing rate of at the date of initial application	11,652,488
(Less): short-term leases not recognized as a liability	(48,106)
(Less): low-value leases not recognized as a liability	(112,115)
Lease liability recognized as at January 1, 2019	$ 11,492,267
Of which are:	
Current lease liabilities	$ 1,717,802
Non-current lease liabilities	9,774,465
	$ 11,492,267

ii. Measurement of right of use assets

The associated right of use assets for real estate leases, furniture and equipment and vehicles were measured at the amount equal to the lease liability.

iii. Lessor accounting

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see Note 18.2) as a result of the adoption of IFRS 16.

2.1.4 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 5 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.

2.2 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, 2019 and 2018:

Company	Shareholding	Activity
Operadora Liverpool, S. A. de C. V.	99.99%	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. and 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.
Banlieue, S. A. de C. V.	99.99%	Holding of Suburbia, S. de R. L. de C. V. and other companies that administrative services and real estate.
Ten real estate companies	99.93%	Development of real estate projects, mainly shopping malls.

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

Segment information is presented to be consistent with the internal reports provided to the Financial Review Committe, 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 currency in which the consolidated financial statements of the Company are presented is the Mexican peso, which in turn is also the functional currency.

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 or gain in the statement of comprehensive income.

2.5 Financial assets

2.5.1 Classification

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value, and
- Those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss. See Note 2.7. The Company reclassifies debt investments when and only when its business model for managing those assets changes.

2.5.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.5.3 Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of income.

2.6 Impairment of financial assets

2.6.1 Assets carried at amortized cost

From January 1, 2018, the Company evaluates prospectively the expected credit losses associated with its debt instruments at amortized cost over the life of the instrument, considering the results of the evaluation of the portfolio's behavior. The increases to this provision are recorded in expenses and are presented separately in the statement of income. 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 the derivative financial instrument contract is concluded and subsequently measured at fair value. The method to recognize the utility or loss of changes in the fair values of derivative financial instruments depends on whether they are designated as hedging instruments, and if so, the nature of the item being hedged. The Company only has financial instruments derived from cash flow and trading hedges.

The Company documents at the beginning of the transaction the relationship between the hedging instruments and the items hedged, as well as its objectives and the Risk Management strategy that support its hedging transactions. The Company periodically documents whether the derivative financial instruments used in hedging transactions are highly effective in covering the cash flows of the hedged items.

The fair values of derivative financial instruments used as hedging and trading instruments are disclosed in Note 10. The total fair value of derivative financial instruments used as hedging instruments is classified as non-current assets or liabilities when the maturity of the Remaining of the hedged item is greater than 12 months, and is classified as current assets or liabilities when the maturity of the remainder of the hedged item is less than 12 months. Trading derivative financial instruments are classified as current assets or liabilities.

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 statement of income.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is applied to other comprehensive income.

Derivative instruments designated as hedges cover, in a proportion of one to one and on the same dates, the flows of interest and principal of the loans covered, so that their correlation is exactly 1 and therefore their effectiveness of coverage is 100%.

2.8 Cash and cash equivalents

For purposes of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, demand deposits in financial institutions, other short-term investments, highly liquid with original maturities of three months or less that are easily convertible into cash and that are subject to insignificant risks of changes in value, and bank overdrafts. The cash equivalents are represented by investments in government instruments. See Note 7.

2.9 Inventories

Inventories are recorded at cost or net realizable value whichever is less. The cost includes the cost of the merchandise plus the costs of importation, freight, maneuvering, shipping, storage in customs and distribution centers, decreased in the value of the respective returns. The net realizable value is the estimated sale price in the normal course of operations minus the estimated costs to make the sale. The cost is determined using 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 12.

Depreciation 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

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 recognized in administrative expenses is calculated based on the straight-line method to distribute its cost at its residual value during its estimated 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 13.

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 other income.

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.

As of December 31, 2019, and 2018 there was no capitalization of financing costs because during these periods there were no assets that, in accordance with the Company's policies, qualified by requiring a construction period of more than a year.

2.13 Intangible assets

i. Goodwill

Goodwill in acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but goodwill impairment reviews are carried out annually or more frequently if events or changes in circumstances indicate a possible impairment and are recorded at cost less accumulated impairment losses. Gains and losses on the disposal of a Company include the carrying value of the goodwill related to the Company sold.

In order to verify impairment, the goodwill acquired in a business combination is assigned to each of the Cash Generating Units (CGU), which is expected to benefit from the synergies of the combination. Each unit to which the goodwill has been assigned represents the lowest level within the entity to which goodwill is controlled for internal management purposes. Goodwill is controlled at the operating segment level.

ii. Brands

The brands acquired individually are shown at historical cost, while those acquired through business combinations are recognized at their fair value at the date of acquisition. Brands are not amortized and subject to impairment tests annually. To date, no factors limiting the useful life of these assets have been identified. The brands are considered to have an indefinite useful life due to the positioning they have in the market, some of them, for more than 30 years and because the Company's experience and market evidence indicate that they will continue to generate cash flows for the Company in indefinite form. Additionally, the Company estimates that there are no legal, regulatory or contractual considerations that limit the useful lives of such brands.

iii. Development of computer systems and programs

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, recognized in administrative expense, which fluctuate between five (licenses and fees) and ten years (new IT developments). See Note 14.

iv. Other intangibles

As a result of the acquisition of Suburbia, the Company recognized an intangible derived from the knowledge of the operative process of purchases, commercial planning, product design and commercialization (CATMex). This intangible asset was recognized at fair value at the date of acquisition, and was considered indefinite based on the expectation of generating future economic benefits, and is subject to annual impairment tests.

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.

Goodwill and intangible assets with an indefinite useful life are not subject to amortization and are subjected annually to impairment tests, or more frequently if there are events or circumstances that indicate that they could be affected. Other assets are subject to impairment tests when events or changes in circumstances indicate that the carrying amount may not be recovered. An impairment loss is recognized for the book value of the asset that exceeds its recoverable value. Recoverable value is the higher of the fair value of an asset less its disposal costs and its value in use. For purposes of assessing impairment, assets are grouped into the lowest levels for which there are separately identifiable cash flows, which are largely independent of the cash flows of other assets or groups of assets (cash generating units). Impaired non-financial assets other than goodwill are reviewed to determine the possible reversal of 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.

The Company has established financing programs for suppliers, through which they can discount their documents with different financial institutions. The balance payable derived from these programs is recognized within suppliers in the consolidated statement of financial position. The balance payable discounted by suppliers as of December 31, 2019 and 2018 amounts to $4,573,125 and $3,950,998, respectively.

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

2.16 Loans from financial institutions, issues of stock certificates and Senior Notes.

Loans from financial institutions, issues of stock certificates and 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.

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 15.

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 statement of financial position 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, 2019 and 2018, 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 21.

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 and a defined benefit pension plan which 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 statement of financial position with respect to defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position 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 in which the benefits will be paid, and 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.

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 Income Tax Law.

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.

b. 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 $251,279 at December 31, 2019 ($256,158 at December 31, 2018), that is included in Note 15 within the provision of bonuses and compensation to employees.

c. 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 tax 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.

d. Other employees benefits by voluntary separation or dismissal
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 17.

e. 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 uses the IFRS 15 methodology for revenue recognition based on the following steps:

- Identification of the contract with the client;
- Identification of the performance obligations;
- Determination of the transaction price;
- Assignment of the transaction price to performance obligations;
- Recognize income as performance obligations are met.

a. Sale of merchandise
Revenue from merchandise sales is recognized when the customer buys in stores, over the phone or on the internet and takes possession of the good at the time the merchandise is delivered. The Company does not consider the sale of merchandise and its delivery as separate performance obligations, because customers obtain control of the goods at the time of delivery. For promotions of merchandise sales to months without interest less than one year, as a practical solution, the Company does not adjust the amount of said sales, in accordance with the provisions of IFRS 15. For sales to months without interest exceeding one year, the Company has assessed that the amount of the discount for such sales is not significant.

The Company considers as merchandise sales of the period those in which the customer has obtained control of a product in a post-billing delivery agreement, when all the following criteria are met:

- The reason for the post-billing delivery agreement is requested by the customer;
- The product is identified separately as belonging to the customer;
- The product is currently ready for physical transfer to the customer; and
- The Company may not have the ability to use the product or redirect it to another customer.

The Company's policy is to allow the return of certain items sold. Customer returns usually involve a change of size, color, etc.; however, in cases in which the customer definitively wishes to return the product, the Company allows customers to credit 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 electronic cash card or a credit to the customer's bank credit card, if the purchase was made in cash or with external cards, respectively.

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. Upon the time the electronic wallets are granted, they are recognized in the deferred income account in the consolidated financial position. 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.

- 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 consolidated 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 9 "Financial Instruments", interest income is recognized by the effective interest rate method. Late payment of interest is recorded as income as it is collected.

d. Lease revenue

The Company's policy for recognition of operating lease revenue is described in Note 2.25.2

e. Services and other

Income from service agreements is determined as follows:

- 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

La Compañía registra ingresos diferidos por diversas transacciones en las cuales recibe efectivo, pero que las condiciones 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 consolidated 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

As explained in Note 2.1.3 above, the Company has changed its accounting policy for leases in which the Company is the lessee. The new policy is described below.

2.25.1 Lessee

Until the 2018 period, the leases of real estate, furniture and equipment, and automobiles were classified as operational. As of January 1, 2019, leases are recognized as a right-of-use asset and a liability corresponding to the date on which the leased asset is available for use by the Company.

Assets and liabilities derived from a lease are initially measured at present value.

Lease liabilities include the net present value of the following payments:

- Fixed payments (including if they are substantial), less lease incentives receivable;
- Variable lease payments that are based on an index or rate; initially measured using the index or rate on the start date;
- The amounts expected to be payable by the Company in guarantee of residual value;
- Price of exercising a purchase option if the Company has reasonable certainty of exercising this option, and
- Penalty payments for the termination of the lease agreement, if the terms of the lease reflect that the Company will exercise this option.

Lease payments that will be made under renewal options with reasonable certainty of being exercised are also included in the measurement of the liability.

The determination of lease liabilities is made using the interest rate implicit in the lease. However, that rate cannot be easily determined, so the Company uses the incremental financing rate, which is the rate that the Company would have to pay to borrow the necessary funds to obtain an asset of similar value to the right of use. of assets in a similar economic environment with similar terms, guarantees and conditions.

To determine the incremental financing rate, the Company:

- It uses a risk-free interest rate plus the credit risk curve associated with the rating determined for the Company and applies specific adjustments to the lease, for example, term and currency type.

The Company is exposed to possible future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted to the right to use asset.

Lease payments are allocated between the principal and the financial cost. The financial cost is charged to income during the lease period in order to produce a constant periodic interest rate on the remaining balance of the liability for each period.

The right-of-use assets are measured at cost, including the following:

- The amount of the initial measurement of the lease liability;
- Any lease payment made on or before the commencement date minus any lease incentive received;
- Any initial direct costs, and
- Restoration costs.

The right-of-use assets are generally depreciated in a straight line during the shortest period between the useful life of the asset and the lease term. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset depreciates during the useful life of the underlying asset.

The Company applied the exemption for the recognition of low value assets, which include electronic tablets, printing equipment and small articles of office furniture.

Payments associated with short-term leases of furniture and equipment, vehicles and all leases of low-value assets are recognized under the straight-line method as an expense in results. Short-term leases are leases with a lease term of 12 months or less.

2.25.2 Lessor

Revenue from operating leases in which the Company is a lessor is recognized in profit or loss under the straight-line method during the term of the lease. The initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and are recognized as expenses during the term of the lease on the same basis as the income from the lease. The respective leased assets are included in the statement of financial position depending on their nature. The Company did not have to make any adjustment in the accounting of the assets it maintains as a lessor as a result of the adoption of the new lease standard. Lease income for $3,553,455 includes non-lease components for $1,140,553, which are recognized in accordance with the revenue standard for contracts with customers.

Previous accounting policy for leases

Leases are classified as financial when the terms of the lease transfer substantially all the risks and rewards of ownership to the tenants. All other leases are classified as operational.

Lesser

Payments for operating lease income are charged to income using the straight-line method, during the term corresponding to the lease. Variable income is recognized as expenses in the periods 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 20..

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. None of the insurance policies have a term exceeding twelve months.

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 28 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 1%, 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 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 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 is 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 16, 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 21% of total purchases.

At December 31, 2019 and 2018, the Company's exposure to exchange rate risks amounted to US$1,016,562, €324 and US$1,023,350, €1,220, respectively. In the event of an 8% increase in the exchange rate of the peso to the US dollar, the Company's loss would approximate $1,533,581 and $1,598,692. The 8% represents the sensitivity rate used when the foreign exchange risk is reported internally to the Results Review Committee and represents the Administration's assessment of the possible variation in exchange rates. The sensitivity analysis includes only the monetary items pending settlement denominated in foreign currency at the end of the year.

Additionally, the Company maintains an investment in Grupo Unicomer Corp. (Unicomer), and the cash flows received 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:

	December 31,			
Thousands of US dollars		**2019**		2018
Monetary assets	US$	102,222	US$	75,501
Monetary liabilities		(1,118,784)		(1,098,851)
Short position	US$	(1,016,562)	US$	(1,023,350)
Equivalent in pesos	$	(19,176,629)	$	(20,110,056)

	December 31,			
Thousands of Euros		**2019**		2018
Monetary assets	€	7,388	€	10,421
Monetary liabilities		(7,064)		(9,201)
Long position	€	324	€	1,220
Equivalent in pesos	$	6,861	$	27,406

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

		February 19, 2020		December 31, 2019
US dollar	$	18.5910	$	18.8642
Euro	$	20.0634	$	21.1751

3.2.2 Interest rate risk

The contracted financings are subject to both fixed and variable interest rates and expose the Company to the risk of variability in interest rates and, therefore, to its cash flows. The Company's policy is to cover the majority of its financing towards a fixed rate profile. The main objective of the use of derivative financial instruments is to know with certainty the effective flows that the Company will pay to comply with its obligations. With interest rate swaps, the Company agrees with other parties to deliver or receive monthly the difference between the interest amount of the variable rates agreed in the debt contracts and the amount of the interest of the fixed rates contracted in derivative financial instruments, 95% of the debt is at a fixed rate and the rest at a variable rate. 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 consolidated financial position.

The Company contracts interest rate swaps that have critical terms similar to the item covered, such as the reference rate, restart dates, payment dates, maturities and nominal amount. As all critical terms agreed during the year, there is an economic relationship.

The ineffectiveness of coverage for interest rate swaps is assessed using the same principles as for hedges of purchases in foreign currency. They can occur due to:

- adjustment of the creditor value/debtor value in interest rate swaps that does not correspond to the loan, and
- the critical differences between interest rate swaps and loans.

There was no recognized ineffectiveness during 2019 or 2018 in relation to interest rate swaps.

Sensitivity analysis for interest rates

The following sensitivity analyses have been determined considering the current derivative financial instruments at December 31, 2019 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, 2019 and 2018 would have increased by $64,596 and $194,297 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 10 to the consolidated financial statements.

3.2.3 Inflation risk

At December 31, 2019, 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 2019 and 2018 respectively 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 approximately $75,879 and $73,835, 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's 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 and fund the costs and expenses of the operation. 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 $10,600,000 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, 2019			
Suppliers, creditors and provisions	$ 34,214,115	$ -	$ -
Senior notes and contractual interests	5,644,587	18,539,640	27,497,932
Lease liabilities	1,957,729	6,500,947	14,037,279
	$ 41,816,431	$ 25,040,587	$ 41,535,211
December 31, 2018			
Suppliers, creditors and provisions	$ 35,313,221	$ -	$ -
Senior notes and contractual interests	2,451,817	14,993,853	29,027,505
	$ 37,765,038	$ 14,993,853	$ 29,027,505

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 processes of granting credit, authorization of purchase transactions and collection management, 2) information security, technological infrastructure and processes and procedures in store and corporate, 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 continuously 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.

Sensitivity analysis for the provision for credit losses

If the Company will change the adjustment factor of the prospective information up or down 5%, keeping the rest of the assumptions stable, the provision for credit losses would increase (decrease) by $224,000.

Accounting policy for the provision for credit losses

The Company applies the simplified approach specified in IFRS 9 to measure expected credit losses. The new model records future portfolio losses based on the level of impairment of credit risk. That calculation methodology principally considers the likelihood of noncompliance (PD) over the lifetime of the credits, the percentage of loss when noncompliance occurs (LGD), and analysis of parameters indicative of the significant increase in risk level. In order to measure expected credit losses, accounts receivable have been grouped based on shared credit risk features (Liverpool credit card, Liverpool Premium Card (LPC) and Suburbia and Suburbia VISA), days of noncompliance and historical portfolio performance. Historical loss rates are adjusted (parameters (PD, EAD and LGD) to reflect current and prospective information on macroeconomic factors affecting client capacity for covering accounts receivable.

For its calculation parameters, the Company has identified the National Consumer Price Index (NCOI), the Consumer Confidence Index, actual median remunerations for occupied individual, the Trade Weighted US Dollar Index, contractual salaries at which it sells its goods and services as the most relevant factor, and therefore adjusts historical loss rates based on expected changes to those factors. On that basis, the provision for losses at December 31, 2019 and 2018 was determined as follows for accounts receivable:

December 31, 2019	From 0 to 29 days	From 30 to 89 days overdue	More than 90 days overdue	Total
Expected loss rate	5.70%	38.04%	63.27%	
Loan portfolio	$37,861,504	$2,796,835	$1,899,259	$42,557,598
Provision for credit losses	$2,156,824	$1,063,828	$1,201,693	$4,422,345

December 31, 2018	From 0 to 29 days	From 30 to 89 days overdue	More than 90 days overdue	Total
Expected loss rate	4.32%	25.79%	52.00%	
Loan portfolio	$31,828,919	$6,517,453	$1,794,345	$40,140,717
Provision for credit losses	$1,376,201	$1,678,306	$927,785	$3,982,292

The balance of the provision for expected losses for the loan portfolio as December 31, 2019 and 2018 is shown below:

	December 31, 2019	2018
Balance at December 31, 2018	$ 3,982,292	$ 3,804,833
Increase in the provision for credit losses recognized in profit or loss during the year	3,911,269	3,355,378
Loans portfolio canceled during the year as uncollectible	(3,471,216)	(3,177,919)
Balance at December 31, 2019	$ 4,422,345	$ 3,982,292

Accounts receivable are canceled when there is no reasonable expectation of recovery. Indicators showing that there is no reasonable expectation of recovery include the fact that the debtor suggests no payment plan to the Company and the impossibility of making contractual payments over a period of more than 240 days. See Note 8.

Impairment losses from accounts receivable are shown as net impairment losses under operating income. Subsequent recovery of amounts previously canceled is credited to the same line.

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, 2019	Book value	Level 1	Level 2	Level 3
Assets arising from hedge derivative financial instruments	$ 2,489,843	$ -	$ 2,489,843	$ -
Cash and cash equivalents	14,917,249	14,917,249	-	-
Liabilities arising from hedge derivative financial instruments	(727,276)	-	(727,276)	-
Liabilities arising from trading derivative	(41,711)	-	(41,711)	-
Total	$ 16,638,105	$ 14,917,249	$ 1,720,856	$ -

December 31, 2018	Book value	Level 1	Level 2	Level 3
Assets arising from hedge derivative financial instruments	$ 3,646,550	$ -	$ 3,646,550	$ -
Assets by financial instruments trading derivatives	19,917	-	19,917	-
Cash and cash equivalents	10,159,108	10,159,108	-	-
Total	$ 13,825,575	$ 10,159,108	$ 3,666,467	$ -

During the years ended December 31, 2019 and 2018, 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.

Note - 4 Key sources of uncertainty in the estimates:

In applying the Company's accounting policies, which are described in Note 2, Management makes judgments, estimates and assumptions on the book figures of assets and liabilities. The related estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from those estimates.

Estimates and underlying assumptions are analyzed on a regular basis. The reviews of book estimates are recognized in the review period or future periods, if the review affects both the current period and subsequent periods.

The following are the sources of key uncertainty in the estimates made at the date of the consolidated statement of financial position, and which have a significant risk of deriving in an adjustment to the book values of assets and liabilities during the following financial period.

4.1 Provision for impairment of loan portfolio

The methodology applied by the Company in determining the balance of this provision is described in Note 3.3.2, also see Note 8.

4.2 Estimate of useful lives and residual values of property, furniture and equipment

As described in Note 2.14, the Company reviews the estimated useful life and residual values of property, furniture and equipment at the end of every annual period. During this period, it was determined that the life and residual values do not need to be modified, as according to Management's assessment, the useful lives and residual values reflect the economic conditions of the Company's operating environment.

4.3 Estimated impairment of intangible assets with an indefinite useful life

The identification and measurement of impairment of intangible assets with indefinite lives involves the estimation of reasonable values. These estimates and assumptions could have a significant impact on the decision to recognize or not an impairment charge and also on the magnitude of such charge. The Company performs a valuation analysis and considers relevant internal information, as well as other public market information. Fair value estimates are mainly determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projected future cash flows (including maturities), discount rates that reflect the risk inherent in future cash flows, multiples of outflow cash flows, perpetual growth, determination of appropriate market comparable and the determination of whether a premium or discount should be applied to comparable.

4.4 Estimation of useful lives of brands and other intangible assets with an indefinite life

The brands acquired as part of Suburbia have demonstrated their longevity by having been successful in the market for several decades and are well recognized in Mexico. The knowledge of the operative process of procurement, commercial planning, product design and marketing (called CATMex) is unique in the Mexican market and has generated economic benefits for Suburbia for several decades. Based on our own experience, during 170 years of operating in Mexico, the Company believes that CATMex will continue to generate cash flows for the Company indefinitely.

To date, no factors limiting the useful life of the aforementioned intangible assets have been identified and there are no legal, regulatory or contractual considerations that limit them, so in the opinion of the Company's Management, it was determined to appoint the brands of Suburbia and CATMex as having an indefinite useful life.

4.5 Determination of the lease term and incremental financing rate

4.5.1 Determination of the lease term

In determining the lease term, the Administration considers all the facts and circumstances that create an economic incentive to exercise an extension option. Extension options (or periods after termination options) are only included in the lease term if there is reasonable certainty that the lease will be extended (or not terminated).

For real estate leases, the following factors are usually the most relevant:

- If there are significant penalties for terminating (or not extending), the Company generally has reasonable certainty of extending (or not terminating).
- If any improvement in the lease is expected to have significant remaining value, the Company generally has reasonable certainty of extending (or not terminating).
- Otherwise, the Company considers other factors that include the length of the historical lease and the costs and business interruption necessary to replace the leased asset.

4.5.2 Determination of the incremental financing rate

The determination of lease liabilities is made using the interest rate implicit in the lease. However, that rate cannot be easily determined, so the Company uses the incremental financing rate, which is the rate that the Company would have to pay to borrow the necessary funds to obtain an asset of similar value to the right of use of assets in a similar economic environment with similar terms, guarantees and conditions.

To determine the incremental financing rate, the Company:

- It uses a risk-free interest rate plus the credit risk curve associated with the rating determined for the Company and applies specific adjustments to the lease, for example, term and currency type.

Note 5 - Category of financial instruments:

December 31, 2019	Amortized cost (receivables)	Fair value through profit or loss	Derivates used for hedging	Total
Financial assets:				
Cash and bank deposits	$ 3,717,549	$ -	$ -	$ 3,717,549
Investments	14,917,249	-	-	14,917,249
Short and long-term loan portfolio - Net	38,135,253	-	-	38,135,253
Other short and long-term accounts receivable - Net	2,201,994	-	-	2,201,994
Short-term derivative financial instruments	-	-	341,307	341,307
Long-term derivative financial instruments	-	-	2,148,536	2,148,536

	Amortized cost (loans/ other liabilities)	Fair value through profit or loss	Derivates used for hedging	Total
Financial liabilities:				
Issuance of long-term senior notes and short and long-term bank borrowings	$ 35,319,371	$ -	$ -	$ 35,319,371
Suppliers, creditors and provisions	34,214,115	-	-	34,214,115
Short-term derivative financial instruments	-	41,711	-	41,711
Long-term derivative financial instruments	-	-	727,276	727,276

December 31, 2018	Amortized cost (receivables)	Fair value through profit or loss	Derivates used for hedging	Total
Financial assets:				
Cash and bank deposits	$ 3,376,391	$ -	$ -	$ 3,376,391
Investments	10,159,108	-	-	10,159,108
Short and long-term loan portfolio - Net	36,158,425	-	-	36,158,425
Other short and long-term accounts - Net receivable	2,269,563	-	-	2,269,563
Short-term derivative financial instruments	-	19,917	-	19,917
Long-term derivative financial instruments	-	-	3,646,550	3,646,550

	Amortized cost (loans/ other liabilities)	Fair value through profit or loss	Derivates used for hedging	Total
Financial liabilities:				
Issuance of long-term senior notes and short and long-term bank borrowings	$ 31,088,067	$ -	$ -	$ 31,088,067
Suppliers, creditors and provisions	35,313,221	-	-	35,313,221

Note 6 - Credit quality of financial instruments:

Loan portfolio:	December 31, 2019	2018
Counterparties without external risk ratings:		
Group 1 - Customers with Liverpool credit card	$ 31,655,479	$ 30,629,824
Group 2 - Customers with VISA credit card	9,109,077	8,901,615
Group 3 - Customers with credit card Suburbia	1,686,684	573,076
Group 4 - Customers with VISA Suburbia credit card	106,358	36,202
Total loan portfolio	42,557,598	40,140,717
Cash and short-term bank deposits [1]		
AAA	18,590,736	13,490,013
AA	-	-
A	-	-
	18,590,736	13,490,013
Financial assets - derivative financial instruments [2]		
AAA	2,489,843	3,666,467
AA	-	-
	2,489,843	3,666,467
	$ 63,638,177	$ 57,297,197

- Group 1 and 3 – For the Company, credits granted through the Liverpool and Suburbia credit cards (which mostly share the same characteristics) represent a lesser risk due to the fact that its use is sporadic and seasonal and is restricted to the products on sale at Company stores.
- Group 2 and 4 – The VISA credit cards (which mostly share the same characteristics) operated by the Company imply a different risk level, due mainly to the fact that they can be used at a broad number of establishments, allow their holders to draw cash from ATMs and are intended for continuous use.

1 The rest of cash equivalents in the statement of financial position correspond to petty cash.

2 The Company does not consider there are risk factors arising from default on counterparty obligations, due to which, it has not been necessary to set up reserves in this regard at December 31, 2019 and 2018.

Note 7 - Cash and cash equivalents:

		December 31, 2019		2018
Cash and bank deposits	$	3,717,549	$	3,376,391
Investments		14,917,249		10,159,108
Total	$	18,634,798	$	13,535,499

Note 8 - Loan portfolio and liabilities related to contracts with customers:

		December 31, 2019		2018
Credits related to customer contracts	$	42,557,598	$	40,140,717
Provision for impairment of loan portfolio (See note 3.3.2)		(4,422,345)		(3,982,292)
Total loan portfolio	$	38,135,253	$	36,158,425
Total short-term loan portfolio	$	28,680,398	$	26,756,472
Total long-term loan portfolio	$	9,454,855	$	9,401,953

The fair value of the short-term loan portfolio at December 31, 2019 and 2018 closely resembles their book value.

The fair value of the long-term loan portfolio until December 31, 2019 and 2018, as established in $8,877,952 and $8,512,397, will be considered level 3 and will be determined using the technique of effective yield at present value at a current discount rate according to the average term of the portfolio and the risk of it.

		December 31, 2019		2018
Contract liability - deferred income	$	2,324,268	$	2,109,582
Total current contract liabilities	$	2,324,268	$	2,109,582

8.1 The following table shows how much of the recognized income was included in the balance of the liability for contracts at the beginning of the period:

		December 31, 2019		2018
Deferred income (see Note 2.22.b)	$	1,833,572	$	1,891,570

Note 9 - Other accounts receivable - Net:

Short term accounts receivable:		December 31, 2019		2018
Other debtors [1]	$	1,567,826	$	1,572,597
Broxel, S. A. P. I. de C. V. [2]		193,547		-
Prestaciones Universales, S. A. de C. V. [2]		2,075		201,860
IB Enterprises, S. A. de C. V.		97,062		144,847
Insurance companies		-		39,962
Short - term loans to employees		67,869		34,171
		1,928,379		1,993,437
Long-term accounts receivable:				
Long - term loans to employees		273,615		276,126
Total	$	2,201,994	$	2,269,563

1. Includes accounts receivable to tenants (this amount includes the provision of credit losses for an amount of $7,876 in 2019 and $12,420 in 2018), companies that issue coupons.

2. Includes accounts receivable for coupons issued by the Government of Mexico City.

Note 10 - Derivative financial instruments:

The Company uses hedge derivative financial instruments to reduce the risk of adverse movements in the interest rates of its long-term debt and inflationary increases in Mexico and to ensure the certainty in the cash flows that it will pay to comply with the obligations incurred, in addition, the Company uses negotiation instruments, forward exchange rate contracts, which aim to reduce the risk of exchange rate movements in the cost of acquiring the goods. The main instruments used are interest rate and currency swaps and the positions contracted at the end of each year are shown below:

Assets

		Dates		Interest rate		Fair value at December 31,	
Notional amount [1]		Contracting	Maturity	Contracted by DFI	Agreed in the debt	2019	2018
USD	300,000	October 2014	October 2024	6.81%	3.95%	$ 2,148,536	$ 2,449,472
$	750,000	June 2010	May 2020	8.48%	4.22%	341,307	296,563
USD	250,000	September 2016	October 2026	8.88%	3.88%	-	229,090
USD	350,000	September 2016	October 2026	8.59%	3.88%	-	407,183
USD	50,000	October 2016	October 2026	8.87%	3.88%	-	55,391
USD	50,000	October 2016	October 2026	8.76%	3.88%	-	55,871
USD	50,000	October 2016	October 2026	8.84%	3.88%	-	72,776
$	1,500,000	September 2017	August 2022	7.84%	TIIE + 0.25%	-	80,205
USD	19,129	Several (2018)	Several (2019)	Several	N/A	-	10,006
USD	15,435	Several (2018)	Several (2019)	Several	N/A	-	9,910
Total						2,489,843	3,666,467
Less long-term portion						(2,148,536)	(3,646,550)
Current portion						$ 341,307	$ 19,917

Liabilities

		Dates		Interest rate		Fair value at December 31,	
Notional amount [1]		Contracting	Maturity	Contracted by DFI	Agreed in the debt	2019	2018
USD	250,000	September 2016	October 2026	8.88%	3.88%	$ (287,877)	$ -
USD	350,000	September 2016	October 2026	8.59%	3.88%	(310,756)	-
USD	50,000	October 2016	October 2026	8.87%	3.88%	(45,266)	-
USD	50,000	October 2016	October 2026	8.76%	3.88%	(44,926)	-
USD	50,000	October 2016	October 2026	8.84%	3.88%	(26,477)	-
$	1,500,000	September 2017	August 2022	7.84%	TIIE + 0.25%	(11,974)	-
USD	51,194	Several (2019)	Several (2020)	Several	N/A	(25,733)	-
USD	31,508	Several (2019)	Several (2020)	Several	N/A	(15,978)	-
Total						(768,987)	-
Less long-term portion						(727,276)	-
Current portion						$ (41,711)	$ -

[1] The notional amounts related to derivative financial instruments reflect the reference volume contracted; however, they do not reflect the amounts at risk as concerns future flows. Amounts at risk are generally limited to the unrealized profit or loss in from valuation to market of those instruments, which can vary depending on changes in the market value of the underlying item, its volatility and the credit rating of the counterparties.

Note 11 - Investments in associates:

Concept	Activity	Place of incorporation and operations	Proportion of shareholding and voting rights December 31, 2019	2018	December 31, 2019	2018
Investment in associates (i) y (ii)	Sales	Mexico and Centroamérica	50%	50%	$ 7,267,280	$ 7,577,641
Other investments in associates (iii)	Malls	Mexico	Several	Several	1,188,759	932,566
					$ 8,456,039	$ 8,510,207

(i) Unicomer

Unicomer is a private company that operates a chain of stores engaged in the sale of furniture and household appliances through a chain of more than 1,193 stores, with different formats in Central America, South America and the Caribbean. The Company has a 50% equity interest in Unicomer. This acquisition gave rise to goodwill of $757,623, which is included as part of the investment value. The Company does not exercise joint control over Unicomer because the criteria for control is not met. Under IFRS it exercises significant influence over Unicomer, due to the fact that it owns 50% of the voting rights and is entitled to designate 2 members of the Board of Directors.

(ii) Moda Joven Sfera México, S. A. de C. V. (Sfera México)

In 2006, the Company incorporated an entity in association with El Corte Inglés, S. A. with 49% of the capital (the leading department store chain in Spain). This entity operates a chain of 51 stores in Mexico, specialized in family clothing and accessories under the commercial name Sfera.

(iii) Other investments

Mainly correspond to the Company's equity in the following malls: Angelópolis in the city of Puebla, Plaza Satélite in the state of México and Galerías Querétaro in the city of Querétaro.

11.1 Following is a summary of the combined financial information pertaining to the Company's associates:

Summarized statement of financial position	Unicomer December 31, 2019	2018	Sfera México December 31, 2019	2018
Current assets:				
Cash and cash equivalents	$ 2,770,864	$ 2,240,673	$ 100,799	$ 56,625
Other current assets	22,450,351	23,643,521	653,034	640,875
Total current assets	25,221,215	25,884,194	753,833	697,500
Non-current assets	17,866,242	15,743,059	1,774,856	679,248
Total assets	43,087,457	41,627,253	2,528,689	1,376,748
Current liabilities:				
Suppliers	3,613,429	4,121,675	183,401	168,203
Other current liabilities	15,695,385	12,203,051	297,937	280,147
Total current liabilities	19,308,814	16,324,726	481,338	448,350
Non-current liabilities	11,747,938	12,926,238	1,041,404	-
Total liabilities	31,056,752	29,250,964	1,522,742	448,350
Net assets	12,030,705	12,376,289	1,005,947	928,398
Equity in net assets of associates	$ 6,776,122	$ 7,122,705	$ 491,158	$ 454,936

Summarized statement of comprehensive income	Unicomer December 31, 2019	2018	Sfera México December 31, 2019	2018
Revenue	$ 21,804,302	$ 22,217,167	$ 1,922,458	$ 1,849,618
Interest income	8,803,669	8,440,456	16	16
Depreciation and amortization	(1,277,530)	(672,785)	(187,743)	(98,748)
Interest expense	(1,537,651)	(1,574,458)	(120,507)	(32,915)
Income tax expense	(683,313)	(692,216)	(33,616)	(39,058)
Net income	1,102,992	1,197,845	79,601	94,832
Company's equity in profits of associates	$ 647,047	$ 580,013	$ 37,227	$ 46,447

11.2 The reconciliation of movements in the investment in associates is as follow:

	Unicomer	Sfera México	Other	Total
Balance at January 1, 2018	$ 6,223,803	$ 407,484	$ 783,673	$ 7,414,960
Translation effect of investment in associates	369,290	-	-	369,290
Equity method	580,013	46,447	-	626,460
Other - net	(50,401)	1,005	148,893	99,497
Balance at December 31, 2018	7,122,705	454,936	932,566	8,510,207
Translation effect of investment in associates	(462,498)	-	-	(462,498)
Equity method	647,047	37,227	-	684,274
Dividends paid	(213,147)	-	-	(213,147)
Capital increase in associates	87,441	-	232,106	319,547
Other - net	(405,426)	(1,005)	24,087	(382,344)
Balance at December 31, 2019	$ 6,776,122	$ 491,158	$ 1,188,759	$ 8,456,039

Note 12 - Investment properties - Net:

	Amount
Balance at January 1, 2018	$ 18,922,292
Acquisitions	2,055,924
Disposals	(33,807)
Depreciation	(276,101)
Balance at December 31, 2018	20,668,308
Acquisitions	2,169,490
Disposals	(215,995)
Depreciation	(275,718)
Balance at December 31, 2019	$ 22,346,085

Investment properties include shopping malls, works in progress and other land intended for construction of future shopping malls.

The fair value of investment properties of the Company at December 31, 2019, and 2018 amounts to $30,820,468 and $27,530,899, respectively, through discounted cash flows, the key assumptions used were the projected annual growth of business and the expected useful life, using an average discount rate of 10.24% (11.74% in 2018), classified as level 2. The operating costs directly related to the income from leasing investment properties is comprised as follows:

	December 31,	
	2019	2018
Repairs and maintenance	$ 714,429	$ 649,668
Advertising	166,462	145,053
Personnel compensation and benefits	70,520	78,171
Real estate taxes and water	95,625	99,414
Hired services	32,452	27,259
Other expenses	7,088	7,250
Electrical power and utilities	6,723	7,133
Rent of equipment	3,370	3,838
Travel expenses	4,604	3,805
Total	$ 1,101,273	$ 1,021,591

Note 13 - Property, furniture and equipment - Net:

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Transportation equipment	Works in progress	Total
At December 31, 2018								
Beginning balance	$ 6,654,689	$ 23,237,060	$ 5,590,837	$ 4,184,977	$ 936,489	$ 138,435	$ 3,113,390	$ 43,855,877
Acquisitions	22,787	558,642	94,825	36,746	73,040	84,082	4,629,280	5,499,402
Transfers	100,288	2,522,975	1,574,244	204,465	248,507	12,050	(4,662,529)	-
Disposals	(17,464)	-	-	(6,672)	(2,383)	(5,850)	-	(32,369)
Depreciation	-	(445,744)	(914,060)	(402,326)	(387,237)	(58,439)	-	(2,207,806)
Ending balance	6,760,300	25,872,933	6,345,846	4,017,190	868,416	170,278	3,080,141	47,115,104
At December 31, 2018								
Cost	6,760,300	30,650,228	14,927,193	7,247,314	3,273,152	482,760	3,080,141	66,421,088
Accumulated depreciation	-	(4,777,295)	(8,581,347)	(3,230,124)	(2,404,736)	(312,482)	-	(19,305,984)
Ending balance	$ 6,760,300	$ 25,872,933	$ 6,345,846	$ 4,017,190	$ 868,416	$ 170,278	$ 3,080,141	$ 47,115,104
At December 31, 2019								
Beginning balance	$ 6,760,300	$ 25,872,933	$ 6,345,846	$ 4,017,190	$ 868,416	$ 170,278	$ 3,080,141	$ 47,115,104
Acquisitions	38,496	291,277	58,858	139,096	36,715	133,006	5,174,064	5,871,512
Transfers	99,890	1,495,637	1,552,907	1,520,139	186,112	50,416	(4,905,101)	-
Disposals	(2,881)	(55,760)	(109,156)	(23,042)	(72,033)	(4,105)	(128,841)	(395,818)
Depreciation	-	(665,149)	(812,925)	(410,917)	(374,262)	(71,942)	-	(2,335,195)
Ending balance	6,895,805	26,938,938	7,035,530	5,242,466	644,948	277,653	3,220,263	50,255,603
At December 31, 2019								
Cost	6,895,805	32,381,382	16,429,802	8,883,507	3,423,946	662,077	3,220,263	71,896,782
Accumulated depreciation	-	(5,442,444)	(9,394,272)	(3,641,041)	(2,778,998)	(384,424)	-	(21,641,179)
Ending balance	$ 6,895,805	$ 26,938,938	$ 7,035,530	$ 5,242,466	$ 644,948	$ 277,653	$ 3,220,263	$ 50,255,603

The balance of works in progress at the end of fiscal year 2019 corresponds to various projects where the Company is building a distribution center, some stores or shopping malls and remodeling some existing ones.

Note 14 - Intangible assets - Net:

	Indefinite useful life			Definite useful life		
	Goodwill	Trademarks	Other intangible	Licenses and fees	New IT developments	Total
Balance at January 1, 2018	$ 7,481,553	$ 3,668,021	$ 2,108,566	$ 959,435	$ 2,057,006	$ 16,274,581
Movements:						
Investments	-	-	-	247,892	751,335	999,227
Disposals	-	-	-	(3,007)	(596)	(3,603)
Amortization	-	-	-	(203,693)	(582,134)	(785,827)
Balance at December 31, 2018	7,481,553	3,668,021	2,108,566	1,000,627	2,225,611	16,484,378
Movements:						
Investments	-	-	-	154,883	534,587	689,470
Disposals	-	-	-	(14,954)	(98,650)	(113,604)
Amortization	-	-	-	(233,256)	(651,950)	(885,206)
Balance at December 31, 2019	$ 7,481,553	$ 3,668,021	$ 2,108,566	$ 907,300	$ 2,009,598	$ 16,175,038

Impairment test of goodwill, brands and other intangibles

The Company conducts annual tests to determine whether the goodwill, brands and other intangibles, the rights of its brands and other intangible (CATMex) have suffered any impairment in their value. As of December 31, 2019, the Company performed the respective tests without determining any adjustment for impairment.

The Company identified the Suburbia segment as a Cash Generating Unit (CGU), in which goodwill, trademarks and other intangibles of indefinite life were assigned. The recoverable value of the CGU is based on fair value calculations less disposal cost, which are prepared based on historical results and expectations on future market development included in the business plan. These calculations use the cash flow projections based on financial budgets approved by Management that cover a period of eight years, and the level of fair value hierarchy used was level 3. The determination of fair value less disposal cost requires the use of estimates that consider the assumptions mentioned below:

	2019 (%)	2018 (%)
Discount rate post taxes	10.84	12.76
EBITDA margin (average budgeted)	16.70	14.10
The expected medium-term growth rate used to calculate the planned future results	9.56	12.20
Residual growth rate	3.00	3.50

If the discount rates in the year ended December 31, 2019, were 1 percentage point higher/lower, there would be no deterioration.

If the EBITDA for the year ended December 31, 2019 was 1 percentage point higher/lower, it would not result in an impairment provision recognition.

Note 15 - Provisions:

	Bonuses and compensation paid to employees [1]	Other provisions [2]	Total
At January 1, 2018	$ 1,542,601	$ 531,818	$ 2,074,419
Charged to income statement	4,295,333	4,014,803	8,310,136
Used during the year	(4,153,298)	(3,907,564)	(8,060,862)
At December 31, 2018	1,684,636	639,057	2,323,693
Charged to income statement	5,979,208	3,802,155	9,781,363
Used during the year	(6,192,513)	(3,721,744)	(9,914,257)
At December 31, 2019	$ 1,471,331	$ 719,468	$ 2,190,799

[1] Includes provisions for sales commissions, holiday and other fringe benefits.

[2] Other provisions include liabilities for services rendered by consultants and maintenance of stores and offices.

Note 16 - Debt:

The Company's debt is comprised as follows:

	December 31, 2019	2018
Short-term debt:		
Interest payable	$ 611,961	$ 554,307
Stock certificates	3,000,000	-
	$ 3,611,961	$ 554,307
Long-term debt:		
Stock certificates	$ 11,900,000	$ 9,900,000
Senior Notes	19,807,410	20,633,760
	$ 31,707,410	$ 30,533,760

16.1. Debt securities certificates:

Based on a Revolving Stock Certificates Program authorized by the CNBV, the Company may issue debt securities certificates up to the amount of $30,000 million pesos for a term of up to 5 years as from July 21, 2017.

Currently, the Company has placed the following unsecured issues:

Maturity	Interest payable	Interes rate	December 31, 2019	2018
May 2020	Semiannually	Fixed at 4.22%	$ 750,000	$ 750,000*
May 2020	Semiannually	Fixed at 8.53%	2,250,000	2,250,000
Mar 2022	Semiannually	Fixed at 7.64%	1,900,000	1,900,000
Aug 2022	Monthly	TIIE at 28 days plus 0.25 basis points	1,500,000	1,500,000
Aug 2027	Semiannually	Fixed at 7.94%	3,500,000	3,500,000
Nov 2029	Semiannually	Fixed at 7.96%	5,000,000[1]	-
			14,900,000	9,900,000
Less long-term portion			(11,900,000)	(9,900,000)
Add interest payable			611,961	554,307
Current portion			$ 3,611,961	$ 554,307

* Issuance of debt securities certificates equivalent to 169,399,100 UDIs.

[1] On November 14, 2019, the Company issued stock certificates in the amount of $ 5,000,000 pesos equivalent to 5,000 certificates.

Maturities pertaining to the long-term portion of this liability at December 31, 2019 are as follows:

Maturity	Amount
2022	$ 3,400,000
2027	3,500,000
2029	5,000,000
	$ 11,900,000

The issuances of debt securities certificates and other financing contracted by the Company do not establish the obligation to maintain certain proportions in its financial structure or compliance with financial ratios; however, they require that the Company and the significant subsidiaries defined in the respective contracts comply with certain restrictions for the payment of dividends, mergers, divisions, change of corporate purpose, issuance and sale of capital stock, capital investments and liens. As of December 31, 2019 and 2018, the Company complied with the aforementioned conditions.

The Company has contracted a swap to cover the exposure to the UDI exchange rate on the issuance of unsecured notes denominated in UDIs and interest rate derivative financial instruments on the financings mentioned above. See Note 10.

The fair value of the senior notes is as follows:

	December 31			
	2019		2018	
Maturity date	Book Value	Fair value [1]	Book Value	Fair value
May 2020	$ 750,000	$ 1,083,337	$ 750,000	$ 1,041,295
May 2020	2,250,000	2,259,277	2,250,000	2,225,286
Mar 2022	1,900,000	1,896,476	1,900,000	1,794,501
Aug 2022	1,500,000	1,498,269	1,500,000	1,497,809
Aug 2027	3,500,000	3,495,450	3,500,000	3,118,766
Nov 2029	5,000,000	5,019,695	-	-
	$ 14,900,000	$ 15,252,504	$ 9,900,000	$ 9,677,657

[1] The fair value of debt securities certificates is determined based on reference to price quotations published in an active market (classified as level 1 in the fair value hierarchy).

16.2 Senior Notes

Below are the details of the Senior Notes as of December 31, 2019 and 2018:

			December 31,	
Maturity date	Interes payable	Interest rate	2019	2018
Oct 2024 [1]	Semiannually	Fixed at 3.95%	$ 5,659,260	$ 5,895,360
Oct 2026 [2]	Semiannually	Fixed at 3.875%	14,148,150	14,738,400
			$ 19,807,410	$ 20,633,760

[1] In September 2014, the Company issued Senior Notes for an amount of US$300 million, with an interest rate of 3.95% per annum and maturing in 2024. The Securities constitute obligations payable by the Company and have the unconditional guarantee of Distribuidora Liverpool, S. A. de C. V. (subsidiary).

[2] In September 2016, the Company issued Senior Notes for an amount of US$750 million, with an interest rate of 3.875% per annum and maturing in 2026. The Securities constitute obligations payable by the Company and have the unconditional guarantee of Distribuidora Liverpool, S. A. de C. V. (Subsidiary).

The aforementioned securities were the subject of a private offering to institutional investors in the United States and other foreign markets under the Rule 144A and Regulation S under the Securities Act 1933 of the United States of America.

The fair value of issuances of senior notes is as follows:

	December 31,			
	2019		2018	
Maturity date	Book Value	Fair value [1]	Book Value	Fair value
Oct 2024	$ 5,659,260	$ 5,835,263	$ 5,895,360	$ 5,560,262
Oct 2026	14,148,150	14,485,442	14,738,400	13,505,706
	$ 19,807,410	$ 20,320,705	$ 20,633,760	$ 19,065,968

[1] The fair value of Senior Notes is determined based on reference to price quotations published in an active market (classified as level 1 in the fair value hierarchy).

A reconciliation of debt as required by IAS 7 “Cash flow statement” is as follows:

	December 31, 2019	2018
Beginning balance of debt and interest	$ 31,088,067	$ 36,820,533
Issuance of debt	5,000,000	-
Repayments	-	(5,671,456)
Foreign exchange variation	(826,350)	(12,285)
Interest accrued	2,588,310	2,695,911
Interest paid	(2,530,656)	(2,744,636)
Closing balance of debt and interest	$ 35,319,371	$ 31,088,067

Note 17 - Employee benefits:

The value of employee benefit obligations at December 31, 2019 and 2018, amounted to $2,469,847 and $1,652,186, as follows:

	December 31, 2019	2018
Pension plans	$ (1,371,523)	$ (851,287)
Seniority premium	(396,347)	(245,959)
Other employee benefits	(701,977)	(554,940)
	$ (2,469,847)	$ (1,652,186)

The net cost for the period ended at December 31, 2019 and 2018 are as follows:

	December 31, 2019	2018
Pension plans	$ 133,716	$ 115,819
Seniority premium	67,506	60,292
Other employee benefits	109,074	103,805
	$ 310,296	$ 279,916

The amount included as a liability in the consolidated statements of financial position is integrated follows:

	December 31, 2019	2018
Defined benefit obligations	$ (2,611,648)	$ (2,009,044)
Fair value of plan assets	141,801	356,858
Liability in the consolidated balance sheet	$ (2,469,847)	$ (1,652,186)

The movement in the defined benefit obligation is as follows:

	2019	2018
Beginning balance at January 1	$ (2,009,044)	$ (2,069,030)
Service cost	(144,605)	(149,757)
Interest cost	(199,927)	(174,437)
Actuarial loss	(511,146)	244,005
Benefits paid	253,074	140,175
Ending balance at December 31	$ (2,611,648)	$ (2,009,044)

The movement in the liability is as follows:

	2019	2018
Beginning balance at January 1	$ (1,652,186)	$ (1,494,031)
Provision of the year	(310,296)	(279,916)
Actuarial remeasurements	(509,773)	262,527
Company contributions	(61,258)	(164,847)
Benefits paid	63,666	24,081
Ending balance at December 31	$ (2,469,847)	$ (1,652,186)

The movement in plan assets is as follows:

	2019	2018
Beginning balance at January 1	$ 356,858	$ 574,999
Return plan assets	35,609	62,799
Transfer of assets	(61,258)	(164,847)
Benefits paid	(189,408)	(116,093)
Ending balance at December 31	$ 141,801	$ 356,858

Principal categories of plan assets at the end of the reporting period are as follows:

	Fai value of plan assets December 31, 2019	2018
Debt instruments	$ 106,351	$ 299,761
Equity instruments	35,450	57,097
	$ 141,801	$ 356,858

The expected return on plan assets represents the weighted average expected return for the different categories of plan assets. The Company's assessment of expected yields is based on historical trends and analyst' predictions on the market of assets for the life of related obligations.

The significant actuarial assumptions are as follows:

	December 31, 2019 (%)	2018 (%)
Discount rate	8.75	10.75
Inflation rate	3.50	3.50
Salary growth rate	4.75	4.75
Pension increase rate	5.00	7.00

Assumptions concerning future mortality are established on the basis of the actuarial study as per statistics and the published experience of each territory. Those assumptions give rise to average life expectancy of an individual retiring at age 65.

Retiring at year-end:

	2019	2018
Men	17 years	17 years
Women	20 years	20 years

Sensitivity of the obligation for defined benefits resulting from changes in the weighted average of the main assumptions is as follows:

	Change in assumptions		Increase (decrease) in assumptions	
	2019	2018	2019	2018
Discount rate	0.5%	0.5%	$ 116,506	$ 79,639
Rate of salary increases	0.5%	0.5%	150,419	95,376
Pension increase rate	0.5%	0.5%	5,431	4,178
Life expectancy	0.5%	0.5%	8,898	12,854

The aforementioned sensitivity analyses are based on a change in one assumption, with all other assumptions remaining constant. In practice, this is unlikely and changes in other assumptions can be correlated. The same method (present value of defined benefit obligations calculated by the projected unit credit method at the end of the reporting period) was applied in calculating the sensitivity of the obligation for defined benefits to significant actuarial assumptions.

The methods and types of assumptions used in the sensitivity analysis were the same as those used in the preceding period.

Note 18 - Operating leases:

18.1 The Company as a lessee:

This note provides information for leases in which the Company is a lessee.

i. Amounts recognized in the statement of financial position

The status shows the following amounts related to leases:

	December 31, 2019	January 1, 2019
Right of use assets		
Buildings	$ 11,062,753	$ 10,637,336
Furniture and equipment	539,345	682,779
Vehicles	231,854	172,152
	$ 11,833,952	$ 11,492,267
Lease liabilities		
Current	$ 1,920,637	$ 1,717,802
Non-current	10,298,476	9,774,465
	$ 12,219,113	$ 11,492,267

During fiscal year 2019, the Company added and derecognized the right to use assets for the right to use for amounts of $2,003,163 and $452,161, respectively.

ii. Amounts recognized in the consolidated statement of income

The consolidated statement of income shows the following amounts related to leases:

	December 31, 2019
Depreciation charge of right of use assets:	
Buildings	$ 947,447
Furniture and equipment	144,269
Vehicles	117,601
	1,209,317
Interest expense (included in finance cost)	1,071,554
Expense relating to short-term leases (included in cost of sales and administrative expenses)	273,912
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	109,605
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	512,393

The total cash flow for leases in 2019 was for an amount of $1,888,108.

iii. Leasing activities of the Company and how they are accounted for

The Company rents real estate, furniture and equipment, and vehicles. Rental contracts are usually made for fixed periods of 12 months to 15 years but may have options for extension of time as described in subsection v. below.

Contracts may contain lease and non-lease components. The Company assigns the consideration in the contract to the lease and non-lease components based on their relative independent prices.

The lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease agreements do not impose any covenant apart from the guarantee on leased assets that are maintained by the lessor. Leased assets cannot be used as collateral for loan purposes.

iv. Variable lease payments

Some of the property leases contain variable payment terms that are linked to the sales generated in a store. For individual stores, up to 100% of lease payments are based on variable payment terms with a percentage range of 2% to 3% of sales. Variable payment terms are used for a variety of reasons, including minimization of the fixed cost base for newly established stores. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers such payments occurs.

v. Extension and termination option

Extension and termination options are included in a series of leases of real estate, furniture and equipment throughout the Company. These are used to maximize operational flexibility in terms of managing the assets used in the Company's operations. Most extension and termination options are held by the Company and not the lessor.

Following is the reconciliation of the lease liability required by IAS 7 "Statement of cash flows":

		December 31, 2019
Beginning balance of lease liabilities	$	11,492,267
Acquisitions		2,003,163
Disposals		(459,763)
Accrued interest		1,071,554
Principal payment		(816,554)
Interest paid		(1,071,554)
Closing balance of lease liabilities	$	12,219,113

18.2 The Company as lessor

Operating leases are related to commercial leases. Lease periods are from one to five years. All operating leases over five years contain clauses for review of market income every two years. The contracts do not establish the option for tenants to buy the leased premises at the expiration date of the lease periods.

Below is an analysis of lease revenue:

		December 31, 2019		2018
Fixed rent	$	2,267,163	$	2,145,409
Variable rent		145,739		84,658
Total of lease revenue	$	2,412,902	$	2,230,067

Following is an analysis of the minimum annual payments agreed with the lessees in the lease agreements entered into at terms of over one year:

Up to 1 year	$	2,357,834
From 1 to 5 years		8,814,942
Over 5 years		17,629,884
Total minimum payments agreed	$	28,802,660

Note 19 - Balances and transactions with related parties:

During 2019 and 2018, Grupo Financiero Invex, S. A. de C. V. ("Invex") provided the Company with pension plan and workers' savings fund administration services, as well as with fiduciary services. Invex and the Company share some stockholders. Fees paid to Invex for these services totaled $4,532 and $12,782 in 2019 and 2018 respectively. At December 31, 2019 and 2018 there were no outstanding balances for these items. During 2019 and 2018, the Company contracted corporate travel services for its employees with Orion Tours, S. A. de C. V. ("Orión"), whose General Director is Vice-Chairman of the Company's Board of Directors. These services were contracted using market conditions. Fees paid to Orion for these services totaled $85,209 and $74,203 in 2019 and 2018 respectively. At December 31, 2019 and 2018 there were no balances pending to be paid for these items.

Compensation for directors and other key members of management during the year was as follows:

		2019		2018
Total short term	$	57,128	$	46,678

Compensation paid to directors and key executives is determined by the Financial Review Committee, based on their performance and market trends.

Note 20 - Stockholders' equity:

20.1 Capital stock at December 31, 2019 and 2018, is comprised of the follows:

		Minimum fixed capital
1,144,750,000 Series "1" shares, without expression of nominal value, subscribed and paid 197,446,100 ordinary and nominative shares and Series "C-1" without expression of nominal value, subscribed and paid	$	269,112
Cumulative inflation increase at December 31, 1997		3,105,170
Total	$	3,374,282

The Board of Directors approved on March 7, 2019 the payment of dividends from the income tax earnings ("CUFIN") in the amount of $1,476,415, of which $885,849 was paid on May 24 and $590,566 on October 11 (of the same year, through the Society for the Securities Depository).

The Board of Directors approved on March 15, 2018 the payment of dividends from the income tax earnings ("CUFIN") in the amount of $1,288,508, which was paid $778,474 on May 25 ($0.58 per action) and $510,034 on October 12 ($0.96 per action) of the same year, through the Society for the Securities Depository.

In accordance with IAS 29 "Hyperinflation", an entity must recognize the effects of inflation in the financial information when an economy accumulates 100% inflation in a three year period. Mexico was considered a hyperinflationary economy until 1997, and for that reason the Company recognized all the cumulative inflation effects up to that year.

The companies and trusts mentioned below hold a share of approximately 87% of Series 1 of the Company's share capital as of December 31, 2019 and 2018.

Shareholder	Number of Shares of Common Stock	Percentage Ownership of Common Stock (%)
Banco Nacional de México, S. A., Institución de Banca Múltiple, Grupo Financiero Banamex-Trust No. 15228-3	278,691,361	20.8
Banco INVEX, S.A., Institución de Banca Múltiple, INVEX Grupo Financiero-Trust No. 0327	218,319,750	16.3
Banco Nacional de México, S. A., Institución de Banca Múltiple, Grupo Financiero Banamex-Trust No. 504288-5	109,114,664	8.1
Banco INVEX, S.A., Institución de Banca Múltiple, INVEX Grupo Financiero-Trust No. 0387	101,178,030	7.5
UBS - Zurich	96,234,447	7.2
BBVA Bancomer Servicios, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer-Trust No. 25078-7	65,467,083	4.9
Pictec and Cie	57,137,573	4.3
Scotiabank Inverlat S. A., Institución de Banca Múltiple-Trust No. 11033735	36,839,656	2.7
UBS Switzerland AG	27,165,000	2.0
BBVA Bancomer Servicios, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer-Trust No. 4078358	19,011,892	1.4
Other	333,036,644	24.8
Total	1,342,196,100	100

20.2 Capital reserves

Capital reserves are comprised as follows:

	December 31, 2019	2018
Reserve for translation effects	$ 1,118,836	$ 1,449,832
Legal reserve	582,500	582,500
Reserve for repurchase of shares [1,2]	5,937,192	388,298
Investment reserve	94,319	94,319
Reserve for valuation of derivative financial instruments	407,548	1,526,810
	$ 8,140,395	$ 4,041,759

[1] During fiscal year 2019, the Company purchased 4,959,252 C-1 series shares on the market at prices ranging between $ 91.83 and $ 120. The total cost of the repurchase was $ 517,133, to which $ 474 of transaction costs were added before taxes. Additionally, the Company sold 666,257 C-1 series shares at prices ranging between $ 97.75 and $ 120. The total sale was $ 66,025 to which $ 66 of transaction costs were added before taxes.

In November and December 2018, the Company purchased 666,257 series C-1 shares at prices ranging from $118.59 to $120.99. The overall cost of the repurchase was $79,134, to which $577 of before tax transaction costs were added.

[2] At the ordinary General Shareholders' Meeting, held on August 28, 2019, the shareholders agreed to increase the reserve for the acquisition of own shares to $ 6,000,000.

The reserve for repurchase of shares represents the reserve authorized by the Stockholders in order for the Company to be able to acquire its own shares, provided the criteria set out in the bylaws and in the Securities Market, Law are met.

The balance of the reserve for the acquisition of own shares as of December 31, 2019 and 2018, is $5,937,192 and $388,298, respectively.

20.3 The reconciliation of the reserve for valuation of derivative financial instruments is as follows:

At January 1, 2018	$ 1,380,094
Valuation effect	146,716
At December 31, 2018	1,526,810
Valuation effect	(1,119,262)
At December 31, 2019	$ 407,548

The income of the year is subject to the legal provision that requires at least 5% of the income of each year be used to increase the legal reserve until it is equal to one fifth of the amount of paid-in capital.

20.4 The balances of the tax accounts of stockholders' equity are:

	December 31, 2019	2018
Capital contributions account	$ 94,868,789	$ 87,835,339
After-tax earnings account (CUFIN)	124,889,825	117,478,918
Reinvested after tax earnings account (CUFINRE)	153,941	149,719
Total	$ 219,912,555	$ 205,463,976
Average weighted number of ordinary shares to determine the basic earnings per share at December 31, 2019 and 2018	1,339,322,606	1,342,196,100

20.5 Tax provisions related to stockholders' equity:

Dividends to be paid will be free from income tax if they come from Net Tax Profit Account (CUFIN, by its Spanish acronym). Any dividends paid in excess of CUFIN and reinvested CUFIN (CUFINRE) will cause a tax equivalent to 42.86%. The current tax is payable by the Company and may be credited against its current income tax of the year or the year on which it is paid. The remaining amount may be credited in the following two fiscal years against the tax of the year or against the provisional payments. Dividends paid coming from profit previously taxed by income tax will not be subject to tax withholding or additional tax payment. Income tax law sets the obligation of keeping CUFIN with profit generated up to December 31, 2013 and starting another CUFIN with profit generated from January 1, 2014.

In the event of a capital reduction, the procedures established by the LISR provide that any surplus of the accounting capital be given over the balances of the contributed capital accounts, the same tax treatment as that applicable to dividends.

Note 21 - Income Tax:

21.1 The income tax for the period is calculated by applying a 30% rate on the taxable profit. The income tax are integrated as follows:

	December 31, 2019	2018
Income tax	$ 4,948,130	$ 4,567,635
Deferred income tax	(348,251)	(529,178)
	$ 4,599,879	$ 4,038,457

Movements in deferred tax were as follows:

	December 31, 2019	2018
At January 1	$ (2,033,860)	$ (2,636,752)
Effect on the statement of income	348,251	313,432
Effect on the other comprehensive income	413,308	73,714
Adjustment on adoption of IFRS 9 (Note 3.3.2)	-	215,746
At December 31	$ (1,272,301)	$ (2,033,860)

21.2 The deferred tax balance is composed as follows:

	December 31, 2019	2018
Deferred income tax asset:		
Tax loss carry-forwards	$ 109,919	$ 77,124
Lease liabilities - net	159,699	-
Provision for impairment of loan portfolio	1,733,874	1,552,283
Provisions	2,001,320	1,805,270
Inventories	181,529	204,344
Cash flows hedges	56,065	52,334
Investment in share of associates	1,325	-
Other items	234,099	45,572
	4,477,830	3,736,927
Deferred income tax liability:		
Real estate and property, furniture and equipment	3,335,594	3,186,971
Intangible assets	2,013,862	1,985,066
Prepayments	331,458	315,591
Supplies	40,835	37,464
Investment in share of associates	-	169,202
Other items	28,382	76,493
	5,750,131	5,770,787
Deferred income tax	1,272,301	2,033,860
Asset tax recoverable	(27,582)	(35,632)
Total deferred income tax liability	$ 1,244,719	$ 1,998,228

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

	Tax loss carryforward	Provision for impairment of portfolio	Provisions	Lease liability - net
At January 1, 2018	$ 276,511	$ 1,233,543	$ 1,691,540	$ -
Adjustment on adoption of IFRS 9 (note 3.3.2)	-	215,746	-	-
Charged / credited to the Statement of income	(199,387)	102,994	113,730	-
At December 31, 2018	77,124	1,552,283	1,805,270	-
Charged / credited to the Statement of income	32,795	181,591	196,050	159,699
Other comprehensive income	-	-	-	-
At December 31, 2019	$ 109,919	$ 1,733,874	$ 2,001,320	$ 159,699

Investment properties, furniture and equipment	Investment in shares of associates	Inventories	Intangibles	Other	Total
$ (3,269,318)	$ (265,171)	$ 234,183	$ (1,964,403)	$ (573,637)	$ (2,636,752)
-	-	-	-	-	215,746
82,347	95,969	(29,839)	(20,663)	241,995	387,146
(3,186,971)	(169,202)	204,344	(1,985,066)	(331,642)	(2,033,860)
(148,623)	(89,849)	(22,815)	(28,796)	68,199	348,251
-	260,376	-	-	152,932	413,308
$ (3,335,594)	$ 1,325	$ 181,529	$ (2,013,862)	$ (110,511)	$ (1,272,301)

The deferred tax due to the existence of undistributed earnings in the subsidiaries has not been recognized because the Company is able to control the timing of the reversal of the temporary differences associated with the investments or such gains are not subject to IT payment come from the CUFIN.

At December 31, 2019, the Company has unamortized tax loss carryforwards for income tax purposes, to be indexed in the year in which they are applied, for a restated amount of:

Year	Amortizable tax loss
2021	$ 12,765
2022	15,850
2023	12,316
2024	3,587
2025	10,559
2026	57,768
2027	288
2028	102
2029	238,899
	$ 352,134

In determining deferred income tax at December 31, 2019 and 2018, the Company applied to temporary differences, the applicable rates according to their estimated date of reversal.

21.3 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, 2019	2018
Profit before income tax	$ 16,992,479	$ 15,750,530
Statutory rate	30%	30%
Income tax at statutory rate	5,097,744	4,725,159
Plus (less) effects of taxes of the following items:		
Non-deductible expenses	373,298	284,290
Non-taxable income	(120,380)	(81,858)
Annual inflation adjustment taxable	31,605	86,216
Share of profit of associates	(205,282)	(187,938)
Investment property, furniture and equipment - net	(402,876)	(613,499)
Cost of sales update	(61,006)	(91,757)
Other permanent items	(113,224)	(82,156)
Income tax	$ 4,599,879	$ 4,038,457
Effective income tax rate	27%	26%

Note 22 - Segment information:

Segment information is reported based on the information used by the Financial Review Committee in making strategic and operating decisions. An operating segment is defined as a component of an entity in which there is separate financial information which is evaluated on a regular basis.

IFRS 8 requires disclosure of assets and liabilities pertaining to one segment, if measurement is regularly provided to the decision making body; however, with respect to the Company, the Financial Review Committee only evaluates the performance of the operating segments based on an analysis of income and operating profit, but not of each segment's assets and liabilities.

Liverpool commercial segment

Includes the sale of clothing and accessories for men, women and children, household goods, furniture, cosmetics and other consumer products through department stores that operate under the name "Liverpool, Liverpool Duty Free and boutiques such as "Banana Republic", "GAP", "Pottery Barn", "West Elm" and "Williams-Sonoma". It also includes the operations of our website www.liverpool.com.mx. The store formats of this segment are mainly focused on the income population A, B and C +, according to the National Statistical and Geography Institute (INEGI) criteria.

Likewise, with the aim of encouraging the sale of products from this segment, the Company grants financing to its customers through credit cards "Liverpool", with which customers can buy exclusively in the stores of the Company. Additionally, the Company operates the "Liverpool Premium Card (LPC)" credit card, with which cardholders can purchase goods and services both in the chain's large stores and boutiques and in any of the establishments affiliated worldwide with the VISA payment system.

Suburbia commercial segment

Includes the Suburbia stores and the operative division of purchases, commercial planning, product design and commercialization (CATMex). Suburbia offers a wide selection of products but mainly its own brands such as Weekend, Non Stop, Contempo, La Mode, Metropolis and Gianfranco Dunna, focused on the population of income C and D +, according to the INEGI criteria.

As from September 2018, the Company finances its clients in the form of Suburbia and Suburbia VISA credit cards. The former can be used to acquire items exclusively at Company stores and the VISA card can be used to acquire goods and services at the store or at any store throughout the world operating with VISA cards.

The digital segment

The digital segment includes online sales www.liverpool.com.mx and www.suburbia.com.mx, and sales made over the telephone. The offer of products in this segment is comparable to the offer of the commercial segments of Liverpool and Suburbia.

Real estate segment

The real estate segment is an important complement for the Liverpool commercial segment. The Company operates commercial centers known as "Galerías", through which it leases commercial spaces to tenants dedicated to a wide variety of businesses that provide a greater number of potential customers for departmental warehouses.

22.1 Income and results per segment

The Company reports its results for each operating segments at the income, costs and expenses, and operating profit level. The other income statement items are not assigned, as they are managed on a corporate level. The following is an analysis of income and results per segment to be reported:

	Comercial				
At December 31, 2019	Liverpool	Digital	Suburbia	Real Estate	Consolidated
Net income	$ 116,521,357	$ 6,028,000	$ 18,130,695	$ 3,553,455	$ 144,233,507
Cost and expenses	(101,978,250)	(4,853,000)	(16,809,287)	(1,421,769)	(125,062,306)
Operating income	$ 14,543,107	$ 1,175,000	$ 1,321,408	$ 2,131,686	$ 19,171,201
Timing of revenue recognition:					
At a point in time	$ 116,521,357	$ 6,028,000	$ 18,130,695	$ 3,553,455	$ 144,233,507
Over time	-	-	-	-	-
	$ 116,521,357	$ 6,028,000	$ 18,130,695	$ 3,553,455	$ 144,233,507

	Comercial				
At December 31, 2018	Liverpool	Digital	Suburbia	Real Estate	Consolidated
Net income	$ 110,009,252	$ 4,915,000	$ 17,138,053	$ 3,472,446	$ 135,534,751
Cost and expenses	(97,927,743)	(4,081,000)	(15,228,465)	(1,372,175)	(118,609,382)
Operating income	$ 12,081,509	$ 834,000	$ 1,909,588	$ 2,100,271	$ 16,925,369
Timing of revenue recognition:					
At a point in time	$ 110,009,252	$ 4,915,000	$ 17,138,053	$ 3,472,446	$ 135,534,751
Over time	-	-	-	-	-
	$ 110,009,252	$ 4,915,000	$ 17,138,053	$ 3,472,446	$ 135,534,751

The information disclosed in each segment is shown net of eliminations corresponding to transactions conducted between Group companies. Inter-segment results and transactions are eliminated at the consolidated level, forming part of the Group's final consolidation. This form of presentation is the same as that used by management in its periodic review processes of the Company's performance.

Taxes and financing costs are viewed at the Group level and not within the reporting segments. As a result, this information is not shown in each reporting segment. Operating income is the key performance metric for management, which is reported on a monthly basis to the Company's Corporate Governance.

22.2 Geographic information

The information by geographic segments of the Company is reported only by the commercial segment using the following zones.

	December 31, 2019	December 31, 2018
Ciudad de México and Estado de México	$ 42,478,132	$ 44,218,930
Hidalgo, Puebla, Morelos, Guerrero, Veracruz and Tlaxcala	20,078,498	18,552,248
Nuevo León, Tamaulipas, Chihuahua, Coahuila, Sinaloa, Sonora and Durango	19,129,485	17,158,015
Jalisco, Michoacán, Colima and Nayarit	15,208,912	13,625,237
Chiapas, Tabasco, Quintana Roo, Yucatán, Campeche and Oaxaca	13,620,230	12,191,639
Guanajuato, Querétaro, Aguascalientes, Zacatecas and San Luis	13,485,792	11,862,999
Other	16,679,003	14,453,237
Total	$ 140,680,052	$ 132,062,305

Note 23 - Costs and expenses by nature:

The cost of sales and administration expenses are comprised as shown below:

	December 31, 2019		2018
Cost of merchandise	$ 82,622,713		$ 77,879,159
Cost of distribution and logistics	3,247,548		2,857,860
Inventory reserve	962,962		883,854
	86,833,223		81,620,873
Personnel compensation and benefits	16,168,706		14,934,947
Services contracted	5,577,623		5,777,907
Depreciation and amortization	4,705,436		3,311,275
Provision for impairment of loan portfolio	3,911,269		3,355,378
Leases	370,945		2,135,740
Repairs and maintenance	2,059,509		1,907,996
Electrical power and utilities	1,429,891		1,281,824
Other [1]	4,005,704		4,283,442
Total	$ 125,062,306		$ 118,609,382

[1] Includes, among others, insurance premiums, travel expenses and property tax.

Personnel compensation benefits are comprised as follows:

	December 31, 2019	2018
Salary and bonds	$ 13,574,996	$ 12,484,894
Commissions paid to sales staff	2,198,676	2,095,926
Other payments	395,034	354,127
	$ 16,168,706	$ 14,934,947

Note 24 - Contingencies and commitments:

24.1 Contingencies

The Company is involved in various lawsuits and claims arising from the normal course of its operations, none of which is of importance, both individually and in aggregate, so it is expected that they will not have an important effect on your financial situation and future consolidated operating results.

24.2 Commitments

During the year 2018, the Company signed with a subsidiary of Infraestructura Energética Nova, S. A. B. de C. V. (Ienova), a contract for a period of 15 years of sale of electricity, said power plant will be located in Sonora. Additionally in 2019 another contract was signed with Ienova for a period of 15 years of sale of electric energy, said power plant will be located in Chihuahua. Both plants are expected to start operation in the first half of 2020.

Note 25 - Authorization of issuance of consolidated financial statements:

The consolidated financial statements were authorized for issuance on February 19, 2020 by the Board of Directors, and are subject to approval by the stockholders meeting.

Information for investors

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