



Titularizadora
COLOMBIANA

www.titularizadora.com



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TITULARIZADORA COLOMBIANA

**REPORT OF THE PRESIDENT AND BOARD OF DIRECTORS TO THE
ORDINARY GENERAL SHAREHOLDERS' MEETING**

FEBRUARY 2017



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INTRODUCTION

In 2016, the total amount of the issues backed by mortgage loans and rediscount loans was COP 1 trillion, the latter being the first issue managed by Titularizadora backed by other than mortgage loans and consumption loans with drafts, thereby strengthening the evolution of the company toward deepening the portfolio offering to address the financing needs of other sectors of the economy leveraging the know how acquired over years of operation.

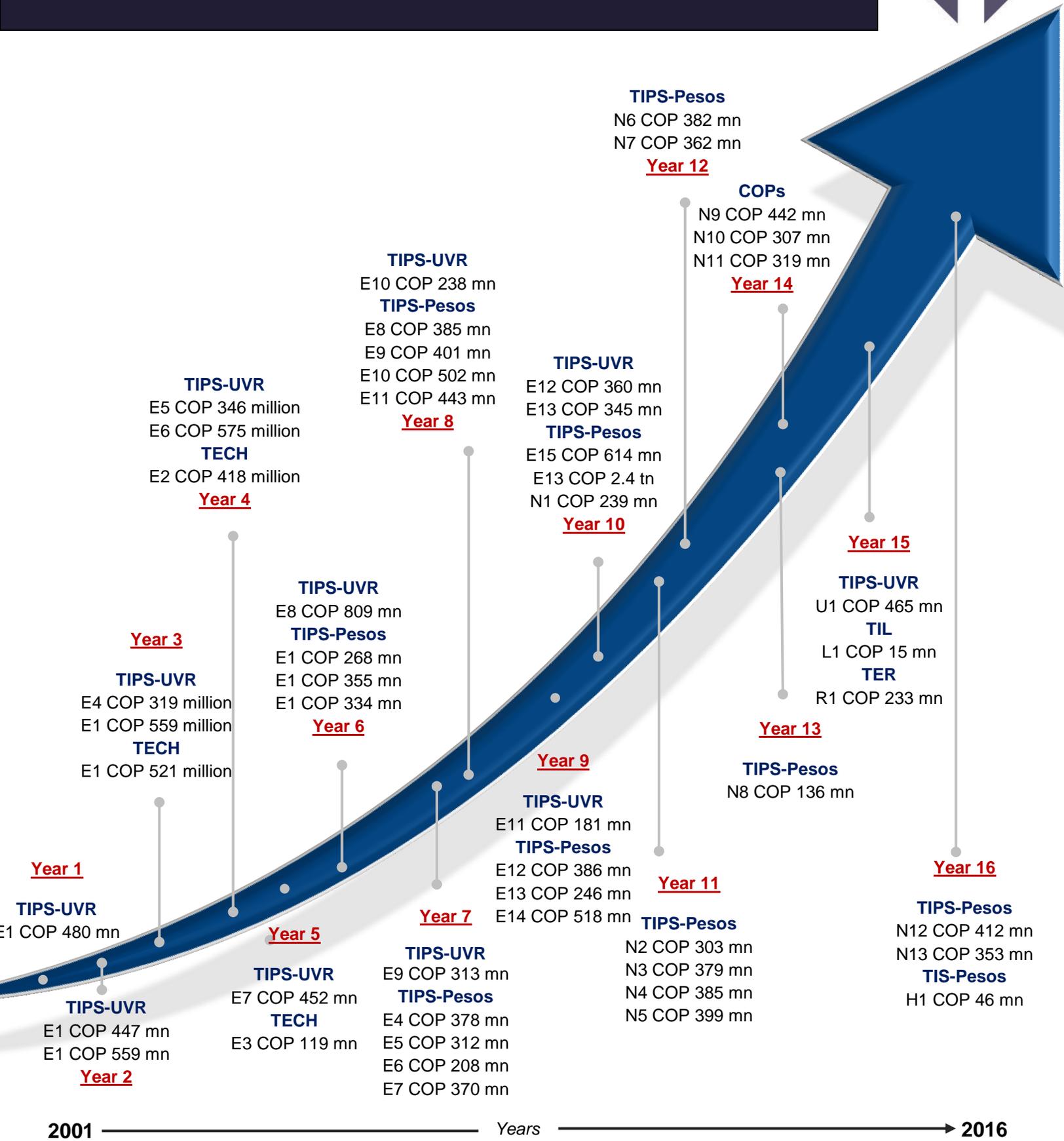
Another major development last year was the engagement of new originators for securitization processes, in line with the development of new businesses. In particular, progress has been achieved in potential issues with entities outside the traditional bank system and a securitization survey has been conducted in the infrastructure sector achieving major advances in identifying key factors to projecting issues in this sector. It is important to highlight the Real Estate Management, the commissioning of all the alliances to see through the first real estate securities issue in 2017, and the structuring of an operation involving real property of an important originator. In addition, the putting into operation of Titularizadora Dominicana and planning an issue for 2017 backed by a mortgage loan portfolio in that country gives continuity to the company internationalization.

This situation perfectly matches Titularizadora Colombiana's long-term view of the mortgage system. These developments require further deepening and diversity of actors with well-segmented market niches, which enable encompassing a broader number of households under better credit conditions. All these activities have occurred in a common frame of responsibility for the origination and servicing of the mentioned mortgage loans. The accompaniment throughout this year ensures that the new actors will approach the ideal thought out for the Colombian model of home purchase finance.

In 2016, Titularizadora Colombiana completed 15 years of operation, a path that allowed the company to perfect its operations aside from accumulating experience for new asset management, which hand in hand with the development of personnel's new skills promote continuing learning and application of best practices that all over the company's history have focused on the optimization of administrative processes that bring the industry close to the international standards.

This year was the result of efforts and commitments that brought forward challenges to continue turning Titularizadora Colombiana into an entity committed to the economic and social development of the country.

Management Report 2016





1. MACROECONOMIC ENVIRONMENT

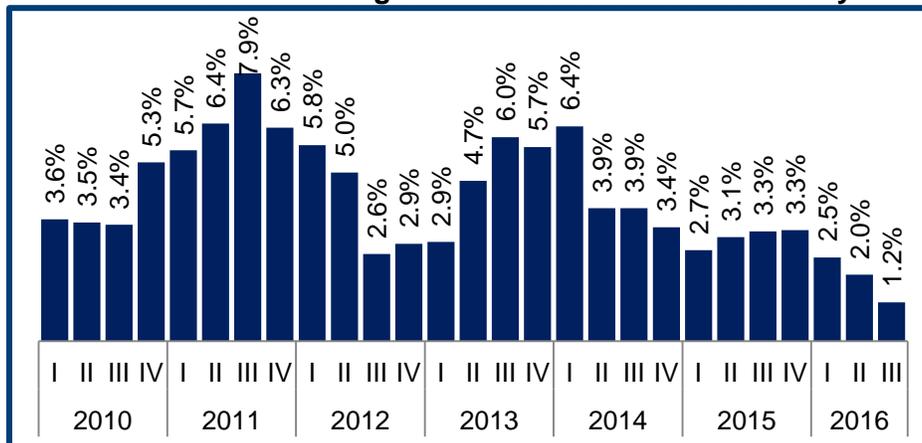
1.1. 2016 EVOLUTION

The global economic outlook in 2016 was marked by a slight recovery of the advanced economies and by a progressive adjustment of emerging markets in a context of a reduced foreign demand, high market volatility, lower international prices of raw materials, and incoming of portfolio investment flows in face of higher relative financial yields. In the case of Latin America, these factors brought annual contractions of the gross domestic product in the region in the order of -0.6% 2016 year to date as against 0% observed in the previous year, and increments in the unemployment rate up to 8.6% levels as compared to circa 7% levels registered in 2015.

“The economic performance of the Colombian economy showed deceleration signs with annual growth rates of 2.1% average in the first three trimesters of 2016 as against variations in the order of 3.1% and 4.4% annual of the 2 previous years.”

In this context, the economic performance of the Colombian economy showed deceleration signs with annual growth rates of 2.1% average in the first three trimesters of 2016 as against variations in the order of 3.1% and 4.4% annual of the 2 previous years (Chart No. 1). This performance was influenced mainly by the effects of the dramatic reduction in the quotation of the international prices of oil from USD 93 per barrel in 2014 down to USD 43 per barrel in 2016.

Chart No. 1: Actual annual growth of the Colombian economy



Source: *Departamento Nacional de Estadística* (Colombian administrative department of statistics- DANE)



Initially, this price shock impacted the production pace of the mines and quarries mining sector by reducing the price annual growths from 2 digits before 2011 to average contractions of -5.9% in 2016 YTD. Added to the consequences of the truck strike in 2016 that affected the transportation and agricultural sectors, it all explained the low growth dynamics of the country. In that scenario, the employment market showed a moderate reaction with average unemployment rates of 9.3% in 2016 versus 8.9% in the previous year.

Also, the lower crude oil quote reduced the oil revenues to the Colombian Government and brought the fiscal deficit to levels circa 4% of the GDP in 2016 (compared to 3% of the GDP in 2015). In the foreign trade front, the oil and hydrocarbons offshore sales contraction translated into the current account deficit extensions to levels circa 7% in 2015, which started to contract during 2016. During the first 10 months of 2016, national exports decreased -16.5% with respect to the same period of the previous year while the imports showed a reduction of about -20% annual.

Regarding price reduction of exported goods and the presence of higher portfolio investment flows due to the low interest rates of developed economies, continued pushing the rise of the COP/USD foreign exchange rate with accumulated depreciations of 11% in 2016. The propagation of these increments through imported products and some additional food-related pressure, generated the acceleration of inflation up to a top 9% annual in July 2016. Although these inflationary pressures lost strength since the second semester of the year, they continued preventing the achievement of the policy goal (2% to 3%) for the second consecutive year.

Consequently, according to the purpose of *Banco de la Republica* (central bank) to stabilize internal prices, it increased the intervention rate close to 2 percentage points over the year, closing in 7.5% in December. Therefore, private finance charges were affected and the growth dynamics was reduced for the loan portfolios from actual annual variations of 8.8% average in 2015 to circa 3.5% over 2016 (Chart No. 2). Nonetheless, the environment of a lower growth and higher unemployment rates did not reflect in major deterioration of the loan portfolio, which was placed in 3.2% in the last record of 2016, 0.5 percentage points higher than the previous year closing.

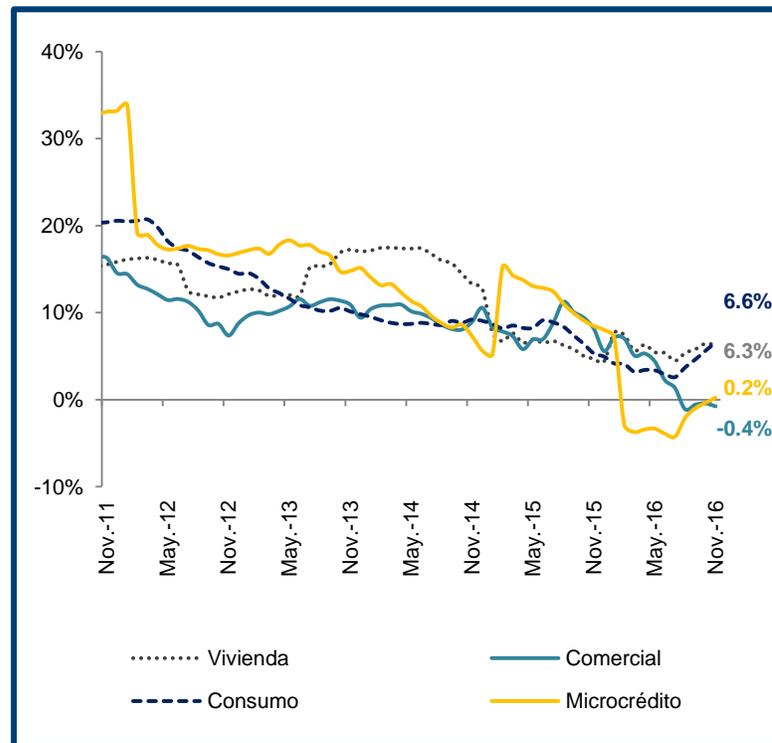


Chart No. 2: Actual Loan Portfolio Growth
Source: SFC. TC Calculations



However, the capital markets showed a significant recovery during 2016. Particularly the stock exchange market accrued a 17% increase in value while the amount awarded in the fixed income market was increased in 67% annual to COP 9.7 trillion.

1.2. OUTLOOK

The Colombian economy has recently faced a challenging macroeconomic environment as the shock of lower oil prices on the internal production has coincided with a time in which the economic policy capacity to act countercyclically has been limited considerably. In particular, the reduction of tax revenues for oil revenue has prevented that the public expenditure makes up for the fall in private consumption while the inflationary pressures have prevented the monetary policy to reactivate the growth with lower interest rates.

In the short term, several factors can contribute to this adjustment. First, international oil prices recovered since the second half of 2016 and have accumulated USD 53 per barrel average in the early weeks of 2017. Then, while the member countries of the Organization of Petroleum Exporting Countries (OPEC) keep their commitment to adjust crude oil prices, these should fluctuate around USD 50 per barrel and the effects of this shock on the national economy should continue reversing in part in the future.

Secondly, in face of this situation, the recently approved tax reform will seek to reduce any tax shortage with higher taxation to individuals and stricter controls on evasion. Although these measures would affect the recovery of private consumption in the short term, the profits in terms of improvement of the international confidence in the economy and the repercussions on the external financing costs acquire great importance for enabling the correction of the country's macroeconomic unbalance.

Likewise, the downward trend of inflation expectations and less pressure of the foreign exchange rate on internal prices suggest that the interest rate reduction phase of the monetary policy started at the end of 2016 would prolong into 2017. This way, the private credit can be strengthened and the internal demand dynamics can be supported.

Comprehensively, the economy adjustment will continue to be progressive and the economic growth is not expected to exceed the 3% threshold until 2018 despite the several factors that could favor this process in the short and middle terms.



1.3. HOUSING MARKET AND MORTGAGE SECTOR

1.3.1. 2016 EVOLUTION

“In spite of an environment marked by lower income available to households, higher rates of unemployment, greater costs of indebtedness, and deterioration of the consumer perception of the relevance of home purchasing, the purchase decisions were kept.”

During 2016, the housing sector in Colombia was characterized by an uneven performance of the different activities comprising its chain of production. On the one side, new house sales remained in top historical records although their growth decelerated as compared to the previous year. Thus, in 2016 132.4 thousand units were sold with 5.3% annual variation that resulted mainly from the social housing (between COP 48 and 93 million in 2016), which in this period recorded an annual growth of 18%.

This suggests that in spite of an environment of a lower income available to households, higher unemployment rates, greater indebtedness costs, and deterioration of the consumer perception of the relevance of home purchasing, the purchase decisions were kept.

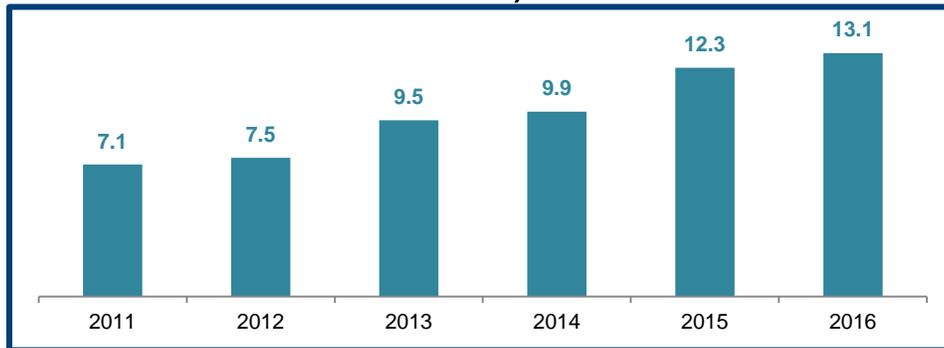
On the other side, housing construction showed a slower growth pace than in the previous year. The total households licensed in January-October of 2016 reached 132 thousand units showing a 20% annual reduction, a performance explained mainly by a housing segment above the social housing (greater than COP 93 million price) and priority housing (lowest price, up to COP 48 million). These dynamics translated into another moderation in the growth of housing starts that amounted to 125 thousand units in the first trimesters of the year and showed a 2% annual variation as against 8% in the same period of the previous year.

The performance of construction activities may be attributed to several factors including the greater growth of new housing supply with respect to the demand, the growing competition of used households against new properties, and the regulatory change entailed by the repeal of Decree 562 addressing the height construction in Bogota. These market factors are reflected in a slight reduction in new housing prices in 2016 YTD (-0.2% annual average during the first three trimesters) while used household prices continued growing at rates circa 4.6% annual average.

Homeownership financing in turn showed favorable dynamics. Loan portfolios (including lease and securitization operations) reached a COP 57.8 trillion in October 2016 and grew at an annual rate close to the 6% real, a value near the average growth pace recorded in the two last years. Also, between January and November, housing disbursements accrued COP 13.1 trillion and 148 thousand units, thus implying annual variations of 6.5% and 13%, respectively (Chart No. 3).



Chart No. 3. Annual cumulative (Jan-Nov) disbursements of mortgage loans (trillion COPs).



Source: SFC. TC Calculations

This behavior of the home purchase financing was favored by the good evolution of sales in 2015 that turned into loan disbursements in 2016, while the interest rate increase (that reached 86 basis points average in December) tended to reduce the pace of originations.

1.3.2. OUTLOOK

Although the housing sector in Colombia remains solid, the macroeconomic environment and the market dynamics suggest that during the following year more moderation in its growth can be expected. In essence, this is due to the adjustment for reduction in the supply anticipated by lower volumes in licenses as well as the slower pace shown by the new house unit sales. Likewise, the demand for housing could be affected by the introduction of the new Tax Reform and low levels of economic growth.

Even so, certain elements could encourage the housing demand in the short term. The decreasing path expected for the monetary policy intervention rate jointly with the long segment of the yields curve of public debt instruments observed from the beginning of 2016 should reduce the push upward of the mortgage underwriting rates. In addition, housing prices should go on showing moderate variations in the next year and continue increasing the households purchase ability.

Lastly, the availability of tax resources that guarantee the continuity of government's housing programs will allow continuing support to the demand by providing coverage to interest rates and direct subsidy to down payments.



2. CAPITAL MARKETS

2.1. INTERNATIONAL MARKETS

During 2016, the capital markets reflected the economic recovery of developed countries, deceleration of emerging economies, unbalance of supply and demand in the commodities markets and the political events that shook the world with unexpected results to the market participants. A most relevant fact among the latter, was the Brexit referendum in the UK on 23 June, where the nationals voted quitting the European Union causing a strong devaluation of the pound Sterling—11% with respect to the USD in one day—, (Chart No. 4) and a fall of circa 8% in the FTSE and Euro Stoxx stock indices. The uncertainty created by the unknown impact of that decision in the UK, Europe, and the rest of the world, had effects on the monetary policy of several central banks, thus bringing the Bank of England and the European Central Bank to maintaining and increasing the stimuli and the Federal Reserve to postponing the increase of its intervention rate to the end of the year.

Chart No. 4. Pound Sterling (GBP)

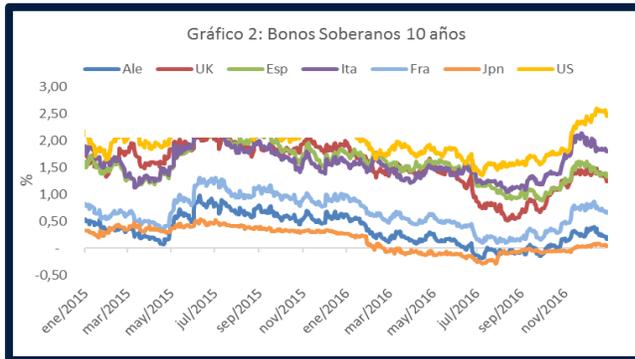


Chart No. 5. 10-year Sovereign Bonds

A greater impact on world markets was produced by the results in the USA election of 8 November, that elected the republican Donald Trump President. To his announcements of more protectionist commercial policy, reduced taxes on work and capital, solid investment in infrastructure,

promotion of energy independence, and decreased regulation on the economic activity, the markets reacted with a strong increase in stock indices of developed countries and in the sovereign bonds rates (Chart No. 5). It all created expectations of greater economic growth, higher inflation, more pressure on tax accounts and possibly a more accelerated rise in Federal Reserve interest rates as a response to the government policies and an undeniable recovery of the American economy, reflected in unemployment and economic growth indicators.



In the commodities market the oil price movement was relevant, starting the year downwards, reaching the lowest at the end of January to start then the recovery, albeit the volatility and corrections all over the year. The oil price was consolidated after the OPEC agreement of 30 November in which the countries members committed to limit the production and which was joined by non-member countries.

“Emerging countries were affected for the second consecutive year by the markets’ volatility and uncertainty.”

Emerging countries were affected for the second consecutive year by the volatility and uncertainty of the markets, reporting a slower economic growth and fleeing of capitals for the recovery of developed economies and the expectation of a more accelerated increase in USA rates. Latin American countries were particularly affected presenting a marked economic deceleration and inflationary pressures due to climate factors (Chart No. 6) that led several central banks to increase their intervention rates (Chart No. 7). Both currencies and risk premiums (Chart No. 8) showed lower desire for Latin American assets.

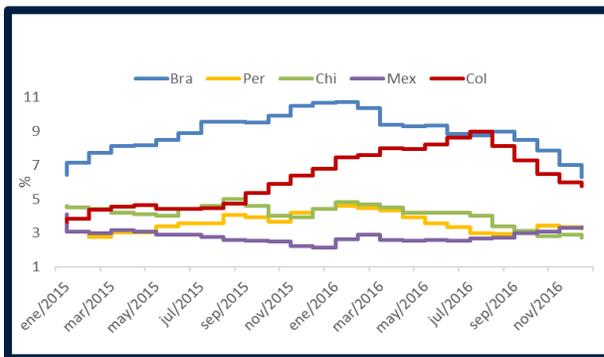


Chart No. 6. Latam Inflation

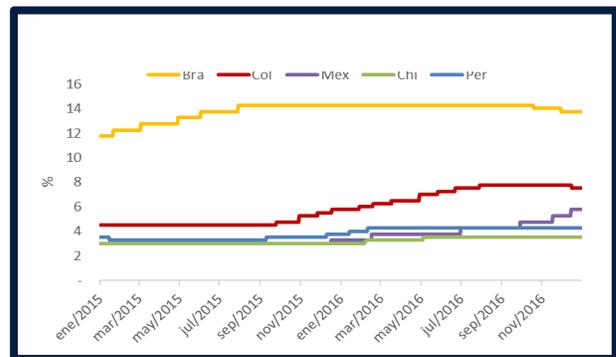
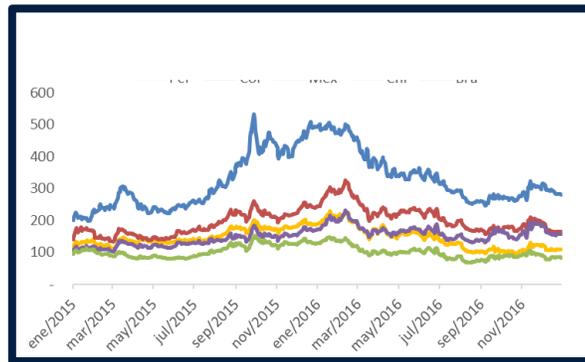


Chart No. 7. Monetary Policy



Chart No. 8. CDS 5 and USD



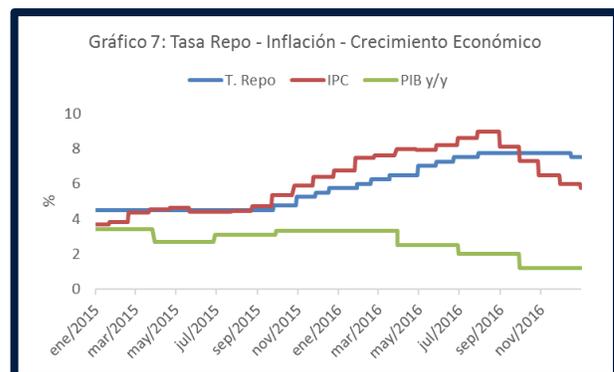
2.2 NATIONAL MARKETS

“In the matter of economics, the most relevant fact was the inflation growth in the first semester and the deceleration of the economy materialized over the months.”

In 2016, Colombia was also affected by the volatility and uncertainty of world and local events. In the matter of economics, the most relevant fact was the inflation growth in the first semester and the deceleration of the economy materialized over the months. As to the inflation, the growth was sustained during the first 7 months of the year to reach 8.97% in July, a level not seen since October 2000, which represents 497 basis points above the target range determined by the *Banco de la República* ($3\% \pm 1\%$ target).

Inflation was associated with the Colombian peso devaluation of the previous year (33% in 2015), with the climb of food prices due to climate factors that affected the country until mid-2016, and the truck transportation strike in June and July that prevented the inflation reversion to happen earlier. The inflation observed also affected the expectations and lead the *Banco de la República* to increase the intervention rate in 200 basis

Chart No. 9. Inflation and Repo Rate – Economic Growth





points in 2016 (from 5.75% to 7.75%) despite the quite disappointing economic growth data published (GDP 3T 1.2% YTY) (Chart No.9).

The Colombian Peso was positively affected by the recovery of oil prices all over the year and when they reached USD 3,440.00 levels in February, the year closed with 5.4% revaluation to USD 3,002.00 levels (Chart No.10). The current account deficit showed an improvement from 6.5% in 2015 to 4.1% of the GDP. Foreign direct investment (FDI) decreased in 23.1% to USD 8,799 million. Foreign portfolio investment grew by 33% to reach USD 5,855 million. The expectations as to tax accounts were positive at the end of the year with the approval of the tax reform. In the public debt market showed the highest share of foreign investors (28.8% of the total TES stock as of the December 2016 cutoff), the second semester reversion of inflation, and the unexpected reduction of 25 basis points in the repo rate in December, lead to a reduction in the interest rates of securities and a strong flattening of the yields curve (Chart No. 11).

Chart No. 10: Colombian Pesos-Brent

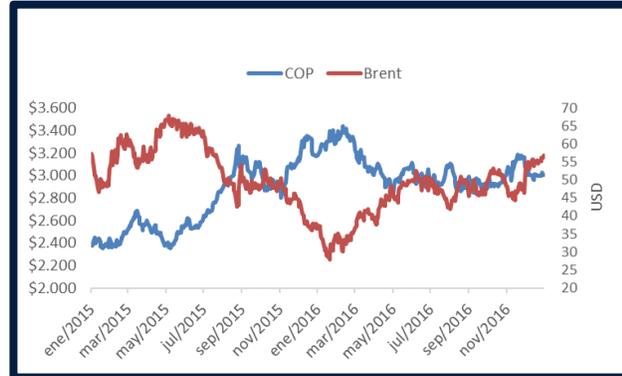
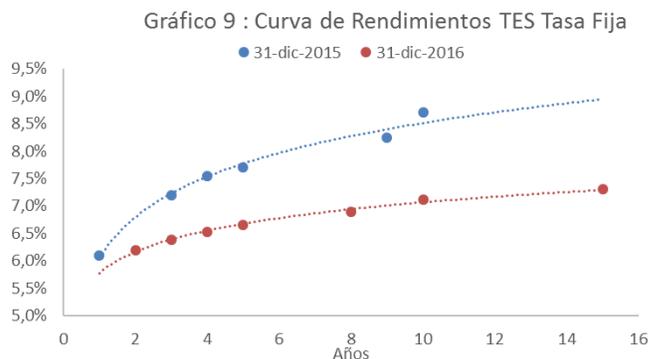


Chart No. 11. TES Yield Curve



respect to 2015 (COP 5.9 trillion).

Fixed interest issues placed an amount of COP 36.5 trillion in TES bonds: COP 23.3 trillion corresponding to Auctions (COP 15.8 trillion for pesos and COP 7.5 trillion for UVRs) and COP 13.2 trillion in Public Entities. In addition, COP 9.7 trillion were issued in short term TES bonds. Through the Stock Exchange, the fixed income issues amounted to COP 9.7 trillion in 2016 with a growth of 64% with



3. MORTGAGE-BACKED SECURITIES ISSUES

3.1. TRADITIONAL ORIGINATORS

Titularizadora carried out two fixed rate issues in 2016 backed by mortgage loans from bank originators corresponding to the TIPS Pesos N-12 issue in September and TIPS Pesos N-13 in December. The total value of the loans and securities issued are shown in the following table:

Table No. 1. Loans and Securities Issued

	Loans	Series A Securities	Subordinated Securities
TIPS Pesos N-12	\$412,554	\$358,922	\$53,632
TIPS Pesos N-13	\$353,016	\$314,185	\$38,832
Total	\$765,570	\$673,106	\$92,464

Figures in million COPs

The originators for the **TIPS Pesos N-12** issue were Banco Davivienda and Banco Caja Social, which respectively contributed 53.3% and 46.7% of the loans. The amount initially offered in auction was COP 317,666 million and included an extended auction for COP 41,255 million fully underwritten. Investors' demand amounted to COP 519,450 million for a 1.64 bid-to-cover ratio.

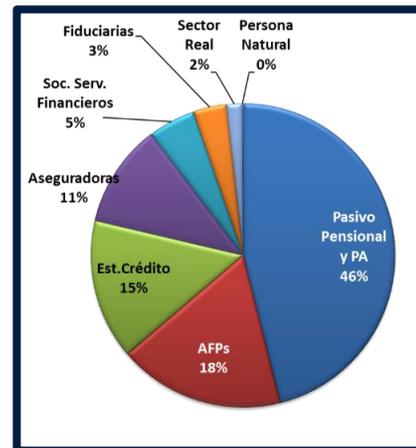
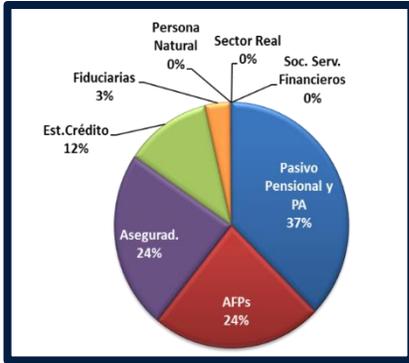


Chart 12. TIPS Pesos N-12 awards



The originators for the **TIPS Pesos N-13** issued were also Banco Davivienda and Banco Caja Social, which respectively contributed 47.8% and 52.2%. The amount initially offered in auction was COP 271,822 million and included an extended auction for COP 42,362 million. The demand amounted to COP 429,750 million for a 1.58 bid-to-cover ratio.

Chart No. 13. Awards TIPS Pesos N-13

In the two issues' underwritings, the higher share continued to be Pension liabilities and Pension funds with an increment in Insurance Companies share.

3.2. FINANCIERA DE DESARROLLO TERRITORIAL - FINDETER

The **TER IPC R-1** issue was performed in May backed by rediscount loans originated by FINDETER (Financiera de Desarrollo Territorial S.A.) and was the first issue Titularizadora launched with this type of assets.

Table No. 2. FINDETER Issue

	Loans	Series A Securities	Subordinated Securities
TER IPC R-1	\$233,901	\$204,663	\$29,238

Figures in million COPs

The issue was realized by firm demand pro rata through the Stock Exchange. Investors' demand amounted to COP 492,160 million for a 2.40 bid-to-cover ratio. The investors' sectors that were awarded the securities are shown below:

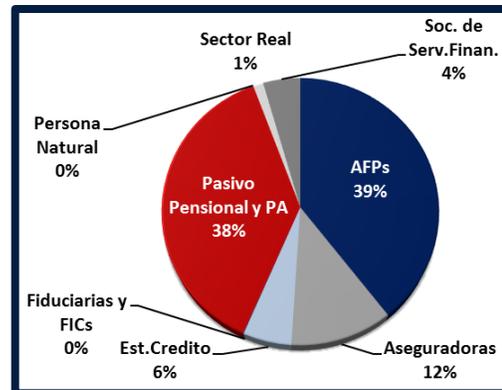


Chart No. 14. TER IPC R-1 awards



3.3.CONFIAR COOPERATIVA FINANCIERA

The **TIS Pesos H-1** issue was performed in December backed by mortgage loans originated by Confiar Cooperativa Financiera, the first issue for this Originator and the first issue structured with the format of the Program of Issues.

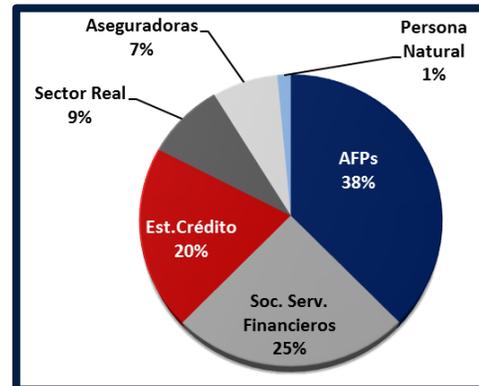
The total Program amounts to COP 300 billion with three-year placement term renewable. The first tranche was issued on 7 December 2016 with the conditions set forth below:

Table No. 3. CONFIAR Issue

	Loans	Series A Securities	Subordinated Securities
TIPS PESOS H-1	\$46,149	\$37,381	\$8,769

Figures in million COPs

The issue was carried by firm demand pro rata through the Stock Exchange. Investors' demand amounted to COP 34,510 million for a 0.92 bid-to-cover ratio. The investors' sectors that were awarded the securities are shown below:

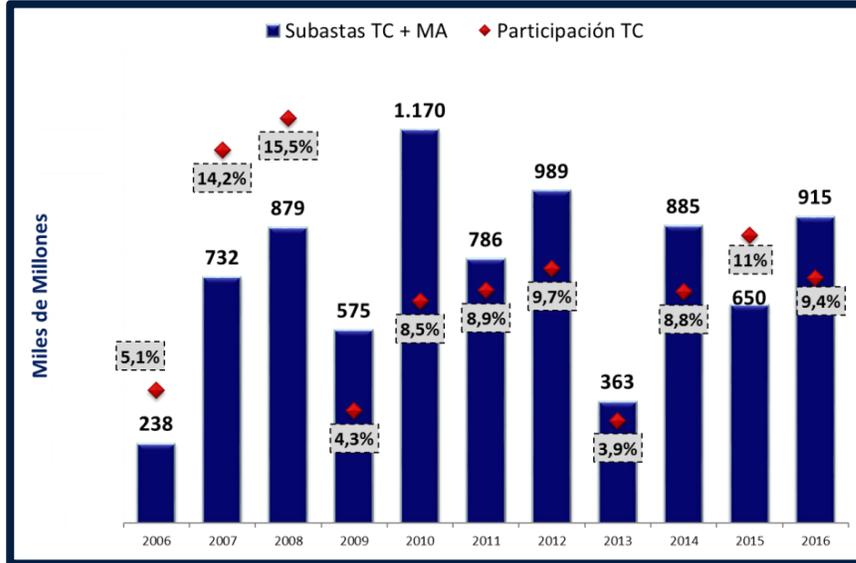


**Chart No. 15. Awards
TIS Pesos H-1**

Considering the four issues accomplished, the amount issued by Titularizadora in 2016 was COP 1,045,621,000. At another level, the amount of the Auctions and Firm Demands was COP 915,150 million representing 9.4% of the Stock Exchange issues.



Chart No. 16. Bolsa de Valores de Colombia Issues share



Including 2016, Titularizadora completed 49 issues for total mortgage loans of COP 19.46 trillion and a mortgage backed securities' balance of COP 3.9 trillion as of December 2016.

4. ISSUES AND LOANS PERFORMANCE

4.1. ISSUE PERFORMANCE

“Ending 2016, the company reached COP 17.06 trillion total in issues of Class A Securities.”

Ending 2016, the company reached COP 17.06 trillion total in issues of Class A Securities, 66.5% of which was backed by mortgage loans in COPs, 33.27% in UVR currency, 1.20% corresponds to commercial backed securities and 0.07% to securities backed by consumption loans with drafts. The balance of these Class A securities amounts to COP 2.07 trillion in December with total amortizations of 88% of the principal issued (Table 4).

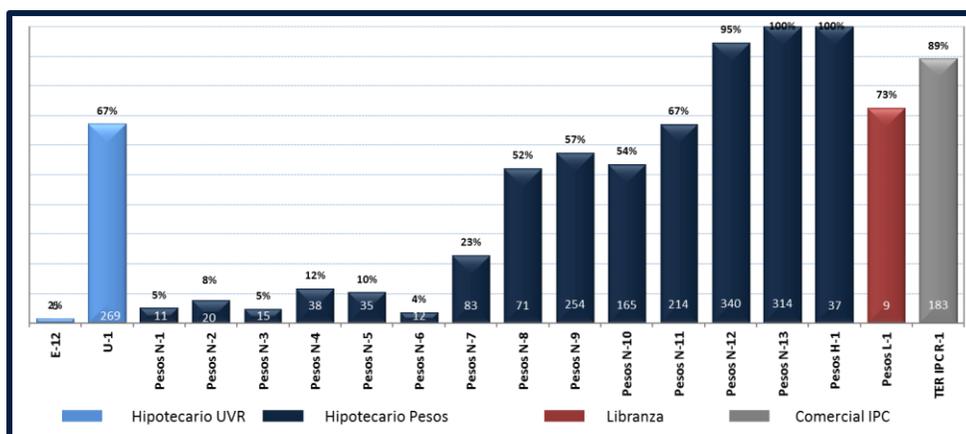
This year, the early liquidation event and cancellation were formalized for the TIPS Pesos E-4 issue and the cancellation of the following is in process: TIPS: E-11, Pesos E-6, Pesos E-8, Pesos E-9, and Pesos E-12 according to the respective rules and prospects.



**Table No. 4. Class A TIPS Balance and Outstanding Percentage
(Figures in COP billion)**

Source: TC

Product Line	Mortgage Pesos	Mortgage UVR	Drafts	Commercial to consumer price index	Total
Balance Issued	11,342	5,506	12	205	17,064
Current Balance	1,609	276	9	183	2,076
Current Balance Share	77%	13%	0%	9%	100%
% to be amortized	14%	3%	73%	89%	12%



4.1.1. SECURITIZED PORTFOLIO

As of 2016 closing, the securitized assets comprise mortgage loans, consumption loans with drafts, and commercial loans. Below are the loans balance and general characteristics.

- MORTGAGE LOANS**

The issues' loan balance amounted to COP 3.8 trillion as of the December 2016 closing. The balance is represented by 96,978 individual mortgage loans with 86% NO-VIS mortgage loans and 14% VIS mortgage loans (Chart No. 17).



Chart No. 17. Loan portfolio breakdown by type
Source: TC Calculations



“The securitized portfolio holds performing FRECH mortgage loans.”

The securitized portfolio holds performing FRECH mortgage loans. For 2016, 19 issues contained FRECH subsidized mortgage loans, with 15% share on the total balance of securitized mortgage loans. FRECH (Fund of reserve and stabilization of mortgage loans) is a benefit offered by the national government to cover a percentage of the remuneratory interest rate agreed for the mortgage loans, in abidance by the law.

Below is the breakdown of the mortgage loans per issue:



Table No. 5. Portfolio Composition by Asset Type
Source: TC
Principal Balance as of 31 December 2016 (COP Million)

Saldo Capital \$ cartera titularizada por emisiones						
EMISION	UVR	%	PESOS	%	Total general	%
E-1	1,016	0%			1,016	0%
E-8	34,321	5%			34,321	1%
E-9	32,928	5%			32,928	1%
E-10	22,713	3%			22,713	1%
E-11	26,265	4%			26,265	1%
E-12	107,433	15%			107,433	3%
E-13	105,976	15%			105,976	3%
UVR U-1	323,525	46%			323,525	8%
PESOS E-5			19,675	1%	19,675	0%
PESOS E-6			9,678	0%	9,678	0%
PESOS E-7			22,573	1%	22,573	1%
PESOS E-8			18,454	1%	18,454	0%
PESOS E-9			18,989	1%	18,989	0%
PESOS E-10			25,405	1%	25,405	1%
PESOS E-11			21,281	1%	21,281	1%
PESOS E-12			17,686	1%	17,686	0%
PESOS E-13			10,625	0%	10,625	0%
PESOS E-14			51,800	2%	51,800	1%
PESOS E-15			93,175	3%	93,175	2%
PESOS E-16			429,941	14%	429,941	11%
PESOS N-1			54,239	2%	54,239	1%
PESOS N-2			79,743	3%	79,743	2%
PESOS N-3			82,234	3%	82,234	2%
PESOS N-4			106,304	3%	106,304	3%
PESOS N-5			102,697	3%	102,697	3%
PESOS N-6			72,190	2%	72,190	2%
PESOS N-7			151,755	5%	151,755	4%
PESOS N-8			90,579	3%	90,579	2%
PESOS N-9			317,404	10%	317,404	8%
PESOS N-10			214,205	7%	214,205	5%
PESOS N-11			263,024	9%	263,024	7%
PESOS N-12			387,811	13%	387,811	10%
PESOS N-13			344,850	11%	344,850	9%
PESOS H-1			45,517	1%	45,517	1%
TECH E-1	43,187	5%			43,187	1%
TECH E-3	6,304	1%			6,304	0%
TOTAL	703,668	99%	3,051,832	100%	3,755,500	94%

Regarding the risk profile for these issues, the loan to value ratio remains in positive levels. Ending the year, 81.4% of the portfolio has <50% LTV, 18.1% has 50%-70% LTV, and only 0.5% has 70%-80% LTV. See LTV table. (Table No. 6).



**Table No. 6. Portfolio
Balance by LTV –
TIPS Issues
Source: TC
Principal Balance as of
31 December 2016 (COP
Million)**

LTV Range	Balance	%
>70%	19,439	0.5%
50%-70%	670,729	18.1%
0%-50%	3,015,841	81.4%
Total portfolio	3,706,008	100%

The collection performance of securitized mortgage loans in 2016 allowed to honor the scheduled principal and interest payments of each issue as set out in the respective expected scenarios and issue prospectuses.

- **PORTFOLIO OF CONSUMPTION LOANS WITH DRAFTS**

As of 2016 closing, the portfolio balance of the issue TIL Pesos L-1 backed by consumption loans with drafts was COP 12 billion represented in 1,987 loans with a distribution of operational agreements of 99.72% with private companies and only 0.28% with public entities. The revolving purchase mechanism defined for this issue ended in October 2016 as defined in the prospectus and rules of issue.

- **COMMERCIAL LOANS**

The TER IPCr-1 issue closes 2016 with the balance of the commercial loans of COP 212 billion represented in 27 rediscount loans serviced by FINDETER.

4.1.2. LOAN PREPAYMENTS

The payment in advance, in full or in part of the principal balance of the loans of an issue is named “*Prepayment*” and for securitized portfolio is measured by an annualized index (value of principal prepayment as against principal value of loans at the start of the period).

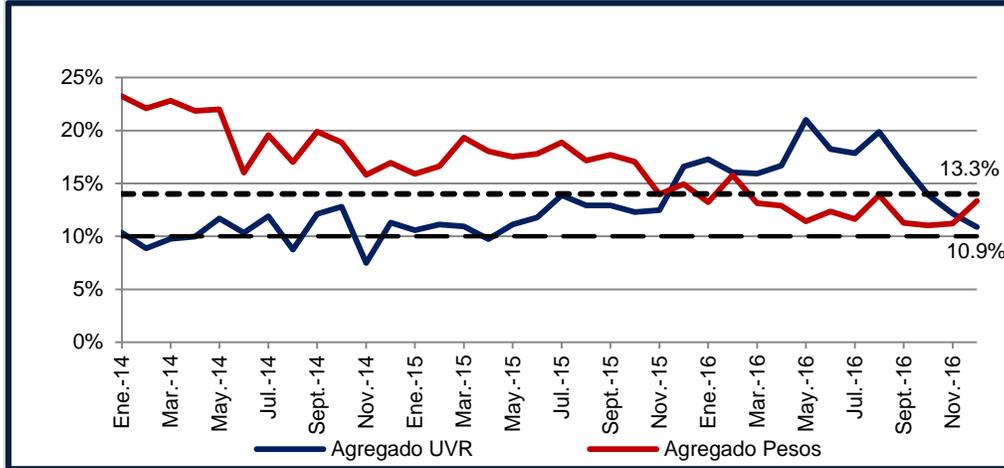
- **MORTGAGE LOAN PORTFOLIO**

With respect to the mortgage loans, the prepayment average in the last 12 months was 12.6% at the 2016 closing for pesos issues, which was below the average of the immediately preceding year that reached 17.1%. Nevertheless, the reduction of the index remains within the expected levels for most of the year in stable market conditions because the competition for clients is maintained by the rates.

As to the loans in UVRs, the prepayment level showed growth with respect to the previous year from 12.2% to 16.4% in 2016, in essence resulting from the impact of inflation and the recomposition inclined to the pesos type (Chart No. 18).



Chart No. 18. Annualized prepayment index for PESOS and UVR Issues
Source: TC



- PORTFOLIO OF CONSUMPTION LOANS WITH DRAFTS**

Consumption loans with drafts show an annualized prepayment average of 22.08% in the last 12 months, falling within the expected range in stable market conditions (Chart No.19).

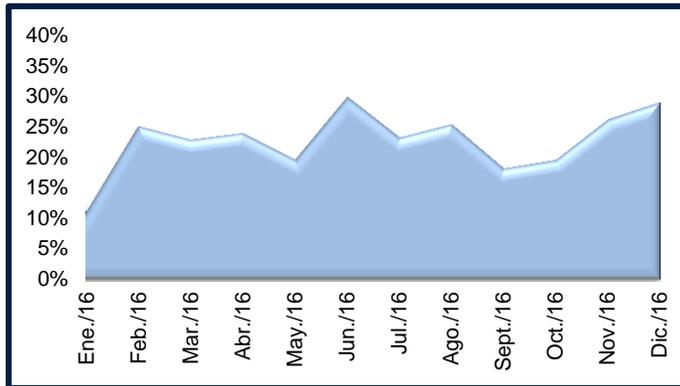


Chart No. 19. Annualized prepayment index for Loans with Drafts
Source: TC

- COMMERCIAL LOANS**

Consumption loans with drafts show an annualized prepayment of 27.90% rolling average since the start of the issue, which is within the expected range in stable market conditions.



4.2. PAYMENTS TO LOAN PORTFOLIOS

4.2.1. MORTGAGE LOAN PORTFOLIO

“Good payment habits of the borrowers of securitized mortgage loans year to date 2016, maintained delinquency within the expected levels.”

Good payment habits of the borrowers of securitized mortgage loans year to date 2016, kept delinquency within the expected levels as reflected in the good levels of non-performing mortgage loans indices in the different issues. In like manner, the excellent mortgage loan performance in face of the delinquency levels of the projected maximum deterioration scenarios allowed the TIPS securities to hold the highest credit rating.

The following charts reflect the more than 120-day delinquency with respect to the projected levels in the top deterioration scenario for each effective month of both UVR and Pesos issues, standing out the excellent performance of securitized mortgage loans during 2016.



Chart No. 20. Maximum Delinquency Scenario–PESOS Issues
Source: TC

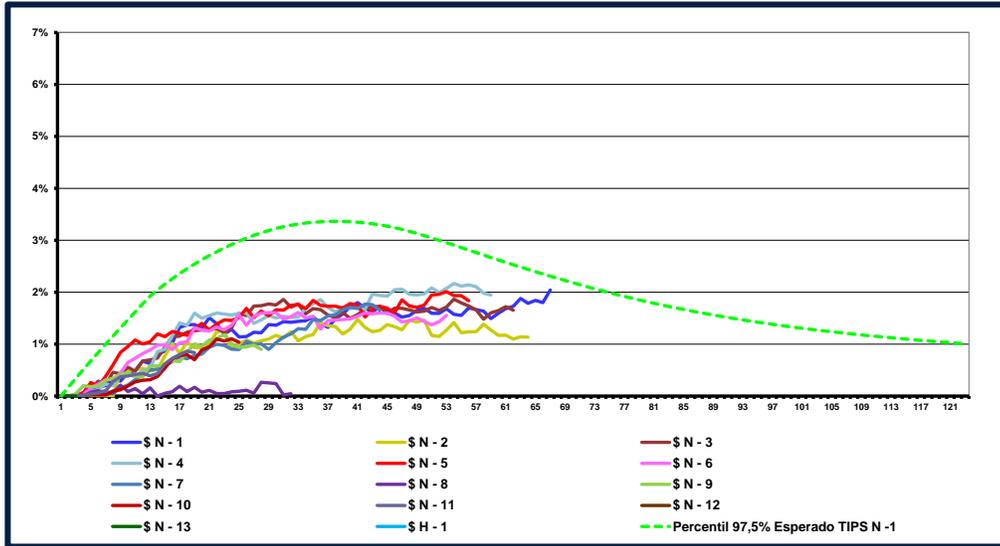
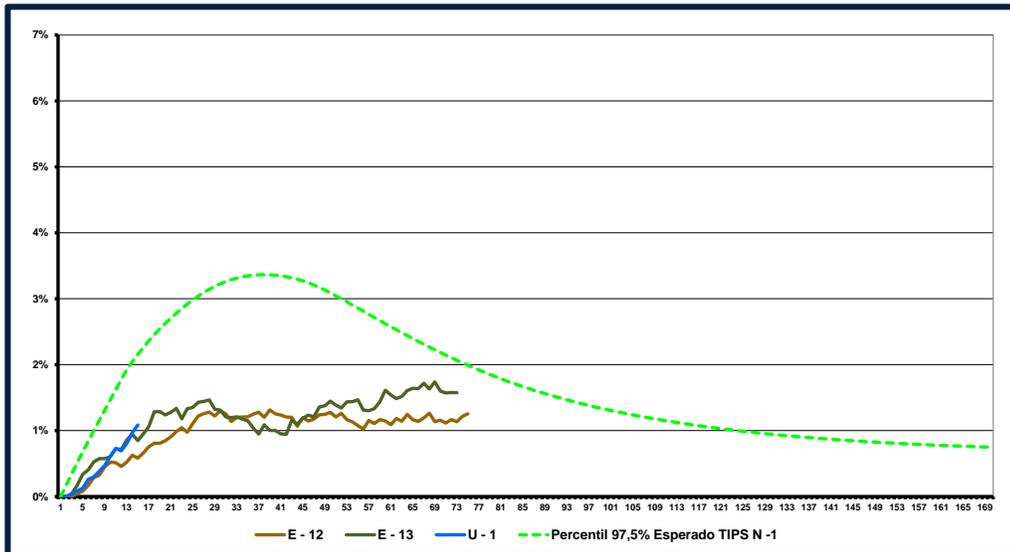


Chart No. 21: Maximum Delinquency Scenario–UVR Issues
Source: TC



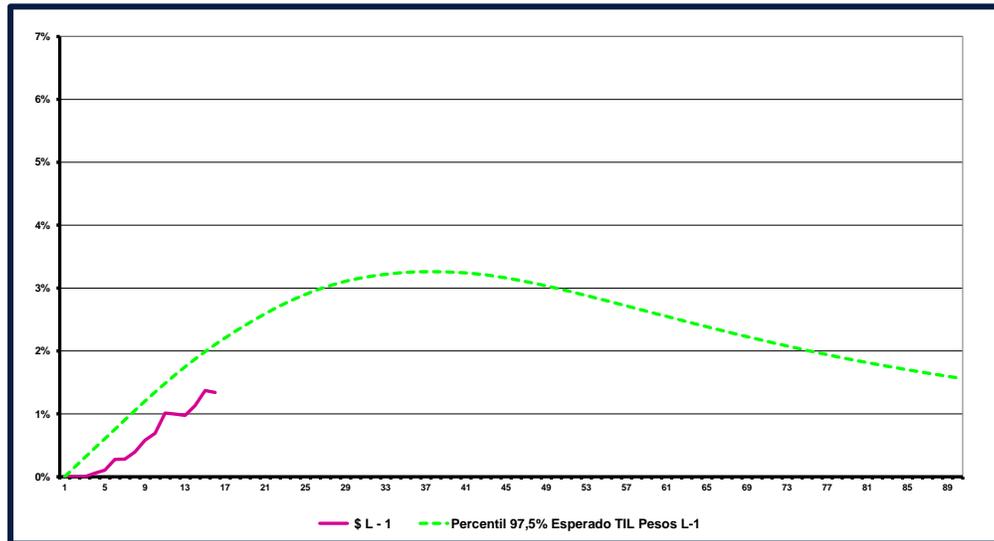
4.2.2. CONSUMPTION LOANS WITH DRAFTS

The portfolio of securitized consumption loans with drafts as of the 2016 closing evidenced good payment behavior, thus allowing deterioration levels to remain within the expected delinquency levels as reflected in the non-performing loans indicator of the TIL Pesos L-1 Issue. (Chart No. 22).



Chart No. 22. Evolution of >90-day delinquency for TIL Pesos L-1 on the balance as of the issue date – with recovery

Source: TC



4.2.3 COMMERCIAL LOANS

Securitized commercial loans showed optimum performance levels for TER R-1, ending 2016.

**Table No. 7 - TER R-1
DELINQUENCY
Source: TC
(COP million)**

Delinquency Ranges	Loans Qty	Balance
Performing	27	211,621
31 to 60	-	-
61 to 90	-	-
91 to 120	-	-
Greater than 120	-	-
Total	27	211,621

4.3. ASSETS RECEIVED AS PAYMENT (REO)

Assets received as payment (REO: Real estate owned) resulted from the repayment of a loan in full or in part, either upon the borrower's request (deed in lieu) or by right of action (foreclosure award).

As of the year closing, Titularizadora's inventory consists in five (5) real properties with a market value of COP 736 million, broken down by issue.

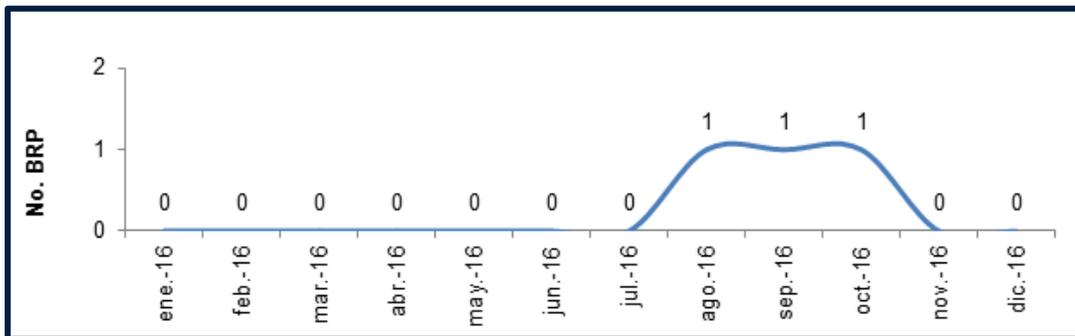


Table No. 8. REO by Issue
Source: TC
(COP million)

ISSUE	REO QTY	Market Value
PESOS E-9	1	66
PESOS E-10	1	143
PESOS N-3	1	114
PESOS N-9	1	310
PESOS N-7	1	103
Total	5	736

Sales of these real properties showed good performance with the sale of 3 properties during the year.

Chart No. 23. REO Sales Performance 2016
Source: TC



4.4. SECURITIZED LOAN SERVICERS

4.4.1. SECURITIZED MORTGAGE LOAN SERVICERS

Below is the mortgage loan distribution per Servicer for mortgage-backed securities issues as of December 2016:



Table No. 9. Loans by Servicer
Source: TC

Servicer	Principal*	Loans Qty	% Principal
Banco Davivienda S.A.	1,782,614	37,790	47.5%
Bancolombia	799,120	27,609	21.3%
Banco BCSC	935,181	24,144	24.9%
Fondo Nacional del Ahorro	90,579	2,564	2.4%
BBVA Colombia	46,425	1,246	1.2%
CONFIAR– Cooperativa Financiera	45,517	1,394	1.2%
Banco Colpatria S.A.	27,850	652	0.7%
Banco AvVillas S.A.	16,920	1,240	0.5%
Banco Corpbanca Colombia S.A.	11,292	339	0.3%
Total portfolio	3,755,500	96,978	100%

* Figures in COP million

As to the performance of the Servicers of securitized mortgage loans, they remain within the standards and levels set in the initial certification, according to the resulting indicators of mortgage loan portfolio servicing processes and servicer recertification processes.

4.4.2. SERVICERS OF SECURITIZED CONSUMPTION LOANS WITH DRAFTS

As to the performance and activities of COLSUBSIDIO (Caja de Compensación Familiar), the Servicer of securitized consumption loans with drafts, they fall within the established standards and levels, according to the resulting indicators defined for portfolio servicing processes and servicer recertification processes.

4.4.3. SECURITIZED COMMERCIAL LOAN SERVICERS

The performance and activities of FINDETER (Financiera de Desarrollo Territorial S.A.), the servicer of the commercial loans, fall within the standards and levels established in the initial certification in 2016, according to the resulting indicators defined for portfolio servicing processes.



4.5 MASTER SERVICING INTERNAL PROCESSES

“The servicing standards are kept and best practices have been incorporated for automation and reduction of activities in the internal and external processes of servicing.”

Servicing standards are kept and best practices have been incorporated for automation and reduction of activities in the internal and external processes of servicing. Continuing improvement is applied to servicing measures by optimization of external and internal indicators, thereby the master servicing of issues has been strengthened in general.

The business base application (HITOS) was maintained and adjusted for servicing other products and countries, ensuring safe integration with other applications and due reporting on the underlying assets and structured liabilities.

Outstanding matters related to Operational Efficiency in 2016 include keeping the Quality certification from ICONTEC for processes associated with the Master servicing of issues of mortgage backed securitization. This certification ensures the compliance with the ISO 9001:2008 standard requirements and therefore guarantees that there are clearly outlined procedures, controls, and risk mitigation in place. In addition, we are preparing the Quality System for the application of the ISO 9001:2015 Standard. The company strengthened sources of improvement as the internal quality audit, internal and external indicators, and satisfaction surveys, all of which provide relevant information to continue growing upon high standards and thereby, being able to guide the allies towards offering always the best service to their customers.

4.5.1 SUPPORT TO MORTGAGE SECTOR

In 2016, Titularizadora Colombiana maintained the strategy of creating added value for the mortgage sector in matters related to the standardization of processes and the identification of best practices with respect to:

- **Administrative and Judicial Collection:** Event for recognition to the collection activities that granted a distinction to securitized loan servicers which stood out for their activity results in the previous year. Provided room to share experiences and best practices.
- **Custody Processes:** During the year, the company worked with servicers in outreaching and implementing better practices in the preservation, control, and report of the documentary guarantees.



4.6 OUTREACH AND MARKETING

Titularizadora's plan of communications to the market and general public was focused on positioning the mortgage loan securitization as an essential tool for the development of housing sector in Colombia, housing finance, fund raising for non-banking originators, and on highlighting the benefits of the securities in terms of diversification, security, and yields for investment portfolios.

The strategy was developed through the participation in print media of wide circulation, specialized magazines, and the sponsoring of specialized events and conferences with a high participation of the target segments of investors.

5. OTHER PROJECTS

5.1 NEW ORIGINATORS

5.1.1 NON-BANK ORIGINATOR MARKET

The diversification strategy included in 2016 progress in structuring the first issue backed by mortgage loans originated by the Cooperativa Financiera CONFIAR placed in December. The securitized portfolio amounted to COP 46,149 million and the securities issued were rated AAA by FITCH. Titularizadora certified CONFIAR as Originator and Servicer of securitized mortgage loan portfolios.

Also, under the strategy of diversification and orientation to the development of the non-banking originators, progress was achieved in the process of structuring an issue backed by consumption loans with drafts originated by a family subsidy entity (*Caja de Compensación*) leader in Cundinamarca, which will be out in the market in the first half of 2016.

5.1.2 REAL ESTATE

During 2016 the structuring of real estate securitization progressed considerably by the development of the financial and operational structure and the engagement of realtor allies that allow to form a solid structure. For the activation of the securitization process, a real property portfolio was purchased for COP 107,000 million approximately, corresponding to administrative and sales branches of Banco Davivienda, with which bank the company entered into a 10-year lease contract at market prices as per the appraisals. With this improvement, Titularizadora expects to carry out the first issue of a real estate securitization program during the first half of 2017.

5.2 TITULARIZADORA DOMINICANA

During 2016, the consulting services for setting up the Titularizadora Dominicana (TIDOM) company were commenced, and the structuring of the first mortgage backed securities issue in 2017 started also. The first issue will be performed with



three local financial institutions and outsourcing services of master servicing provided by Titularizadora Colombiana S.A. By the closing of December 2016, the participation of Titularizadora as shareholder of this company in the Dominican Republic is consolidated.

5.3 CENTRAL AMERICA

Given the interest shown by banks in Costa Rica and having adjusted the financial structure and business cases to the realities of the moment, the way to carry out a legally feasible securitization was determined with a trust company in that country. Any advance in 2017 leading to an issue will depend on when the banks consider the best time for its performance.

6. MANAGEMENT AND HUMAN RESOURCES

6.1 HUMAN RESOURCES

The results are the product of the work performed by our 66 highly qualified employees. In 2016 under our human resource strengthening strategy we carried on technical training, skill strengthening, and formal refresh at top class universities and in all the organization levels.

6.2 INSURANCE

Up to Saturday, December 31, 2016, appropriate insurance coverage was maintained. Prudent standards relating to industry practices in similar companies were followed with respect to protection of the company's assets, premises, and technology infrastructure; liability of directors and officers; and loss of securities due to dishonest or fraudulent acts by employees.

7. TECHNOLOGY

During 2016 the main computer center servers were updated, the Hitos (issue management) and Extranet applications' architectures were examined, the requirements for managing commercial, consumption with drafts, and TIDOM loans were developed, and the necessary changes required by Multiactivos winding-up were made. In addition, the capacity of the main internet channel was enhanced, and the tests for business continuity were developed under the new strategy of dynamic alternate center of operations (CAO in Spanish).

Overall, permanent control was exerted on software licensing, information security and confidentiality, current versions of applications (Hitos, Porfin, Apoteosys, Extranet, website) and hardware support, so the company was kept on a low percentage of risk events in this management area.



8. LEGAL AND REGULATORY ISSUES

8.1. REGULATORY ISSUES

Decree 765 of 2016 made changes to the investment regime of mandatory pension funds and severance payment funds, aimed at reorganizing the assets applicable as per their risk features and thus allow in a limited way the investment in assets that were not contemplated in the regime.

A new subsection 1.11 was introduced to article 2.6.12.1.2 of Decree 2555 of 2010 to establish a special category for investments made in credit-backed, equity (*participativos*), or combined securities derived from securitization processes with underlying assets of a real estate nature, which results consistent with the treatment given to real estate collective investment funds and real estate private capital funds. Thereby, investments in securities from real estate securitizations will not be classed in the categories established in Decree 2555 subsections 1.4 (non-mortgage credit-backed securities in processes of securitization) and 1.9.5 (non-mortgage equity—*participativos*— or combined securities in securitization processes) but under the new category provided in the new item 1.11 mentioned previously. A new cap is set for investment in this type of real estate assets for which, the moderate fund will be able to invest up to 20% and the higher risk and long term severance fund up to 25%.

Likewise, a notion of restricted investments was established including among others, the issues in a second market without a rating assigned by a risk rating agency authorized by the Superintendencia Financiera, which issues are authorized for the instruments described as restricted up to 1% to 4% depending on the type of fund.

Furthermore, Decree 1348 of 2016 was issued to regulate the disclosure of information and the management of risks in sale and management of loan portfolios corresponding to operations of consumption loans with draft under Law 1527 of 2012. This decree applies in the cases that the purchaser and seller are entities or individuals not subject to the surveillance of the Superintendencia Financiera de Colombia (SFC), for which reason those aspects are not applicable to Titularizadora as an entity supervised by the Superintendencia Financiera de Colombia.

In any case, Decree 1348 provides for securitizations that whenever a situation occurs where a securitization conduit bears the capacity as assignor and does not have a servicer for the consumption loans with drafts, the entity will register with the RONEOL as an operator of consumption loans with drafts, to be allowed to perform the servicing and collection of the purchased loans. In any other cases, the designated servicer must be registered with RONEOL but the securitization conduit not.



Decree 1759 of 2016 was issued to amend Decree 1074 of 2015 §2.2.2.26.3.1—the Single Implementing Decree of the Commerce, Industry, and Tourism Sector—with respect to the date to register databases for whose servicing are responsible the public, private entities or individuals governed by Law 1581 of 2012, the data privacy act. In this regard, the amendment consisted in an extension to the term for registration with the Colombian national database registry (RNBD in Spanish) aimed at publishing and socializing the information registered and in this way ensuring the receiving parties' compliance with the regulation. The entities with databases not registered must follow this procedure no later than 30 June 2017 under the instructions delivered by the *Superintendencia de Industria y Comercio* and in accordance with any other applicable laws and regulations.

Last, the Tax Reform of 2016 (Law 1819 of 2016) made a change related to the treatment given to pension and severance funds managed by companies supervised by foreign authorities with which the Superintendencia Financiera de Colombia has executed agreements or contracts for exchange of information and surveillance protocols. In this regard, the new paragraph of Tax Statute § 23-2 provides that the above-mentioned foreign pension and severance funds are not bound to file a tax return for income and complementary taxes and, with respect to their foreign capital investments in Colombia, they are not subject to withholding tax.

8.2. LEGAL CONTINGENCIES

In 2016, no contingency, legal proceedings, or lawsuit have been brought against Titularizadora.

8.3. LEGAL ISSUES

8.3.1. “CODIGO PAIS” SURVEY

In 2016, Titularizadora complied with the reporting of best corporate practices implementation for 2016 and put into operation the applicable corporate governance standards as per the recommendations of the new “Codigo Pais” and of the 2015 adjustments to the Articles of Association and Corporate Governance Code of the Company.

Full information about the corporate governance activities of the company is available in the Corporate Governance Report prepared for such purpose and published on the company website www.titularizadora.com

8.3.2. KNOWN AND RECURRENT ISSUER

In September 2015, the *Superintendencia Financiera* granted the capacity as a renowned and recurrent issuer to Titularizadora for its compliance with requirements indicated in item 6 of the External Circular 029 of 2014 (Basic Legal



Circular) Part III Title I Chapter II and any other applicable laws and regulations. This capacity was maintained over 2016 by complying with the submission of the information required under items 6.1.1 to 6.1.6 of the rule mentioned above within the term set for such purpose.

8.3.3. LIQUIDATION OF MULTIACTIVOS

Titularizadora, as a shareholder, received the reimbursement of its contributions as a part of the distribution of the remaining assets of Multiactivos by delivering a sum of money corresponding to COP 635,812,939.70 and the allocation of assets in kind for a value of COP 3,465,498,585.38, the final allocation of which corresponded to COP 4,101,311,525.08 for its 21.25% shareholding. The process included the approval of the final Document of Liquidation by the Shareholders Meeting of Multiactivos in July 2016, and the approval of the liquidation process by Resolution 1212 of 26 September 2016 of the *Superintendencia Financiera de Colombia*. The Document of Liquidation was registered with the Bogota Chamber of Commerce on 21 October 2016; Multiactivos' business register was thereby cancelled.

8.3.4. RELATIONSHIP WITH INVESTORS

For the fourth consecutive year, Titularizadora maintained the "IR Recognition", a distinction that the Colombian Stock Exchange BVC grants to issuers that have adopted best practices for information disclosure and relationship with investors.

With regard to the Investors Committee, during 2016 meetings were held as per schedule, considering that the Committee is a privileged forum for properly and timely informing the investors of the company position and the development, performance, and perspectives of the securitization processes.



9. OTHER

9.1. MANAGEMENT REPORT OF ASSET LAUNDERING AND TERRORISM FINANCING PREVENTION AND CONTROL (SARLAFT) ACTIVITIES

Titularizadora Colombiana has designed an Asset Laundering Risk Management System in accordance with the legal requirements, which allows the company to prevent its being used directly or through its operations as an instrument for asset laundering and for channeling resources toward performing terrorist activities.”

Titularizadora Colombiana has designed an Asset Laundering Risk Management System in accordance

with the legal requirements, which allows the company to prevent its being used directly or through its operations as an instrument for asset laundering and for channeling resources toward performing terrorist activities. During 2016, the methodological deployment of SARLAFT (Risk management system of asset laundering and terrorism financing risk) enabled the appropriate application of policies, principles, and procedures defined for managing these risks. In addition, according to the working plan, performance of SARLAFT elements and phases was followed up, the company level of risk was assessed and updated, and the mechanisms of knowledge of customers and third parties related to the company were verified.

The periodic review of AL/TF risk prevention policies and procedures allowed to keep these matters duly up to date and formalized in the SARLAFT manual and the Code of Conduct documents that are shared and released to all the company officers and were evaluated in the training plan conducted this year.

Due to the nature of the business, the operations related to primary underwriting of securities are carried out solely through stock brokers subject to the supervision of the *Superintendencia Financiera*, which entities carry out the prevention and control of asset laundering directly on the investors in securities, given their knowledge of their own clients.

As to the measures of control of the securitized loans serviced by different entities, certification and recertification were carried out, and the compliance with SARLAFT requirements applicable to loan Originators and Servicers was evaluated. Also, the company maintained the contract provisions necessary with those entities for AL/TF risk prevention and control.

SARLAFT control and monitoring activities included a risk periodic evaluation and



report to the Board of Directors, broadening the verification of operations both for securitized mortgage and non-mortgage loans, and activities required for an ongoing application of automatic crossing of restriction lists and periodic track of requirements defined for engagements with third parties.

The monitoring of transactions with third parties, the execution of alert signs, and the review of indicators fulfilled internal requirements and procedures.

Finally, the company complied with its reporting duty under the applicable laws and regulations, and timely addressed the requirements from control bodies.

9.2. INTERNAL CONTROL SYSTEM

Titularizadora's internal control system is designed as per the general policy guidelines; responsibilities as to its performance, elements and special areas; and the methodology specified for an appropriate and sustainable operation.

During 2016 the following activities were carried out amongst others:

- **Control Setting:** Overall governance policy, corporate values and ground rules frame of the internal control system have been established by the Board of Directors and their disclosure to and compliance with by all the organization levels are promoted through the offices of vice presidents and directives of the company. The main activities carried out in 2016 include update of policies on operations conducted with related parties and line up of committees that support the Board of Directors, among others.

The organizational chart, the functions and responsibilities of each job are kept up to date in accordance with the current operations of the company. Moreover, the company continued the enhancement and publication of procedures manuals, the management indicators definition and application aligned with the Quality System Policies, and the personnel induction, training, and education plans were maintained.

As to the policy on fraud and misconduct risk prevention, a transparency channel was kept available and its operation under proper supervision, and the control measures performance were evaluated by the corresponding committees and departments.

- **Risk Management:** The company continued the stringent application of the risk management systems' elements such as for market risk, operational risk, and asset laundering risk. Also, tolerance levels and enhancement plans were evaluated by the appropriate committees and departments, and were reported to the Board of Directors on a periodic basis.
- **Control Activities:** The processes and activities performed by the company have appropriate controls in place, which allow to ensure reasonably the fulfillment of operational objectives fixed. The operating risk management



together with the periodic reviews conducted by the Quality Management System enabled the strengthening of the main control measures and facilitated the automation plan evaluation aimed to foster the operating procedures' efficiency.

- **Information and Communication:** There are processes in place for information generation, distribution, storage, and recovery according to the applicable policies and rules, and at all times subject to the information classification per type established by Titularizadora.

The communication channels that allow the internal and external publication of information follow review and approval protocols to ensure the integrity and reliability of the information released to interest groups.

During 2016, the information security policies were reviewed and validated, thus generating an adjustment process that will end in the first quarter of 2017. Updates were applied to communication channels and technological tools used for information disclosure and release.

- **Monitoring:** The ongoing supervision by process owners and periodic follow up by the president's office and the vice presidents, allowed verifying the quality of the internal control performance and achieve the control goals.

The evaluation of the internal control system's efficiency was conducted by the statutory auditor, the external auditor and the internal control function which were complemented with the internal and external quality assessments carried out in the framework of the company's Quality Management System in place. The results evidence the commitment of the Management and each of its officers to achieve the institutional goals and take the actions required to strengthen the internal control activities.

9.3. EVALUATION OF DISCLOSURE AND CONTROL SYSTEMS

During the year, the company reviewed and verified the disclosure and control procedures employed in preparing and releasing the company financial statements, including validation by Financial Control and Finance Vice President, and evaluations by the statutory auditor and the internal control function. All allowed confirming that the preparation, presentation, and disclosure of the financial information for the fiscal period closing abide by the law and present reasonably the financial position of the company.

The results of periodic reviews of the company's control measures specified in the accounting, financial, and operational procedures lead to conclude that such procedures were correctly applied and provide a reasonable assurance that Titularizadora's financial information has been properly recorded, processed, and presented. They also show that the financial statements and other reports disclosed to the public do not contain any defects, inconsistencies, or material



errors that might prevent understanding the actual situation of the equity or the operations transacted during 2016.

9.4. OPERATING RISK MANAGEMENT

The operational risk management was performed under the determined methodological framework structured by definition, documentation, and formalization of processes, identification and estimation of risks in terms of impact and probability, and application of the monitoring procedures required to keep the risk levels within the limits set by the Board of Directors.

During 2016 the company conducted permanent follow up of risks performance, controls performance, and risk profile, under a procedure followed through periodic reviews to the risk matrices, the new control measure implementation, and the performance of action plans. As of the 2016 closing, the risks identified in the company's processes are in the "low" and "middle" risk levels.

Besides, materialized risk events were validated, fraud risks were subject to constant strict monitoring, and the obligation of periodic reporting on activities was complied with.

In 2016, any risk events occurred were duly recorded according to the applicable laws and regulations. In addition, the SARO Committee assessed those risk events and the company took the actions necessary for prevention purposes. Any events occurred did not result in losses for operating risk.

The company executed the training plan for the officers addressing topics related to applicable laws and regulations, and methodology and procedures of the operational risk management in place.

The Business Continuity Plan was applied over the year in two sets, functional tests and technical and technological exercises. The first set consisted in four gamification tests. Second set included conducting exercises of electrical tests and backup restore for production databases in part of the BCP evolution.

This strategy also included the production operation of Hitos multiproduct databases on the contingency servers, for a week. All these activities and tests rendered satisfactory results.

Furthermore, through news bulletins and gamification activity execution, the communication plan in the BCP was strengthened.

Evaluations of the operational risk management system by the statutory auditor and the internal audit function reflect the proper compliance with the applicable regulations for SARO.



9.5. RISK DISCLOSURE

Note 2 to the Financial Statements reports the disclosure of criteria, policies, and procedures used in the evaluation, management, measurement, and control of the risks associated with Titularizadora Colombiana's business.

9.6. REPORT OF OPERATIONS WITH SHAREHOLDERS AND MANAGEMENT

In accordance with Law 603/2000 § 1, Note 19 to the financial statements lists the operations transacted between Titularizadora and its shareholders and managers.

9.7. GRATUITOUS TRANSFER OF PROPERTY

During this year, gratuitous transfers of assets took place for COP 31 million. This operation includes a donation for twenty-six million one hundred thousand pesos Colombian legal tender (COP 26,100,000.00) allocated to the Fundacion Catalina Munoz, an entity that provides housing solutions to fathers and mothers heads of households.

9.8. ASSETS IN OTHER COUNTRIES

As of the 2016 closing, the company has records of investments abroad for COP 2,070 million of shares in Titularizadora Dominicana.

9.9. COMPLIANCE STATUS OF INTELLECTUAL PROPERTY LAWS AND REGULATIONS

In accordance with Law 603-2000 § 1, let it be expressly set for the record that the company has complied with the regulations on intellectual property and copyright provided for in the Colombian laws.

9.10. PAYMENTS TO DIRECTORS, CONSULTANTS, ADVERTISEMENT, AND PUBLIC RELATIONS

The expenditure for salaries, fees, travel and lodge expenses, and any other remuneration received by company's executives and consultants, as well as the advertisement and PR expenses incurred by Titularizadora Colombiana are set forth in detail as an attachment to the financial statements.

9.11. IMPLEMENTATION OF INTERNATIONAL STANDARDS

According to the provisions of Decree 2784 of 2012, Decree 3024 of 2013, and External Circular 038 of 2013 of the *Superintendencia Financiera*, the company completed the implementation of the international financial information standards—NIIF in Spanish—as approved by the Board of Directors. Periodic reports of project status, relevant matters, convergence actions taken, and required implementation control elements were submitted to the Board of Directors and Management for approval.



9.12. INFORMATION SECURITY

In the business context, Titularizadora's management of technological infrastructure, information, and IT assets in 2016 complied with the requirements set in the Basic Legal Circular Part 1 Title 2 Chapter 1 issued by the *Superintendencia Financiera* regarding the minimum security and quality requirements for transacting business. Information security policies were reviewed and validated, thus creating an update process to be ended in the first quarter of 2017. Lastly, the Ethical Hacking Test was performed on public web applications and the company remained at a security level appropriate to the standards defined.

9.13. FREE CIRCULATION OF INVOICES

To the effect of the compliance with the Code of Commerce §788 paragraph 2 (as added by Law 1676 of 2013, §87), it is expressly set for the record that the free circulation of invoices issued by vendors or providers was not hindered.

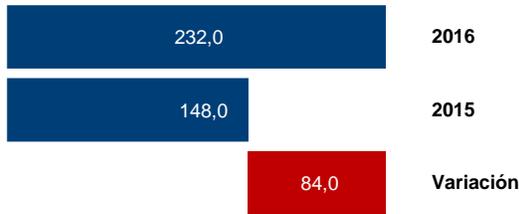
10. FINANCIAL STATEMENTS

The company financial statements as of 31 December 2016 were presented in accordance with the International Financial Reporting Standards—IFRS—(NIIF in Spanish), a process started with the opening financial statement of 1-1-2014, the convergence of year 2014, and 2015 as the first year of records under NIIF. These financial statements reflect the following information.



10.1. BALANCE SHEET MAIN FIGURES

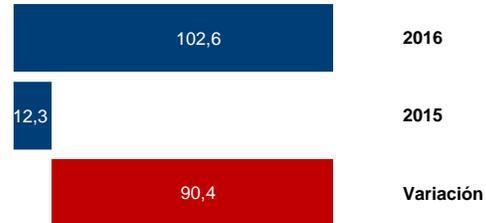
ASSETS



Ending December 2016, Titularizadora Colombiana's total assets amounted to COP 232,018 million, 59% growth as against 2015 closing. Assets mainly comprise assets kept for sale (46%), investment properties (11%), investments (29%), accounts receivable (9%), and cash (4%).

The main variation of the accounts in respect of the previous year is found in Assets kept for sale from real property purchased for carrying out the real estate securitization in 2017

LIABILITIES

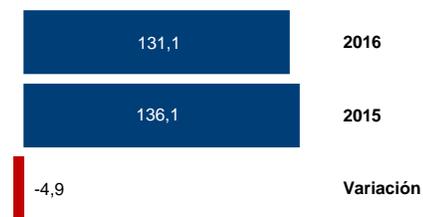


The company leverage at the fiscal period closing is 43%.

The principal liabilities correspond to the accounts payable to the provider of investment real properties and to a provision for income and complementary taxes and CREE (income tax for fairness).

Any income received in advance for guarantees granted by the company to the issues of the year were increased in 28%.

EQUITY



Titularizadora Colombiana Shareholders' equity decreased by 4% with respect to the preceding year, from the dividend distribution and the profit reduction. The company closed 2016 with a COP 131,146 million worth equity.



10.2. INCOME STATEMENT

The operational income corresponds to 86% of the total income, and results from structuring, servicing, guarantee and underwriting fees of the issues for COP 18,074 million and from financial income represented in investment yields for COP 13,164.

Operational income shows that fees decreased by 4% with respect to 2015 and financial yields grew by 53% due to the increase in loan portfolio interest rates.

Other income for COP 4,900 million corresponds mainly to lease, investment properties valuation, Cifin stock sale profits, and provision recovery.

The company's expenses amounted to COP 19,773 million. Operating expenses show an increase by 34% and non-operating expenses show a 62% increase in financial expenses.

Net profits amounted to COP 10,052 million in the fiscal year of 2016, that is, COP 302 million more than in 2015.

10.3. FINANCIAL AND OPERATIONAL INDICATORS

ROE before taxes corresponds to 15.6% as of December 2016. In turn, ROE after taxes¹ changed from 8.3% in 2015 to 9.6% in December 2016.

The operational efficiency varied from 76.4% in 2015 to 85.8% in 2016.

10.4. CERTIFICATION OF FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

Pursuant to Law 964/2005 §46, for the preparation of financial statements and any other reports for the general public, Titularizadora Colombiana established, implemented, and evaluated disclosure and monitoring procedures and systems that ensure the adequate presentation of the financial information. The financial statements collectively do not contain any defects, inconsistencies, or errors that could preclude the understanding of the actual position of the equity or operations of the company.

¹ Market price valuation adjustments are not included.