



Titularizadora
COLOMBIANA

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TITULARIZADORA COLOMBIANA

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

FEBRUARY 2020



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INTRODUCTION

Titularizadora Colombiana presents a quite positive assessment in the second decade of the 21st century. Not only circa COP 14 trillion were issued in mortgage-backed securities (representing 14% of the disbursements made during that period) but also major milestones were achieved in the market development for other underlying assets such as rediscount loans, consumption loans with drafts, and vehicle loans. Close to a total of COP 1 trillion was issued all over the last 10 years in this type of securitizations. These results show the effort our Management has made in terms of innovation to the securitization market in Colombia.

The dynamism of securitizations also reflected in the access to the capital markets by other types of originators, such as commercial banks, second tier banks, special official entities, financial cooperatives, family subsidy funds, and loan originators not subject to surveillance. The range of these entities reflect the appetite for a variety of risks in the institutional investors, which have been refining their portfolio management practices over the decade. Moreover, funding via the exchange markets has produced social benefits such as competitive pressure on the financial system, which are reflected both in depth and in financial efficiencies that release resources to the final borrowers.

A major transformation undergone by the company in this decade was the creation of real estate securities, which allowed participative securitizations. This change entailed an important challenge to the management due to a significant demand from the individual investors and the management and inventory of other than loan portfolio assets. This incursion has been a success in consolidating securities as a type of asset because of the product yields and stability, the development of a liquid secondary market and the implementation of the master administration for managing real estate portfolios.

The third decade of the 21st century has been projected to be much more dynamic. Especially, the macroeconomic environment, middle class development, financial deepening acceleration, international banking regulation, and implementation of constructive measures addressed in the capital markets' mission will be responsible for consolidating a world class securitization industry in Colombia which will enable the channeling of not only national but also foreign resources for the economic development and the wellbeing of all Colombians.



2002	2003	2004	2005
TIPS UVR E1 \$479mm E2 \$588mm	TIPS UVR E3 \$464mm E4 \$328mm	TIPS UVR E5 \$345mm E6 \$574mm TECH E1 \$521mm E2 \$518mm	TIPS UVR E7 \$424mm TECH E3 \$119mm
2006	2007	2008	2009
TIPS UVR E8 \$781mm TIPS Pesos E1 \$268mm E2 \$355mm	TIPS UVR E9 \$313mm TIPS Pesos E3 \$333mm E4 \$377mm E5 \$311mm	TIPS UVR E10 \$237mm TIPS Pesos E6 \$208mm E7 \$370mm E8 \$384mm E9 \$400mm	TIPS Pesos E10 \$505mm E11 \$442mm E12 \$386mm E13 \$246mm
2010	2011	2012	2013
TIPS UVR E11 \$181mm E12 \$360mm E13 \$345mm TIPS Pesos E14 \$518mm E15 \$613mm E16 \$2.4bn	TIPS Pesos N1 \$238mm N2 \$303mm N3 \$379mm	TIPS Pesos N4 \$385mm N5 \$399mm N6 \$381mm	TIPS Pesos N7 \$428mm
2014	2015	2016	2017
TIPS Pesos N8 \$153mm N9 \$503mm N10 \$358mm	TIPS UVR U1 \$434mm TIPS Pesos N11 \$374mm TIL Pesos L1 \$15mm	TIPS Pesos N12 \$412mm N13 \$353mm TIS Pesos H1 \$46mm TER IPC R1 \$233mm	TIPS UVR U2 \$273mm TIPS Pesos N14 \$422mm N15 \$455mm N16 \$385mm TIL Pesos L2 \$123mm
2018	2019		
TIPS UVR U3 \$506mm TIPS Pesos N17 \$315mm TIL Pesos L3 \$101mm TIS Pesos H2 \$47mm Tin \$163mm	TIPS UVR U4 \$348mm TIPS Pesos N18 \$360mm N19 \$406mm N20 \$405mm TIV V1 \$87mm		

Chart 1. History of Issues
Source: TC



1. GENERAL

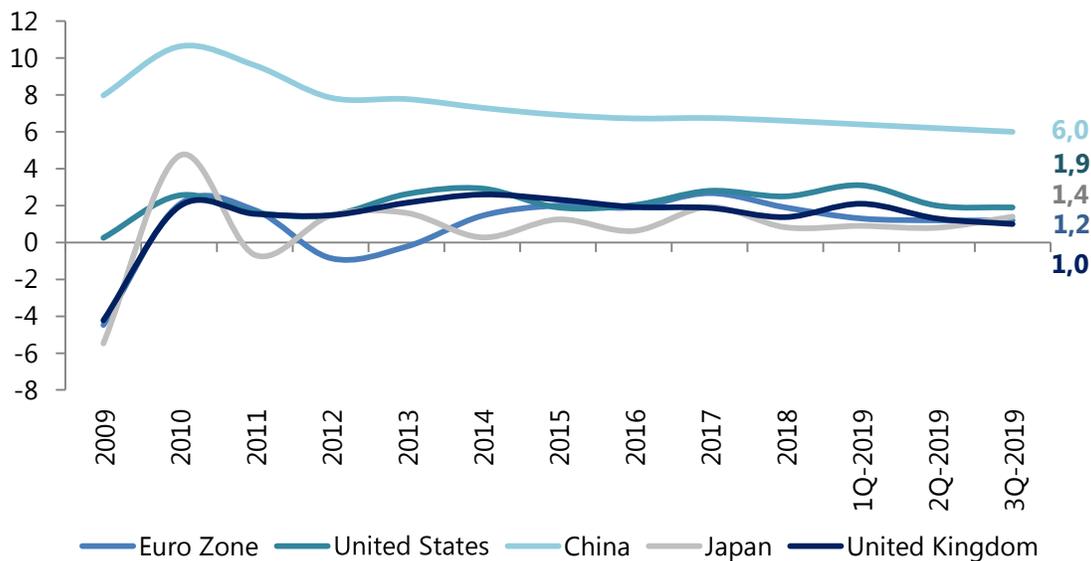
1.1. EVOLUTION IN 2019

1.1.1. MACROECONOMIC ENVIRONMENT

INTERNATIONAL MARKET

The economic deceleration period continued in 2019 both in developed countries and emerging economies, with an explanation of the vulnerability primarily based on the trade fight between the US and China added to the uncertainty arising from Brexit.

Chart 2. World economic growth (%) Source: Bloomberg



In December 2018, the Federal Reserve was expected to increase their intervention rate by 50 basis points in 2019. Nevertheless, the FED movement was opposite to the previous projections and reduced 75 basis points out of the 100 basis points increased in 2018.

Rate reductions occurred in July, September and October and has not changed afterward. After ending their asset purchase program in 2018, they were in need to expand their balance sheet in 2019 due to the poor transmission of the monetary policy. According to FED it happened because the economic activity in the US has been growing at a moderate rate, its labor market remains strong with the lowest unemployment rate in the last 50 years and the inflation remains under the 2% target.



Likewise, the Chinese economic activity deceleration deepened and forced the announcement of a package of measures focused on boosting growth, including an interest rate reduction for short term open market operations (for the first time since October 2015) and a 0,5% reserve reduction for banks, the lowest since 2007.

Thus, conversations between China and the US representatives started since October aiming to reach an agreement to end the trade war that has been ongoing since March 2018. Both countries' representatives reached an initial agreement signed on 15 January; it mainly provided that the US agreed to reducing tariffs on certain products imported from China and put off the imposing of additional tariffs. In turn, China agreed to increasing the purchase of agricultural products from the US.

The Euro Zone continued showing weak economic activity, mainly in Germany that remained the target of analysis due to the published data weakness, which evidenced a production contraction, thus holding the uncertainty about the evolution of the economic growth in that zone.

Hence, the European Central Bank kept its monetary policy interest rate stable in 0% all over 2019 as it has since 2016. Purchases made under the asset acquisition program were resumed since 1 November with the purpose of reinforcing the accommodative impact of their interest rates. The ECB stated that the intervention rate is expected to remain unchanged at least until inflation stays close but below 2%.

Furthermore, UK held the uncertainty of its exit from the European Union. In face of Theresa May's failure to get the Parliament approval of her agreement with the European Union, the former prime minister resigned, and Boris Johnson was designated to take her place. Johnson was forced to put off Brexit for 2020 owing to the Parliament's rejection of his once more negotiated agreement. Nevertheless, as his party won the legislative elections in December, his agreement for the exit on 31 January was approved.

The outlook for Latin America is discouraging. Argentina is submerged in an economic recession scenario and expecting a 2,9% contraction in the activity in 2019.

Presidential elections took place in October, resulting in the International Monetary Fund pausing the disbursement of the remaining resources for the financial rescue of the country; Alejandro Fernandez won the elections, thus marking the return of the kirchnerism to the power. One of the first measures announced by the new government was the increase in taxes to grain exports aiming to improve the fiscal accounts of the country.

In Mexico, the central bank has been bound to reduce the intervention rate by 100 basis points in response to the poor economic activity in 2019, which is expected to show 0,2% growth with respect to 2018, as a result of the weak investment and changes to the economic model of the new government.

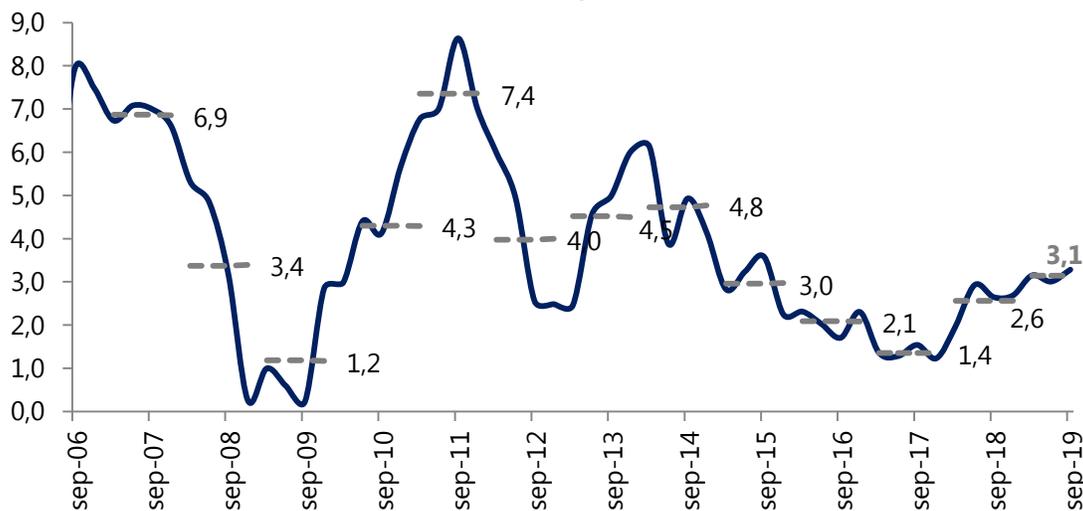


LOCAL MARKET

The economic activity in Colombia during the first three trimesters of 2019 confirmed the recovery that economists were expecting. The gross domestic product grew to 3,1% over the first nine months of 2019, higher than the 2,5% growth shown in the same period of 2018. Mining and quarrying is the sector that has evidenced a higher recover from a 0,3% contraction to 2,5% expansion; financial and insurance activities moved from 3,4% to 6,1% growth; followed by commerce moving from 3,3% growth to a current expansion closer to 5%. However, the construction sector is still preventing a higher acceleration of the economic growth by being the only sector currently contracting.

As to the demand, household consumption and investment acceleration stands out, both growing above the total GDP (4,4% and 4,8% respectively); household consumption expansion is explained by the migration from Venezuela, the increment of remittances and a greater consumption loan supply. On another note, the government expenditure evidenced a substantial deceleration from 5,6% expansion a year before down to 2,9% as of September 2019. In addition, exportation has decelerated as importation shows a substantial progress.

Chart 3. Colombian economic growth (%). Source: DANE



In 2019 the unemployment rate showed a continuous growth in the country despite the economic dynamics recovery. Average unemployment rate reached 10,6%, higher that the average observed in the past four years. The cause for the unemployment increment beyond the Venezuelan migration seems to be a greater difficulty for the market to absorb the supply of available work, i.e., a lower demand from business owners.

As to the inflation, in 2019 the annual variation of the consumer price index closed in 3,80%, a figure higher than 3,18% recorded for 2018 closing, where the entries for accommodation, water, electricity, gas and other fuels contributed the most to that increment, followed by food services, which pressed inflation upwards all over the year and



reached above the total, 5,80%. The main increase in food resulted from supply shocks and the Colombian peso depreciation.

In addition, the government faced the repeal of the “Law of financing” in October, which implied a challenge as another tax reform was required to be ready to enter into effect on 1 January 2020. On 27 December, President Ivan Duque enacted the “Law of economic growth” that replaced the previous Law of financing. Among the changes present in this new statute with respect to the previous one are we have the approval of 3 days free of sales tax (IVA) over the year, the refund of sales tax (IVA) for the most vulnerable population, a 12% to 4% reduction in the social security payment for health for the pensioners of lowest income, incentives for businesses to hire young people between 18 and 28 years of age. In like manner, this Law grants income tax benefits for companies and sales tax (IVA) discounts for capital assets importation, while keeping the income tax surtax for the financial sector.

**Chart 4. Tasa representativa del mercado (representative market exchange rate)
USD/COP · Source: BanRep**



The Colombian peso was one of the most devaluated currencies in the world last year. The average representative market exchange rate (TRM) was 3,281.09 USD/1 COP, meaning 11% average depreciation with respect to 2018. Note that in 2019 the exchange rate passed the barrier of 3,500 USD/COP reaching the maximum quote value of 3,522.48 USD/COP in late November. It results from not only the external uncertainty for the trade war, but also internal factors such as the uncertainty created by the repeal of the Law of financing that had been passed in 2018, as well as the concerns created by the fiscal accounts such as the fiscal rule compliance and the current external imbalance of the country.

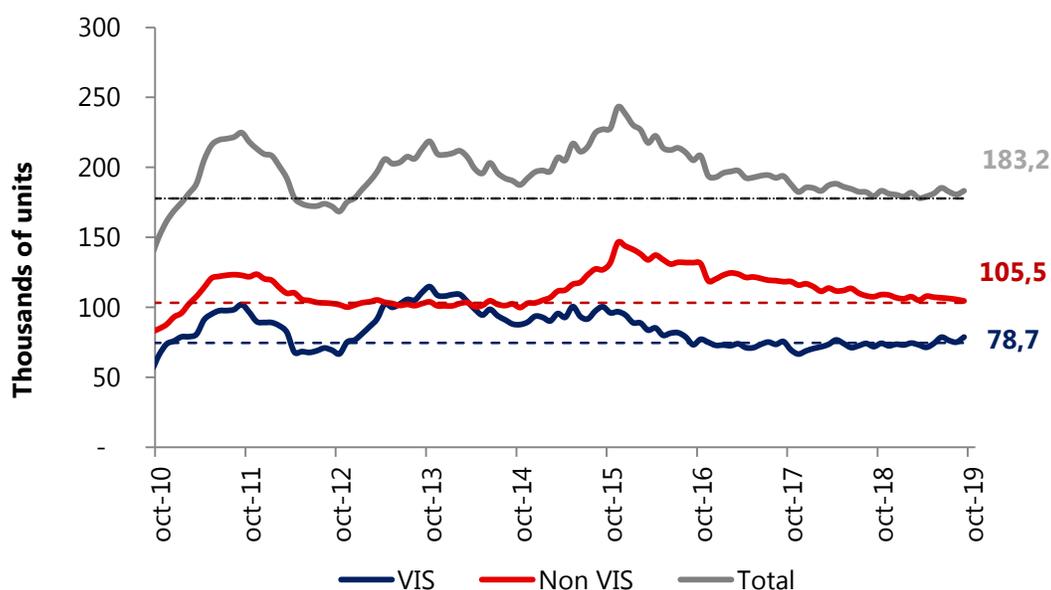


1.1.2. HOUSING MARKET AND MORTGAGE SECTOR

The construction sector continues to prevent a higher recovery of the economic activity. As of the third trimester of 2019, it shows 1,9% contraction as against the previous year, caused by the fall of the construction of residential and non-residential buildings in three consecutive trimesters, thereby overshadowing the expansion shown in civil works of around 12%.

It is in line with the data reflected in the approved licenses that decreased¹ 2,9% over the last 12 months. Nevertheless, data show an improvement with respect to the 8,8% contraction observed in the same period of 2018. Contraction in licenses results from a permanent fall in the NO VIS segment although not as big a fall as a year ago.

Chart 5. Licensed units - Total national (Thousands of units) Source: DANE.



At another level, the new house sales accelerated with respect to 2018 and expanded 10% annual, mainly because of a greater boost in VIS sales and a smaller fall in NO VIS sales that moved from a contraction greater than 10% to 1% approximately. In line with the sales improvement, there was a significant improvement in the inventory turnover of cities such as Cali, Bucaramanga, Barranquilla, Cartagena and Santa Marta with respect to 2018.

In October 2019, the mortgage loan portfolio reached COP 80.2 trillion, which equals 7,7% of the GDP and represents 15.2% of the total portfolio. Housing loan portfolio showed a 6,9% real annual growth, thus placing the mortgage loan portfolio as the second with a higher annual increment, behind the consumption that grew by 10,6%. Nevertheless, the growth of portfolio in 2019 evidences a deceleration with respect to the 8,6% increase

¹ Value as of October 2019.



recorded a year before. Furthermore, the non-performing loan portfolio showed deceleration by passing from recording 14% growths to 9,4% in October 2019 and thereby, the portfolio quality indicator remained in 3,3%.

Finally, regarding the loan origination, the disbursements allocated to home purchase over the last 12 months² increased in 5,1%, a much lower value than the 14% in the same period of the previous year, out of which the disbursements in pesos evidenced a greater deceleration.

1.2. OUTLOOK

1.2.1. MACROECONOMIC ENVIRONMENT

In average, the market is expecting a higher recovery of the economic activity with a 3,3% growth in 2020 considering a greater boost to the investment that is explained by less tax burden for the companies, more civil engineering works and a recovery in building construction; add the strengthening of the private consumption due to the expansionary monetary policy position and a greater origination of consumption loans. No major changes are expected in exports in a scenario of a weak recovery of the external demand.

During 2020, the inflation is expected to decelerate and get closer to the 3% punctual goal, as a consequence of the dilution occurred in the supply shocks faced by the country last year, which pushed the inflation. Thereby, a 3,4% inflation is expected for year closing. Consistently, Banco de la Republica (Central bank) is expected to not make any changes to its policy posture and the monetary policy rate is expected to remain 4.25% all over 2020.

1.2.2. HOUSING MARKET AND MORTGAGE SECTOR

Sales growth is projected around 4% in 2020 due to a stronger boost to VIS housing added to the recovery in NO VIS housing sales that is expected to evidence a positive growth with which a reduction is estimated in the turnover indicators and therefore in the inventory.

Mortgage loan portfolio is forecasted for COP 91.5 trillion in 2020, meaning a 12% growth with respect to the estimated for 2019 closing. This way, the mortgage loan portfolio will represent 8,2% of the GDP. Financing rates for VIS housing purchase are projected to be around 11,7% at the year closing, whereas for NO VIS are estimated in 10,43%.

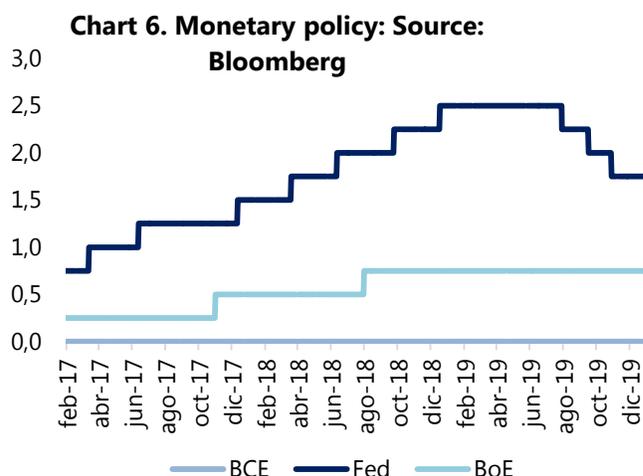
² Values as of November 2019.



2. CAPITAL MARKETS

2.1. INTERNATIONAL MARKETS

All through 2019, the developed countries' posture in monetary policy had unanticipated changes in the first months, in the light of the lower economic dynamism and less inflationary pressures from the general economy. The Federal Reserve reduced its intervention rates three times in the second half of the year and started to increase its balance sheet again, while the European Central Bank (ECB) and the Bank of England put off their increase of interest rates and resumed the purchase of assets. In general terms, the abundant liquidity and low interest rates fostered the increase in value of both fixed and variable rate assets in developed markets and even benefited the assets of new markets.

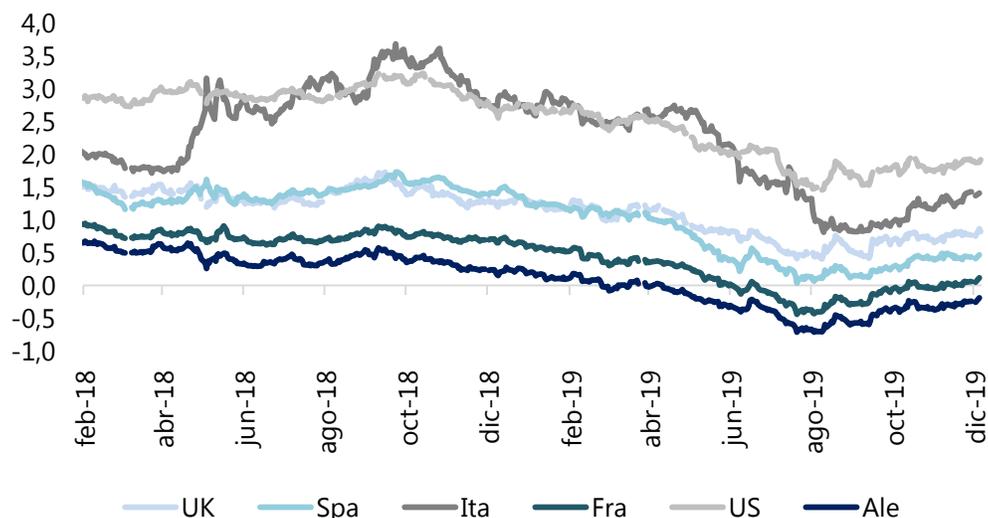


The uncertainty arising from the trade tension between the US and its main trade partners as well as from Brexit remained throughout the year. As to the first matter, after discussions held over the year generating uncertainty and volatility in the markets, the trade war between the US and China moved forward in the last quarter thus announcing that they signed Phase One of the trade deal in December. Regarding Brexit, upon several failed attempts to get the approval of the British Parliament and the resignation

of Theresa May, Boris Johnson was elected the Prime Minister and the conservative party kept the absolute majority in the Parliament, increasing thereby the probability to get the endorsement for the exit agreement with the EU, which was achieved in October.



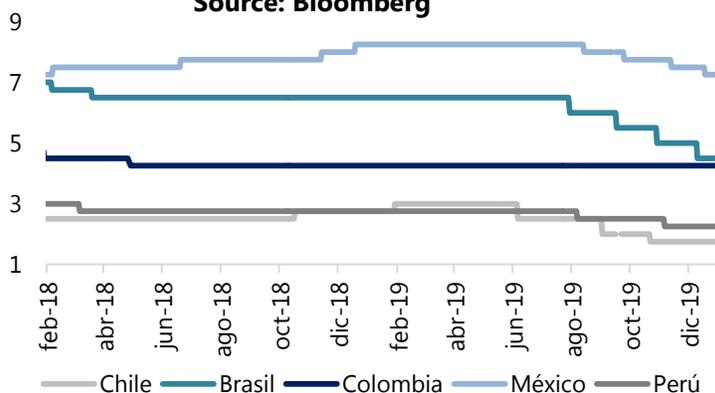
Chart 7. 10-year Sovereign Bonds. Source: Bloomberg



The current world economic and political situation (risks of economic deceleration, trade war, geopolitical tensions, Brexit, etc.) created a major volatility of risk assets and promoted the mark-up in price of safe haven assets and in general of the fixed income assets in sovereign countries. Towards the end of the year, the positive evolution of some of these factors and the monetary incentives made the appetite for risks grow and contributed to the variable income indices marking quotation records.

Chart 8. Monetary policy in Latin America.

Source: Bloomberg

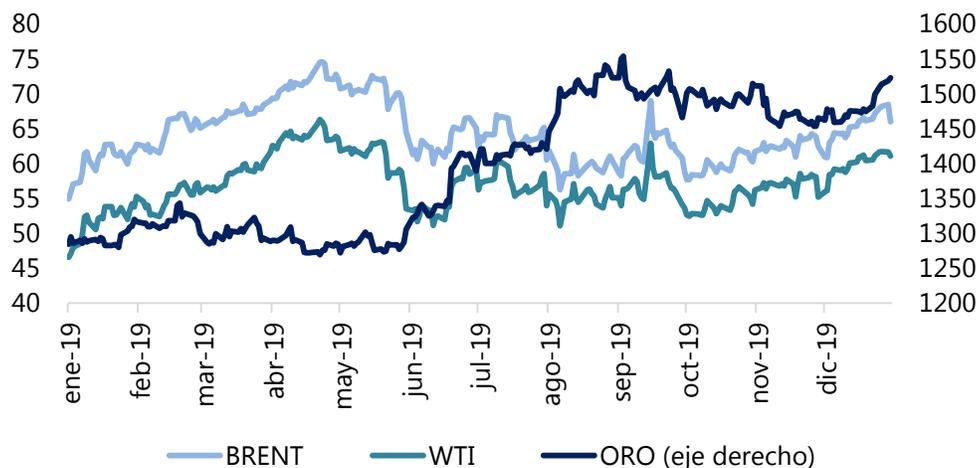


In Latin America, the loosening of the monetary policy in developed countries and the weakness of the economic indicators in the region economies, enabled most of the central banks to have a more relaxed posture and to reduce interest rates. In turn, political and social events helped increase the investors' uncertainty in the region.

The commodities market experienced less volatility than in previous years. Oil prices remained in the range between USD 55 and USD 75 per barrel for Brent crude oil and USD 50 to 65 per barrel for WTI crude oil. The variations occurred in function of geopolitical events and supply-demand estimates also impacted by the production reduction deal. In turn, gold had a major mark-up in price as a safe haven asset and in a global scenario of low interest rates.

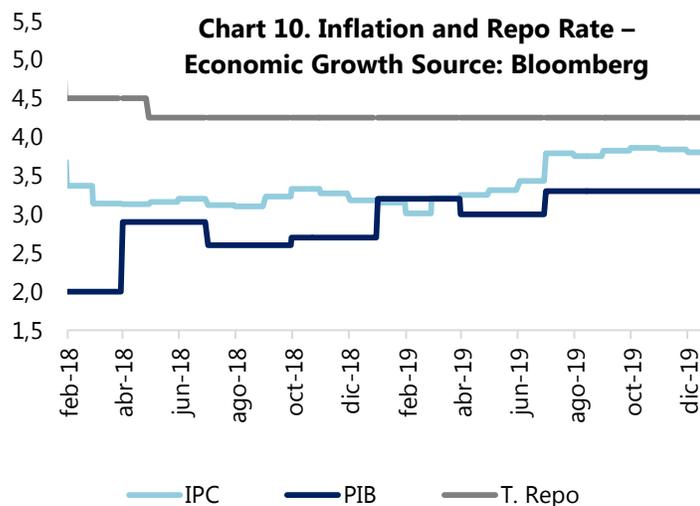


Chart 9. Evolution of commodities. Source: Bloomberg



2.2 DOMESTIC MARKETS

Quite favorable evolution was observed in national fixed and variable income markets and the assets showed major increases in value. The expected increase in the repo rate did not materialized over the year, considering the inflation stability, the economic growth below the potential and the international context. Also, any doubts that could arise regarding fiscal topics did not impact the sovereign rating.



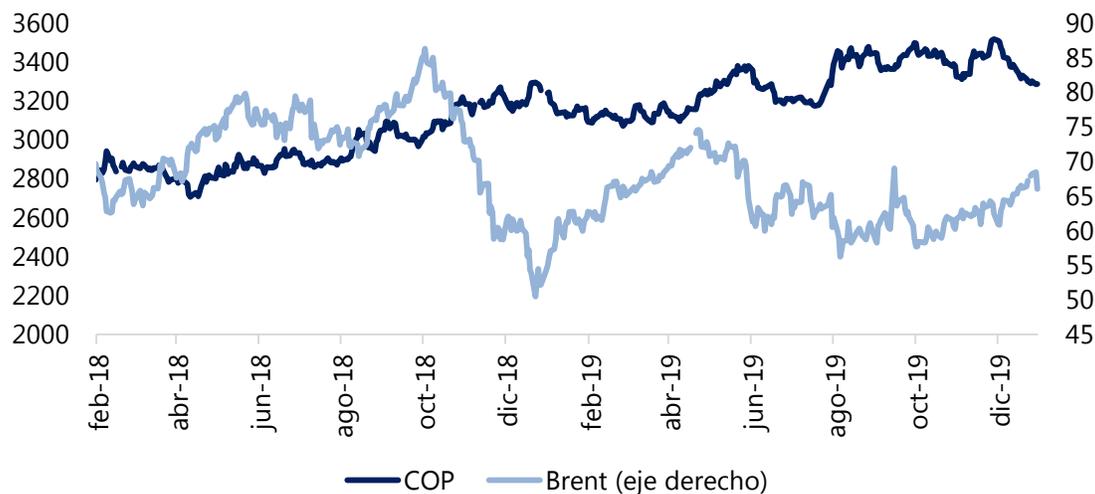
Finally, the auctions for TES bonds ended in August, which left substantial room for the issuers of private debt. Therefore, a major appetite arose for fixed-income assets with a fixed rate over the year, impacted by the social protests of the last two months, when an upward trend of interest rates was observed, as well as a growth in private debt spreads and smaller trading volumes.

The Colombian peso tended to devalue in general in 2019 as other emerging countries' currencies and was impacted by the lesser appetite events due to a worldwide risk. In several occasions the peso lost its correlation to the oil price performance; nevertheless, a great part of the devaluation was corrected in face of the oil price increase and a greater risk appetite that took the peso to the exchange rate of COP 3,277.14 per 1 USD at the



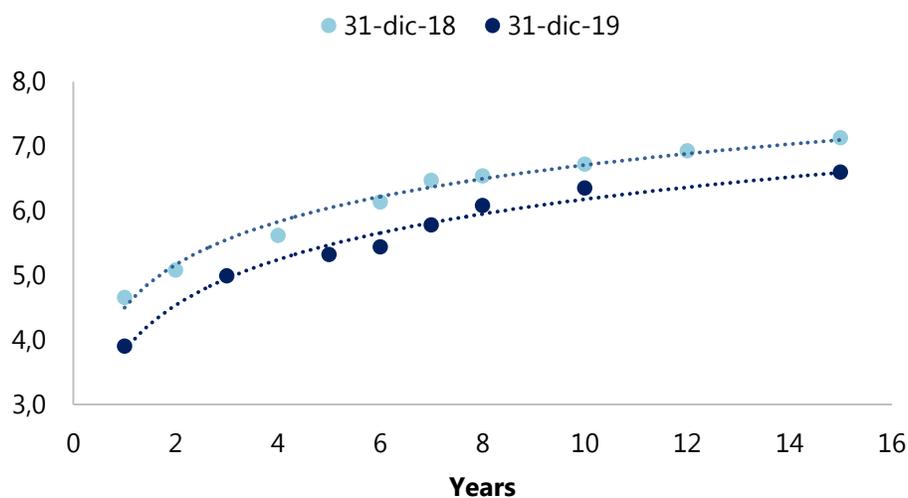
year closing, which is quite similar to 2018 closing and does not reflect the volatility occurred over the year. As to external flows into the country, the result of the foreign direct investment (USD 10.36 million, +19,4% in 2019) and the remittances (USD 8.28 million, +17,7% in 2019) was positive although the foreign portfolio investment failed to show a similar performance (-USD 1.88 million, -200.9% in 2019).

Chart 11. Colombian Peso –Brent. Source: Bloomberg



The TES curve showed a downward trend parallel to the fixed income throughout the year of 100 to 120 basis points. The stability of inflation and repo rate were relevant to this result as well as the portfolio liquidity and the low international interest rates, thus keeping the foreign investors' participation (24,4% on TES balance as of December 2019).

Chart 12. Fixed Rate TES yield curve. Source: Bloomberg



Fixed Income issues placed an amount of COP 25.6 trillion in TES bonds by way of auctions and other agreed upon and forceful with public entities: COP 21.2 trillion corresponding to



auctions (COP 14.1 trillion for pesos issues and COP 7.1 trillion for UVR) as well as COP 4.4 trillion with public entities. This result was substantially lower than in 2018, a year in which the amount for the TES issues was COP 38.8 trillion. Additionally, COP 17 trillion were issued in short-term TES bonds.

Through the Stock Exchange, the fixed income issues amounted to COP 13.7 trillion in 2019 with a growth of 42% with respect to 2018 (COP 9.6 trillion). The issues of the financial sector entities added up to COP 6.9 trillion, non-financial sector COP 5.3 trillion and public entities COP 1.4 trillion. Also, fixed rate issues represented 60% whereas consumer price index represented the remaining 40%.

3. 2019 ISSUES

3.1. TRADITIONAL ORIGINATORS

Four (4) issues were carried out in 2019 backed by mortgage loans originated by bank entities; three (3) fixed rate issues corresponding to the TIPS Pesos N-18 in April, TIPS Pesos N-19 in May and TIPS pesos N-20 in October. Also, one (1) issue in UVRs corresponding to TIPS UVR U-4 in August. The total value of the loans and securities issued are shown in the following table:

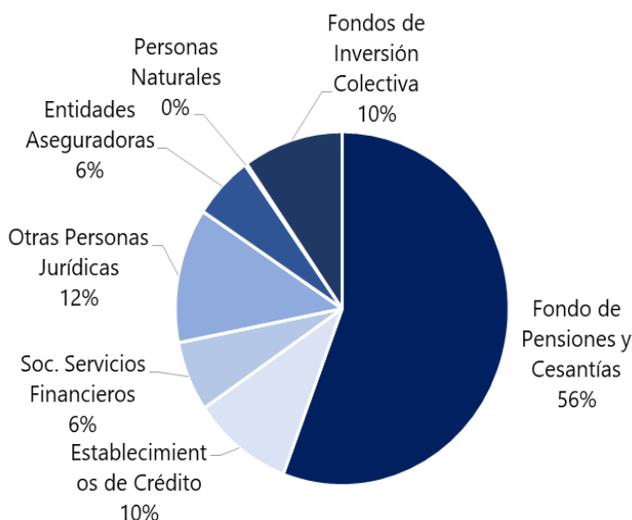
Table 1. 2019 Issues - Traditional Originators. Source: TC

Issue	Loan Portfolio	Series A Securities	Subordinated Securities	Total amount issued
TIPS Pesos N18	\$ 357,000	\$ 315,945	\$ 44,625	\$ 360,570
TIPS Pesos N19	\$ 400,000	\$ 356,000	\$ 51,000	\$ 407,000
TIPS Pesos N20	\$ 450,000	\$ 405,000	\$ 52,200	\$ 457,200
TIPS UVR U4	\$ 368,013	\$ 313,349	\$ 41,944	\$ 355,293
Total	\$ 1,575,013	\$ 1,390,294	\$ 189,769	\$ 1,580,063

Figures in million COPs



Chart 13. N18 allocations



The originators for the **TIPS Pesos N-18** issue were Bancolombia and Banco Davivienda, which respectively contributed 30% and 70% of the loans. The amount was placed through a minimum in the offering book of COP 230 billion and a maximum amount of COP 315.95 billion for series A which was fully underwritten. The investors' demand amounted to COP 604.65 billion for a 2,63 bid-to-cover ratio. The financial structure of this issue comprised 2 A Series and the cutoff rate equaled 5,65% AE for Series A1 to 5 years and 6,83% for Series A2 to 15 years.

Originators of **TIPS Pesos N-19** issue were Bancolombia and Banco Davivienda, which respectively contributed 30% and 70% of the loans. The amount was placed through a minimum in the offering book of COP 250 billion and a maximum amount of COP 365 billion for series A which was fully underwritten. The investors' demand amounted to COP 606.49 billion for a 2,42 bid-to-cover ratio. The financial structure of this issue comprised 2 A Series and the cutoff rate equaled 5,63% AE for Series A1 to 5 years and 6,89% AE for Series A2 to 15 years.

Chart 14. N19 allocations

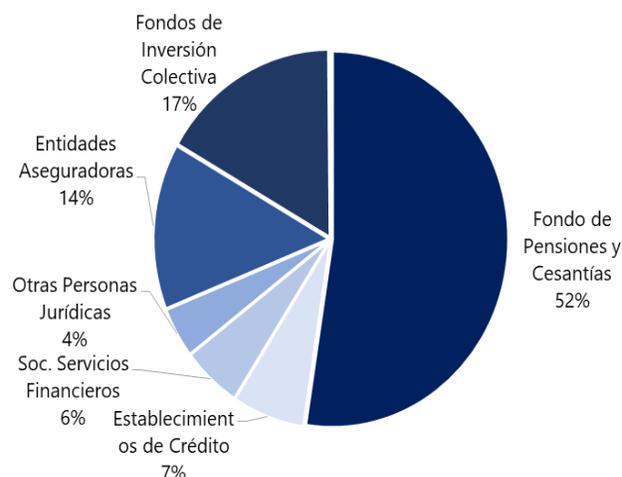
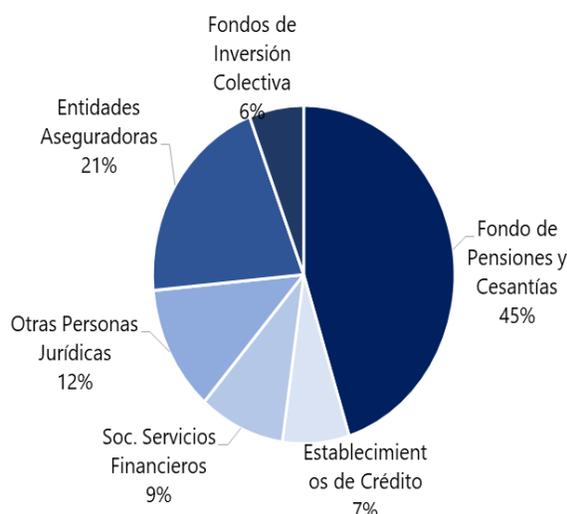




Chart 15. U4 allocations

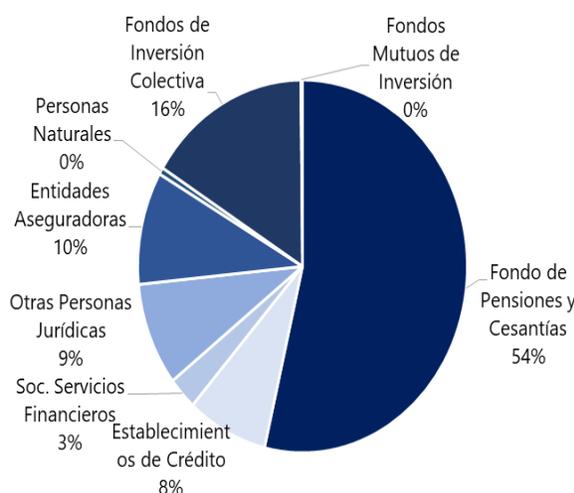


AE.

Finally, for **TIPS Pesos N-20** issue, originators were Bancolombia, Banco Davivienda and Fondo Nacional del Ahorro, which respectively contributed 22.2%, 44.4% and 33.3% of the loans. The issue was placed through a minimum in the offering book of COP 270 billion and a maximum amount of COP 405 billion for series A which was fully underwritten. The investors' demand amounted to COP 837.2 billion for a 3,10 bid-to-cover ratio. The financial structure of this issue comprised 2 A Series and the cutoff rate equaled 5,29% AE for Series A1 to 5 years and 6,04% AE for Series A2 to 15 years.

TIPS UVR U-4 Issue originators were Bancolombia, Banco Davivienda, and Fondo Nacional del Ahorro. The latter came back to securitize after its participation in the TIPS Pesos N-8 Issue in 2014. Their respective participation was 26,7%, 28.2% and 45,1%. The offering book had a minimum equivalent to COP 264.966 billion and a maximum amount of COP 331.211 billion. The amount issued for A securities equaled COP 313.349 billion. The demand amounted to COP 705.139 billion for a 2.66 bid-to-cover ratio with respect to the minimum amount. The A security was issued in a single series and the cutoff rate was 2,22%

Chart 16. N20 allocations



The pension and severance management funds (including pension liabilities) continued having the highest participation in the allocations of the four issues. The participation of insurance companies, credit establishments and other legal entities has continued being relevant. Finally, a significant increase in the participation of collective investment funds



due to the partition of the A Securities into two series and the appetite for series A1 to 5 years.

3.2. FINANZAUTO

The **TIV PESOS V-1** issue took place in September backed by vehicle loans originated and serviced by FINANZAUTO which was the first issue Titularizadora launched with this type of assets. Below is the issue summary:

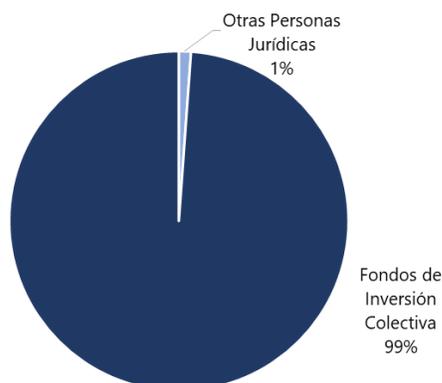
Table 2. Issues 2019 Finanzauto. Source: TC

	Loans	Series A Securities	Subordinated Securities	Total amount issued
TIV V-1	\$ 100,007	\$ 87,000	\$ 13,000	\$ 100,000

Figures in million COPs

Fitch Ratings gave the issue an AA (Col) rating and the mechanism was book of offering through the Stock Exchange in the *mercado principal* (principal market). The minimum amount of Series A was COP 82.65 billion and the maximum amount was COP 87 billion. The investors demand amounted to COP 87 billion for a 1.05 bid-to-cover ratio with respect to the minimum amount offered. Cutoff rate equaled 7.80% AE. The investors' segments that were awarded the securities are shown below:

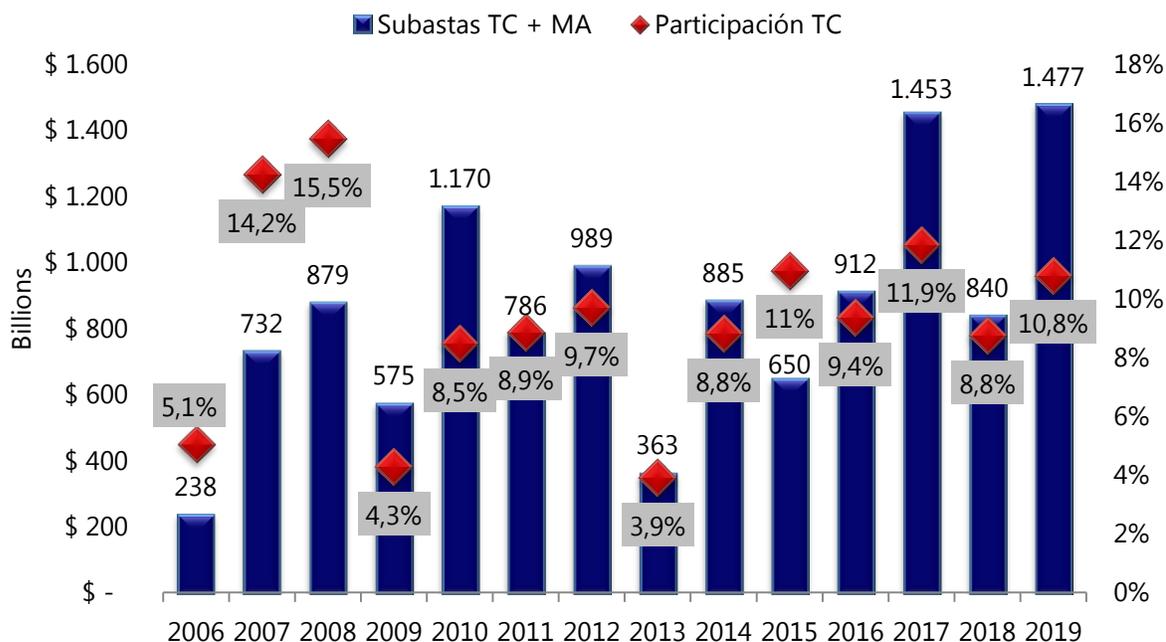
Chart 17. TIV V-1 allocations. Source: TC



Considering the five issues of credit-backed securities accomplished over the year, the amount issued by Titularizadora in 2019 was COP 1,680,063,128. In turn, the value of the Series A securities placed by offering book was COP 1,477,293,772 representing 10.8% of the Colombian stock exchange fixed rate issues in 2019.



Chart 18. Bolsa de Valores de Colombia Issues shares Source: BVC



Including 2019, Titularizadora completed 64 issues for a total COP 23.1 trillion loan portfolio and a COP 4.697 trillion balance of serviced loans as of December 2019.

4. PERFORMANCE OF ISSUES AND LOANS

Ending 2019, the company reached COP 23.97 trillion in issues out of which 65.5% was backed by mortgage loans in pesos, 29.8% by mortgage loans in UVR currency, 1.7% by non-performing loans in UVR currency, 1% corresponds to securities backed by consumption loans with drafts, 1% to commercial loan backed securities, 0.4% backed by vehicle loans, and 0.7% to securities backed by real estate assets. Ending 2019, these Securities show a balance of COP 4.6 trillion (Table 3).

In 2019, Titularizadora conducted a new issue of securities backed by vehicle loans in addition to three issues of mortgage-backed securities in pesos and one in UVRs.



**Table 3. Balance and Outstanding Percentage of Securities
(Figures in Billion Colombian pesos). Source: TC**

Product Line	Balance Issued	Current Balance	Share	% to be amortized
Mortgage-backed in Pesos	15,693	3,038	65.5%	19.4%
Mortgage-backed in UVRs	7,137	1,094	29.8%	9.3%
Non-performing Mortgage-backed UVR	405	0	1.7%	0.0%
Consumption with Drafts	240	150	1.0%	62.4%
Commercial consumer price index	234	72	1.0%	30.8%
Vehicles	100	94	0.4%	94.1%
Real estate	163	167	0.7%	
Total	23,972	4,616	100.0%	

**Table 4. Composition of securities.
(Figures in million Colombian pesos). Source: TC**

Issue	A	B	MZ	C	Total
U-1	107,058	55,325	19,154	2,515	184,051
U-2	152,615	28,525	5,420	3,566	190,126
U-3	334,300	31,427	12,972	5,097	383,796
U-4	295,073	34,244	4,375	2,806	336,498
Pesos N-1		8,472	4,662	1,165	14,299
Pesos N-2		10,088	5,913	1,478	17,479
Pesos N-3		13,922	9,207	1,841	24,971
Pesos N-4		25,692	9,344	1,869	36,904
Pesos N-5		31,797	9,712	1,937	43,447
Pesos N-6		18,262	11,040	1,845	31,148
Pesos N-7	5,686	44,841	16,305	4,076	70,908
Pesos N-8	17,988	15,069	3,014		36,070
Pesos N-9	92,767	54,617	3,676	2,483	153,542
Pesos N-10	45,388	45,923	5,299		96,609
Pesos N-11	69,183	47,723	7,342		124,248
Pesos N-12	115,381	53,632			169,013
Pesos N-13	146,253	38,832			185,085
Pesos N-14	156,658	44,881	5,428		206,967
Pesos N-15	175,391	45,789	6,701	2,234	230,114
Pesos N-16	177,156	37,681	6,785	1,884	223,506
Pesos N-17	161,457	30,788	6,004	1,539	199,789



Pesos N-18	269,375	36,037	1,785	1,785	308,982
Pesos N-19	311,811	38,808	5,000	2,000	357,619
Pesos N-20	389,966	43,392	4,950	2,250	440,557
Pesos H-1	19,126	8,769			27,894
Pesos H-2	31,257	7,855			39,112
Pesos L-1				114	114
Pesos L-2	39,226	22,172			61,398
Pesos L-3	70,156	16,504		1,850	88,510
TIV V-1	81,128	13,000			94,128
TER IPC R-1	42,874	29,238			72,111
TIN	169,388				169,388
Total	3,476,660	933,302	164,086	44,335	4,618,384

4.1. SECURITIZED LOAN PORTFOLIO

As of 2019 closing, the securitized loan assets comprise mortgage loans, discounted consumption loans through drafts, vehicle loans, and commercial loans. Below are the loans balance and general features and characteristics.

MORTGAGE LOAN PORTFOLIO

The loan balance of the issues amounted to COP 4.7 trillion as of the December 2019 closing. The balance is represented by 110,128 individual mortgage loans with 82% in NO-VIS mortgage loans and 18% in VIS mortgage loans.

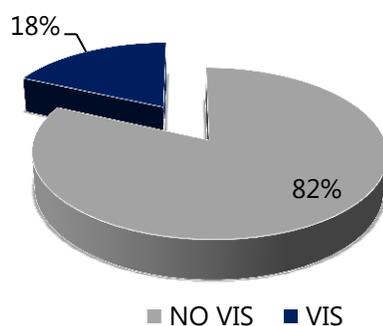


Chart 19. Loan portfolio breakdown by type of loan.

Source: TC Calculations

In 2019, 26 issues structured upon FRECH subsidized mortgage loans, with securitized mortgage loans representing 17% share on the total balance. FRECH (Fund of reserve and stabilization of mortgage loans) is a benefit offered by the national government to cover a percentage of the remunerative interest rate agreed for the mortgage loans, in abidance by the law. The FRECH mortgage loans show a sustained good performance.

Below is the breakdown of the mortgage loans per issue:



Table 5. Loan portfolio breakdown by type
Source: TC
Principal Balance ending 31 December 2019 (COP Million)

ISSUE	UVR	%	PESOS	%	Total General	%
E-1	622	0%	-	-	622.37	0%
E-8	7,291	1%			7,290.52	0%
E-9	8,176	1%			8,175.70	0%
E-10	7,728	1%			7,728.10	0%
E-11	7,186	1%			7,185.63	0%
E-12	37,578	3%			37,578.25	1%
E-13	48,925	4%			48,925.36	1%
UVR U-1	191,341	16%			191,341.34	4%
UVR U-2	185,857	16%			185,856.75	4%
UVR U-3	374,402	31%			374,402.36	8%
UVR U-4	327,215	27%			327,214.75	7%
PESOS E-6			3,455	0%	3,454.88	0%
PESOS E-7			7,855	0%	7,854.97	0%
PESOS E-8			5,990	0%	5,989.64	0%
PESOS E-9			6,835	0%	6,835.16	0%
PESOS E-10			10,205	0%	10,205.37	0%
PESOS E-11			8,631	0%	8,630.74	0%
PESOS E-12			7,407	0%	7,407.35	0%
PESOS E-13			4,114	0%	4,113.57	0%
PESOS E-14			23,499	1%	23,499.15	1%
PESOS E-15			41,695	1%	41,694.56	1%
PESOS E-16			189,104	5%	189,104.04	4%
PESOS N-1			27,001	1%	27,001.12	1%
PESOS N-2			38,936	1%	38,935.51	1%
PESOS N-3			40,265	1%	40,264.92	1%
PESOS N-4			53,008	2%	53,007.50	1%
PESOS N-5			55,220	2%	55,219.90	1%
PESOS N-6			31,833	1%	31,833.35	1%
PESOS N-7			83,594	2%	83,594.14	2%
PESOS N-8			44,916	1%	44,916.01	1%
PESOS N-9			171,638	5%	171,638.02	4%
PESOS N-10			107,062	3%	107,061.71	2%
PESOS N-11			130,895	4%	130,895.19	3%
PESOS N-12			175,937	5%	175,937.37	4%
PESOS N-13			188,459	5%	188,458.94	4%
PESOS N-14			207,225	6%	207,224.96	4%
PESOS N-15			233,476	7%	233,475.54	5%
PESOS N-16			220,752	6%	220,751.64	5%
PESOS N-17			196,167	6%	196,166.99	4%
PESOS N-18			295,760	8%	295,759.61	6%



ISSUE	UVR	%	PESOS	%	Total General	%
PESOS N-19			347,204	10%	347,204.18	7%
PESOS N-20			422,813	12%	422,813.23	9%
PESOS H-1			28,493	1%	28,492.84	1%
PESOS H-2			39,638	1%	39,637.95	1%
TECH E-1			45,224	1%	45,223.65	1%
TECH E-3			6,452	0%	6,451.65	0%
TOTAL	1,196,321	100%	3,500,755	100%	4,697,076	100%

Regarding the risk profile for these issues, the loan to value ratio remains favorable. Ending the year, LTV <50% for 83.47% of the loan portfolio, 50%-70% LTV for 14.72%, and 70%-80% LTV for only 1.81%.

Table 6. Portfolio Balance of TIPS issues by LTV
Source: TC
Principal Balance ending 31 December 2019
(COP Million)

LTV Range	Balance	%
>70%	85,043	1.81%
50%-70%	691,433	14.72%
0%-50%	3,920,600	83.47%
Total Loans	4,697,076	100%

The performance of the collection of securitized mortgage loans in 2019 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 2019 closing, the balance of consumption loans with drafts originated by COLSUBSIDIO for TIL Pesos L-1 issue and originated by COMPENSAR of the TIL Pesos L-2 and TIL Pesos L-3 issues was COP 149 billion represented in 19,928 loans with a distribution of operational agreements of 80% with private companies, 6% with public entities, and only 0.40% with mixed companies.

The successive purchase mechanism defined for TIL Pesos L-3 issue is in effect until August 2020 as defined in the prospectus and rules of each issue.

◆ COMMERCIAL LOANS

The TER IPC R-1 issue closes 2019 with COP 60 billion commercial loan balance represented by 9 rediscount loans serviced by FINDETER.



VEHICLE LOANS

The loan balance of the issue amounted to COP 92 trillion as of the December 2019 closing. The balance is represented in 4,495 loans where 90.18% are private vehicles and 9.82% public service vehicles.

The successive purchase mechanism defined for TIV Pesos V-1 issue is in effect until October 2022 as defined in the prospectus and rules of each issue.

4.2. LOAN PREPAYMENTS

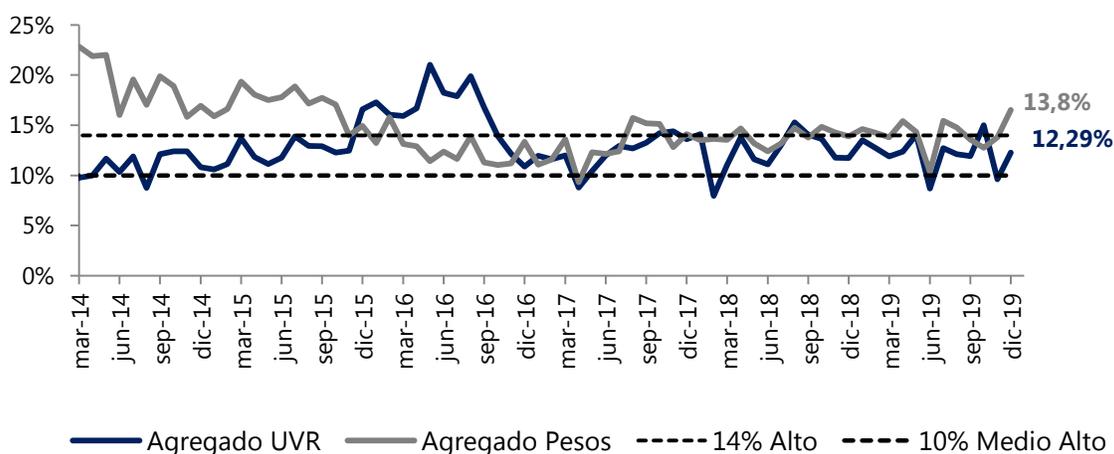
“Prepayment” means the partial or full payment in advance to the principal balance of the loans that back an issue and for a securitized portfolio it is measured by an annualized index (value of principal prepayment as against principal value of loans at the start of the period).

MORTGAGE LOAN PORTFOLIO

The average prepayment for pesos issues over the last 12 months was 14.1%, which was quite close to the 13.8% average of the immediately preceding year, thus evidencing that the competition for customers among the entities using the interest rate continues.

The mortgage loans in UVR sustained the prepayment level recording a 12.24% average index in 2019 compared to the 12.4% of the immediately preceding year, with a performance where the recomposition toward the pesos type persists.

Chart 20. Annualized prepayment index for PESOS and UVR Issues. Source: TC



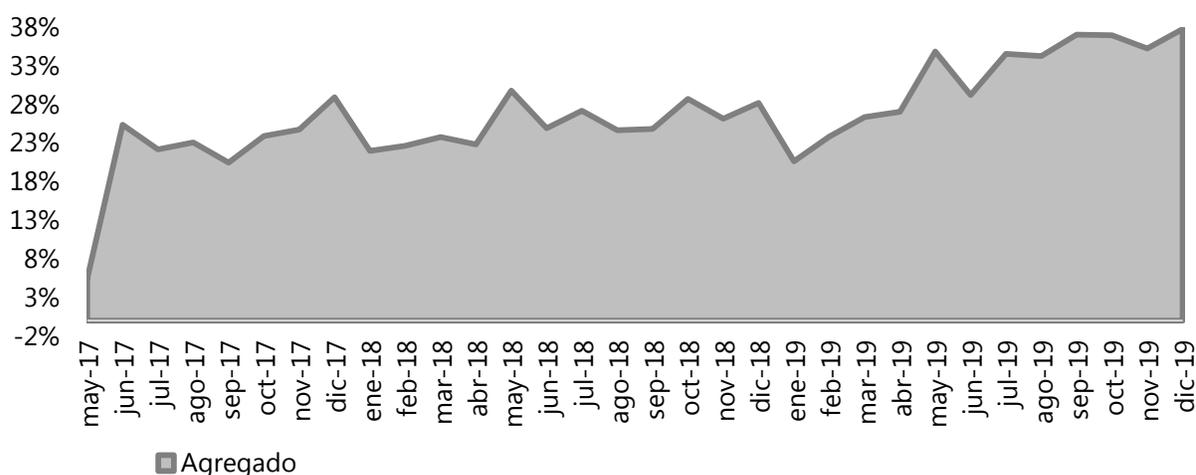


PORTFOLIO OF CONSUMPTION LOANS WITH DRAFTS

Consumption loans with drafts show an annualized average prepayment of 31.5% in the previous 12 months, exceeding by 600 basis points the level presented in 2018 reflected mostly by prepayments in full and in a smaller proportion in cases of refinancing.

For these issues, the successive purchases mechanism was used to mitigate the prepayment effect on the maturity of the securities; as of the closing, loan purchase has been made for COP 85.264 billion.

Chart 21. Annualized prepayment index for Loans with Drafts. Source: TC



COMMERCIAL LOANS

For Commercial loans, the annualized prepayment level observed is 12.8% in 2019, below the 35% average indicator shown in 2018.

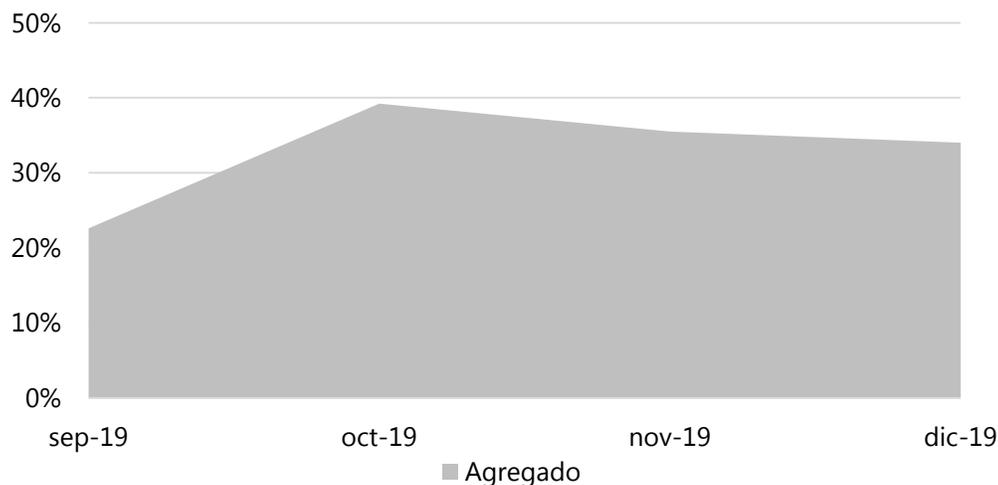
VEHICLE LOANS

Vehicle loans show an annualized prepayment of 32.8% rolling average, which is within the expected range for this type of securitized loans.

With the aim of mitigating the effect of the prepayment on the maturity, over the last trimester a mechanism of successive purchases for COP 12.881 billion was used.



Chart 22. Annualized prepayment index for Vehicle loans Source: TC



4.3. PAYMENTS TO LOAN PORTFOLIOS

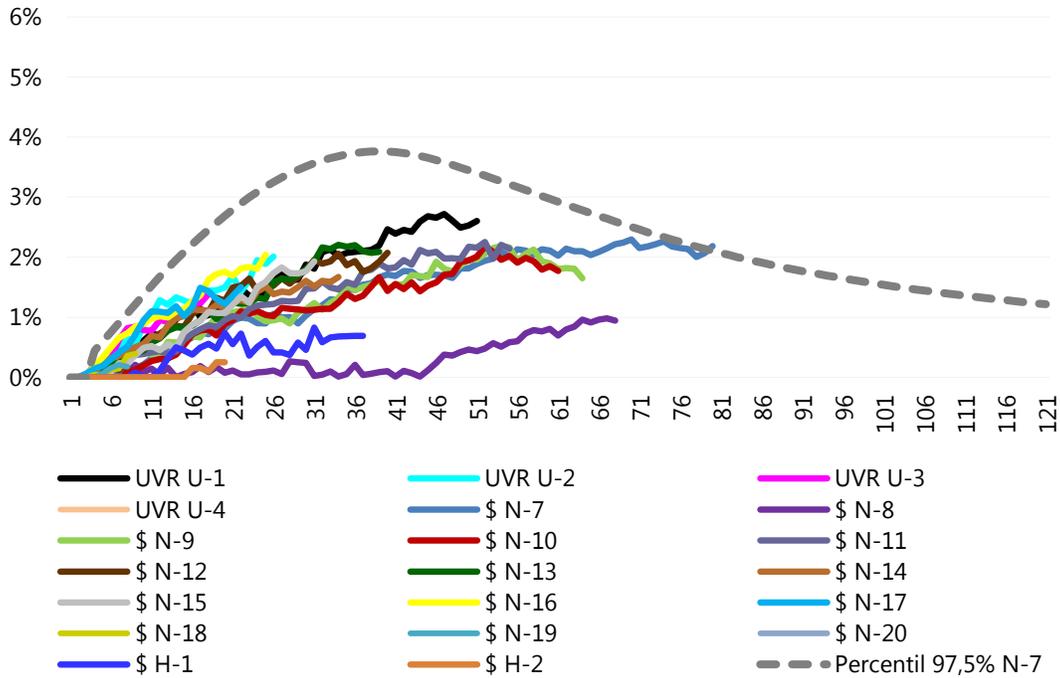
4.3.1. MORTGAGE LOANS

In 2019, loan management was remarkable primarily for the greater relevance assigned to three variables in the recovery cycle: first, the technical deepening in the knowledge of risk represented by each borrower; second, the efficient execution of collection by combining suitable recovery channels and tools according to the type of risk and third, by applying schemes of real time measurement that enabled correcting partial results. The financial goals set for recovery, productivity and quality were thereby achieved, as was that the delinquency levels of each issue held the performance within the expected projections and the highest credit rating for TIPS, despite the unfavorable surroundings for the housing loans created by the continuous increase of the unemployment rate in the whole country.

The following chart reflects the more than 120-day delinquency loans with respect to the projected levels in the top deterioration scenario for each effective month of both Pesos and UVR issues, standing out the excellent performance of securitized loans during 2019.



Chart 23. Reference Scenario for Loan Pools with >120 days delinquency – PESOS and UVR Issues.
Source: TC

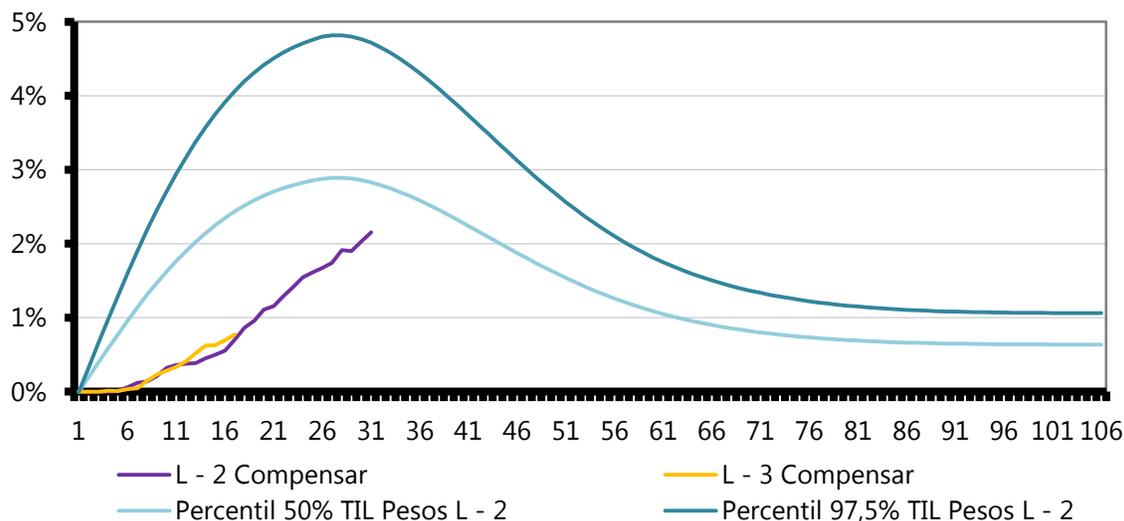


4.3.2. CONSUMPTION LOANS WITH DRAFTS

The portfolio of securitized consumption loans with drafts as of 2019 closing evidenced good payment behavior, thus allowing deterioration levels to remain like the expected delinquency levels far from affecting the payment to principal for associated securities.



Chart 24. Evolution of >90-day delinquency for TIL Pesos on balance as of the issue date – with recovery. Source: TC



4.3.3. COMMERCIAL LOANS

Ending 2019, the securitized commercial loans showed optimum performance levels for TER R-1.

Table 7. TER R-1 Delinquency
Source: TC
(COP million)

Delinquency Range TER R-1		
Delinquency Ranges	Loans Qty	Balance
Performing	9	59,762
31 to 60	-	-
61 to 90	-	-
91 to 120	-	-
Greater than 120	-	-
Total	9	59,762

4.4. ASSETS RECEIVED AS PAYMENT (REO)

Assets received as payment (REO: Real estate owned) result 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 sale or award, or insolvency agreement).

As of 2019 closing, Titularizadora's inventory was comprised of eighteen (18) real properties with a book value of COP 2.624 billion, broken down by issue.

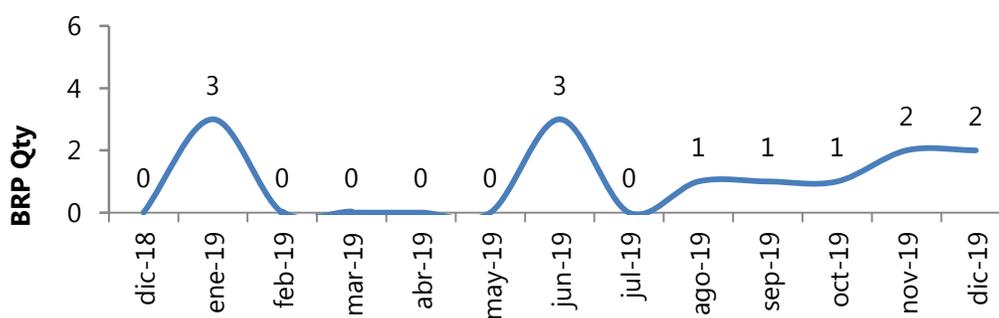


Table 8. REO by Issue (COP million) Source: TC

ISSUE	REO QTY	MARKET VALUE
PESOS E-9	1	210
PESOS E-16	6	616
PESOS N-2	1	102
PESOS N-3	1	192
PESOS N-4	2	286
PESOS N-6	2	599
PESOS N-7	2	212
PESOS N-9	2	330
PESOS N-5	1	77
Total	18	2,624

The marketing of real estate owned REO- portfolio recorded a moderate performance with 13 real properties sold over the year.

Chart 25. REO Sales Performance 2019 -Units
Source: TC



4.5. SECURITIZED LOAN SERVICERS

4.5.1. SECURITIZED MORTGAGE LOAN SERVICERS

Below is the mortgage loan distribution per Servicer for mortgage-backed securities issues as of December 2019:



Table 9. Securitized Mortgage Loan Servicers. Source: TC

SERVICER	PRINCIPAL*	LOAN QTY	% PRINCIPAL
BANCO DAVIVIENDA S.A.	2,162,798	45,201	52%
BANCO BCSC	981,864	27,429	30%
BANCOLOMBIA	968,913	21,798	18%
FONDO NACIONAL DEL AHORRO	339,231	9,903	4%
BBVA COLOMBIA	115,715	2,515	1%
CONFIAR– COOPERATIVA FINANCIERA	68,131	2,243	1%
ITAU CORPBANCA COLOMBIA S.A.	44,825	480	2%
BANCO COLPATRIA S.A.	10,482	306	0%
BANCO AV VILLAS S.A.	5,120	253	0%
Total loan portfolio	4,193,738	103,793	100%

* Figures in COP million

The results of management indicators during the year and of the recertification process for each entity ensure that the asset servicing remains within the standards and levels established in the initial certification.

4.5.2. SERVICERS OF SECURITIZED CONSUMPTION LOANS WITH DRAFTS

Below is the loan distribution per Servicer for issues backed by consumption loans with drafts as of December 2019:

Table 10. Servicers of Securitized Consumption Loans with Drafts. Source: TC

Servicer	Principal	Number of loans	% Principal
Compensar	148,032	19,635	99%
Colsubsidio	1,045	293	1%
Total	149,077	19,928	100%

Figures in million COPs

The performance and management of these Servicers remain within the established standards and levels upon examination of the resulting indicators defined for the loan portfolio servicing processes and the servicer recertification process.

4.5.3. SECURITIZED COMMERCIAL LOAN SERVICERS

The performance and management 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 2017, according to the resulting performance indicators defined for loan servicing processes.



4.5.4. SECURITIZED VEHICLE LOAN SERVICERS

Servicing of the loans for the portfolio securitized by FINANZAUTO meets the management standards according to the performance indicators and remains at the levels established in the 2019 certification.

4.6. MASTER SERVICING INTERNAL PROCESSES

Over the year, activities and processes were conducted with servicers, which allowed Titularizadora reviewing the servicing standards and even determining points of improvement arising from the current performance of processes such as the internal update of the entities, without affecting in any essential way the operation, based on the result of external and internal indicators we may assert that the master servicing of the issues is strengthening in general.

Continuous adjustments are being applied to the business base application (HITOS) for the management of other products and countries, thus ensuring improvements to the current loan portfolio functionality and safe integration with other applications.

4.6.1. SUPPORT TO MORTGAGE SECTOR

In 2019, Titularizadora Colombiana held 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 of recognition to the collection activities, granting a distinction to securitized loan servicers that stood out for their activity results in the previous year. A forum where they shared experiences and best practices for recovery in administrative and judicial collection, that allowed for standing out in the results of securitized loans collection.
- ◆ Custody Processes: All through the year, the company worked with the entities in the understanding of the documentary digitalization processes, new technologies, processes and schemes of the document virtualization that allows during the next year the securitization of assets with the support in digital documents.

4.7. OUTREACH AND MARKETING

Titularizadora's plan of outreaching the market and the general public focused on positioning the mortgage loan securitization as a tool essential to financing through capital markets, development of the housing sector in Colombia, housing finance, fund raising for non-banking originators, innovation in financial structures to back securities, as well as highlighting the benefits of the securities in terms of diversification, security, and return for investment portfolios.



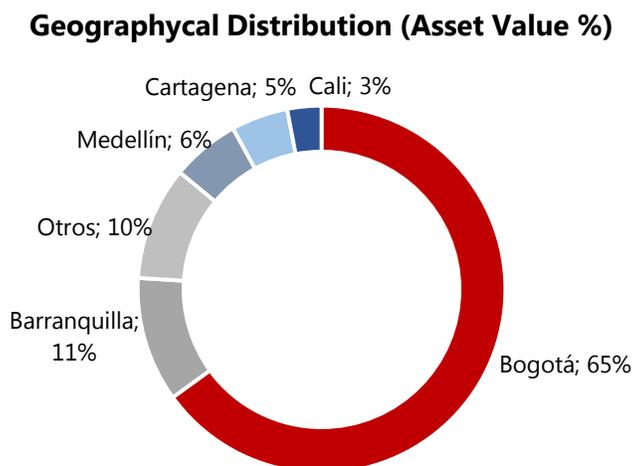
5. REAL ESTATE SECURITIZATION

5.1. PORTFOLIO COMPOSITION AND DIVERSIFICATION

The current asset portfolio is comprised of 71 real properties distributed in 18 Colombian cities for COP 272.297 billion.

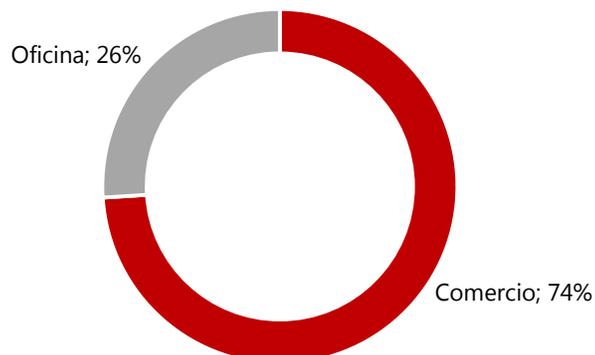
The prospect sets forth concentration limits per industry, geographical location, number of lessees, type of property, and minimum investment value; aimed to mitigate industry-specific contingencies in adverse economic periods. The current real estate portfolio does not meet those limits, given that upon the first issue the program is allowed three years to meet them; nevertheless, with the purchase of these new real properties that comprise the Issue of the Second Tranche, the portfolio starts to diversify in order to comply with the Investment Policy in percentages and terms defined in the prospect as approved by the *Superintendencia Financiera*.

Chart 26. Portfolio composition. Source: TC

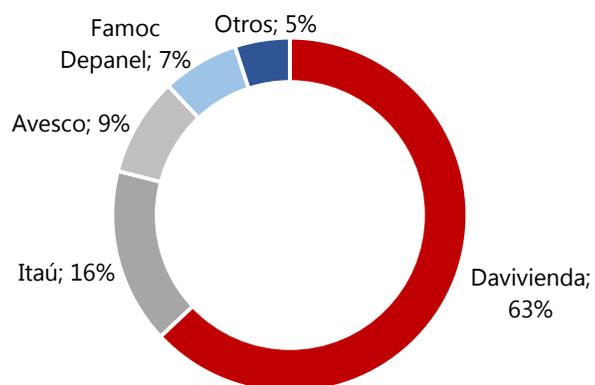




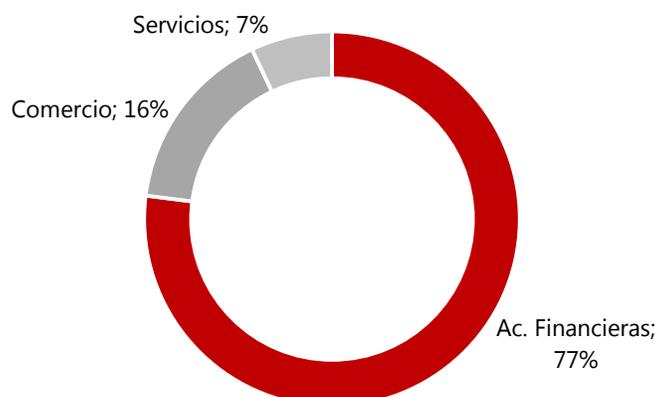
Distribution by Type of real (Asset Value %)



Distribution by Lessee (Income %)



Distribution by Economic Sector (Asset Value %)





QUALITY AND FEATURES OF THE SECOND TRANCHE ASSETS

The assets that back the second tranche bear attributes in line with the Investment Policy and consistent with essential factors of location, features of the property, lease term, and profile of the lessee.

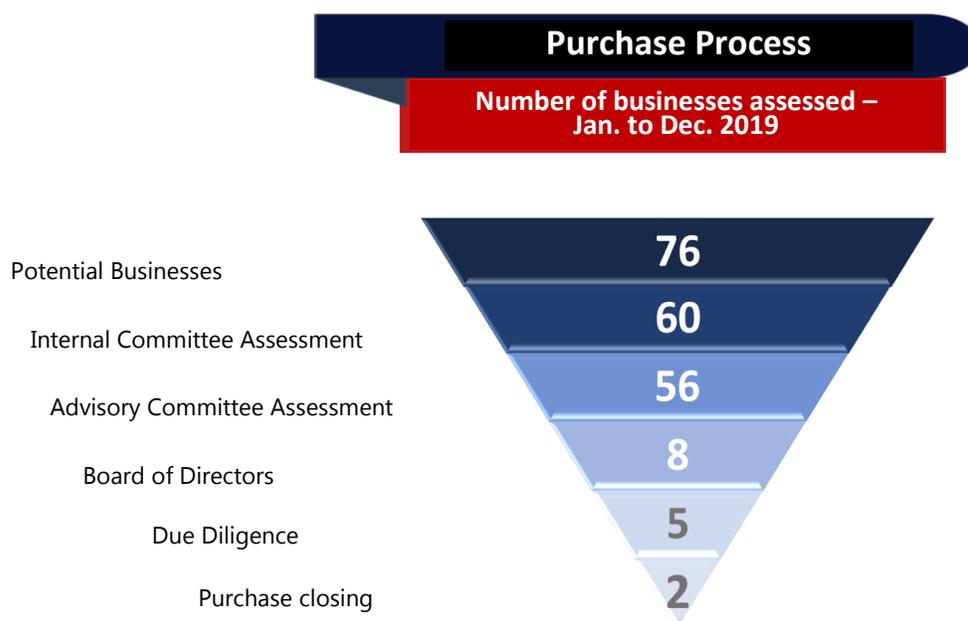
Most properties are distributed in the main cities of Colombia and strategic locations near the main access roads.

The entire current portfolio is rented, with weighted terms of 7.6-year lease contracts, to Banco Davivienda S.A. (Davivienda), Banco Itaú, Kokorico, Famoc Depanel, amongst others.

5.2. BUSINESS MANAGEMENT

Throughout 2019, Titularizadora received 76 real estate business opportunities that were assessed by the Real Estate Manager. This office presented 60 of these business opportunities to the Internal Committee and Titularizadora's President's office. The committee selected 56 to be submitted to the Advisory Committee, which in turn recommended 8 real estate businesses to the Board of Directors for purchase. The Board of Directors approved the start of the Due Diligence for 5 businesses, out of which 2 already signed a binding closing document.

Chart 27. Process of procurement. Source TC





5.3. PROFITABILITY

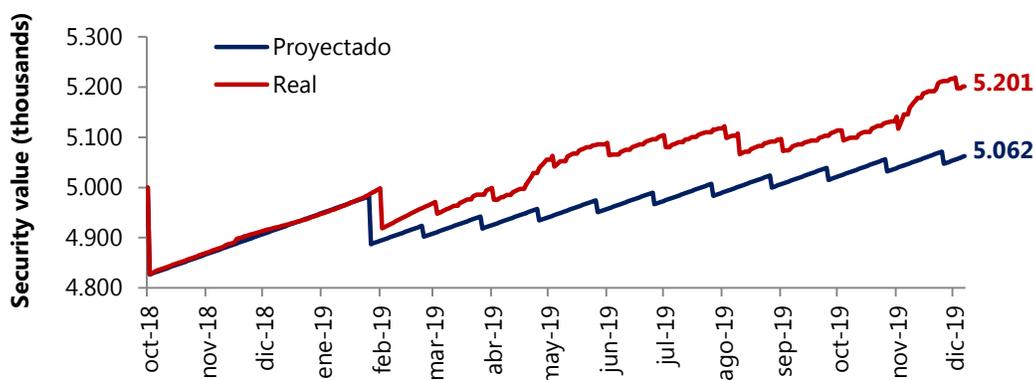
5.3.1. PROFITABILITY OF THE SECURITY

The value of the security for the investor as of 31 December 2019 amounted to COP 5,201,202 as against COP 4,919,670 that started the year. During this period, the return provided by the *Universalidad* including the distributed yields, was 12.9% AE comprising 45% for markup and 55% for cash flow. It is worth remarking that the profitability was 9.4% AE since the *Universalidad* started until 31 December 2019 comprising 23% for markup and 77% for cash flow.

Furthermore, according to the security value projections made in 2018, a better performance has been observed, resulting of four factors: (i) high occupation of the property, (ii) lower cost of the real estate property tax, (iii) mark-up in price of the properties above the inflation and (iv) positive indebtedness.

The chart below compares projected vs. implemented value.

Chart 28. Security value performance. Source: TC



It is worth noting that as of the closing of 2019 the profitability of the vehicle since it started, i.e., IPC+5.39% continues converging towards the value initially projected, i.e. IPC+6.33% (IPC consumer price index in Spanish).

5.3.2. OPERATIONAL OUTCOMES

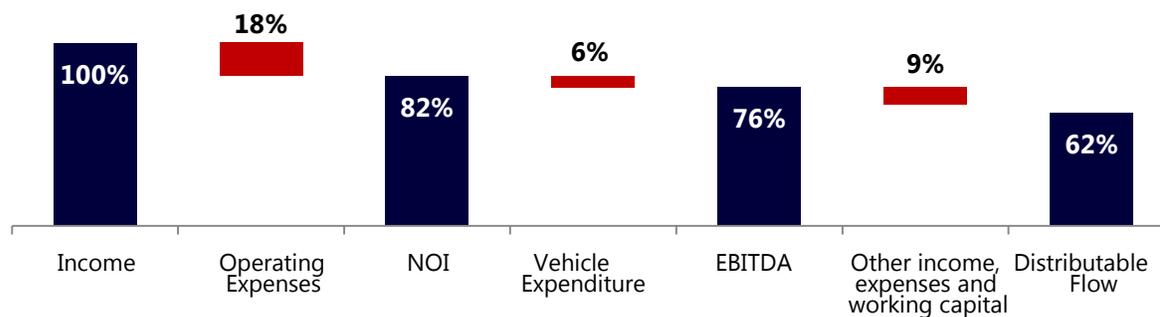
As to the operation of the vehicle, in 2019 the *Universalidad* earned income from the lease contracts for COP 17.611 billion. In the year performance the 82% NOI margin stands out, where the higher operational expenses were real estate property tax, insurance, and management fees of real properties. Also, COP 10.888 billion resulting from operation



were distributed to the investors. The latter value takes into account the operation in November and December of 2018, which were distributed in February 2019.

The chart below shows the main operational margins of the Universalidad.

Chart 29. Operational cash flow performance 2019. Source: TC



In turn, the dividend yield indicator was 6.6% in 2019 calculated as follows: distributed yields on the security average value over the year. It is worth underlining that this indicator includes yields of the periods corresponding to November and December 2108.

5.3.3. APPRAISAL RESULTS

The appraisals of Davivienda's real estate portfolio were updated in 2019 and compared to the appraisals in 2018 the assets' value grew by 3.55% i.e., a mark-up in price of IPC+0.56% over the same period.

The newly purchased portfolios were appraised as well to verify the market price and for accountable adjustment in the Universalidad. These appraisals allowed concluding that the transactions of the three portfolios purchased in 2019 were under market prices as a result of good purchase steps taken. Below is the summary per portfolio.

Table 11. Purchase Value vs. Market Appraisal. Source: TC

Portfolio	Purchase Value	Purchase appraisal value	%
T7-T8	\$ 16,550,000,000	\$ 16,900,000,000	2.1%
Itaú	\$ 38,456,986,049	\$ 41,449,000,000	7.8%
Arroba	\$ 40,155,389,794	\$ 42,946,000,000	6.9%



Notice that the positive differences between purchase price and appraisal value on the purchase date have decreased the accounting effect of the accrual of initial purchase expenses.

In addition, the good handling of the deal for the purchase price is remarkable, reflected in the appraisal updates.

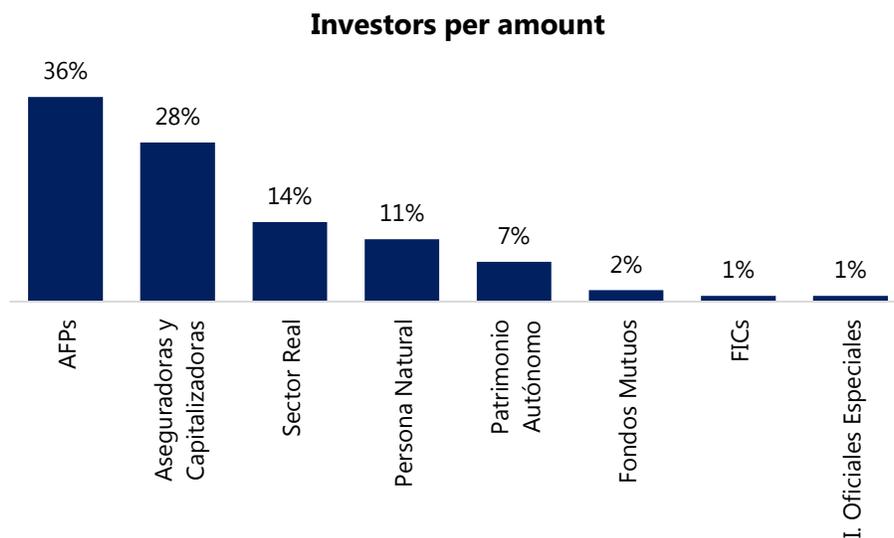
5.4. SECONDARY MARKET PERFORMANCE

In 2019 a total of COP 22.392 billion were traded in 142 operations through the system of the Bolsa de Valores de Colombia (Colombian Stock Exchange). Monthly average amount was COP 1.866 billion with 12 operations monthly average. Daily average amount was COP 315.38 million. The security was traded on 28.97% of the stock exchange business days.

Securities' weighted average price was 101.21 in 2019 with respect to the equity value of the security. In 79% of the operations the security was traded above 100% of the equity value reported by Titularizadora.

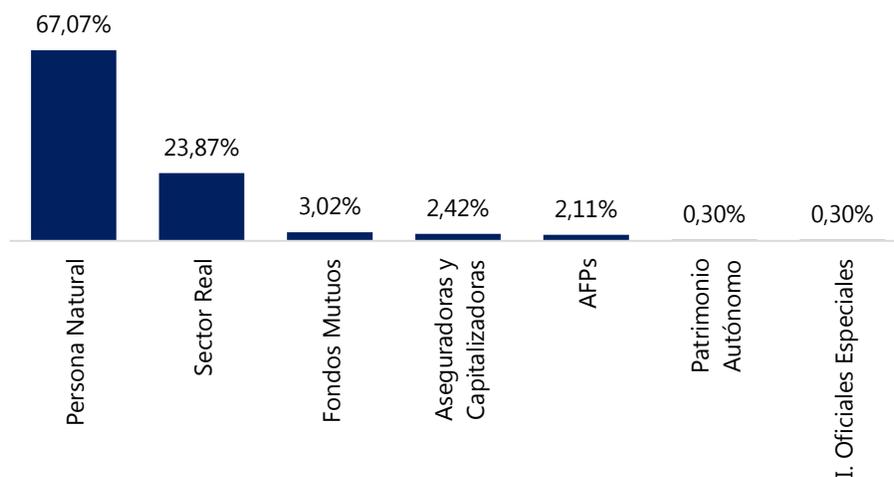
The vehicle has 331 TIN investors, with the more representative segments per amount are the Pension fund management companies 36.37%, Insurers and Savings capitalization banks 28.1% and Real Sector 14%. The three most representative sectors per number of investors are: Individuals 67.07%, Real Sector 23.87% and Mutual Funds 3.02%.

Chart 30. Composition by investors. Source: TC





Number of investors



6. OTHER PROJECTS

6.1. NEW ORIGINATORS

6.1.1. HOUSING LEASING

In 2019, the company progressed considerably in structuring the process for securitization of housing leasing regarding the product analysis and design; the initial development of the financial, legal and operational structure as well as the engagement of one of the Banks with the highest share in the leasing contract market as an Originator.

The proposal for 2020 consists in closing any pending activities on each front and an issue for the first semester backed by a mix of mortgage loans and housing leasing.

6.1.2. VEHICLE LOAN PORTFOLIO OF NON-BANKING ORIGINATORS

Aiming to continue strengthening the diversification strategy of products and originators and offering the market other investment alternatives, the first issue of TIV V-1 securities took place in 2019 with an underlying asset of vehicle consumption loans originated by Finanzauto, the most important non-banking originator specialized in this type of loans in Colombia, present in the market for more than 48 years. We will go on being active in 2020 with these issues pursuing the consolidation of the market's knowledge about the performance of this kind of underlying asset.



6.1.3. CONSUMPTION LOANS OF BANKING ORIGINATORS

Considering the success and acceptance of the consumption loans with drafts securitization product, Titularizadora deemed appropriate to widen the spectrum of Originators to include the Bank sector with relevant volume and standing in this type of loan portfolios.

During the second semester of 2019 the product was presented to several banks that were originators of consumption loans with drafts and the qualification process started with one of the Banks holding the highest share in such assets. The first issue for consumption loans with drafts of Non-banking originators is expected to take place in the second semester of the year.

6.2. TITULARIZADORA DOMINICANA



In 2019 the company took the necessary steps toward and received the local regulators' approvals required for the first issue of mortgage-backed securities in the Dominican Republic; two local financial institutions are participating in this issue, *Banco Hipotecario Dominicano – BHD Leon* and the *Asociacion Nacional de Ahorros y Prestamos- ALNAP* which are selling their mortgage loans and have been certified as originators and servicers of securitized mortgage loans and will be carrying out the master servicing with Titularizadora Dominicana S.A. using the HITOS Software. As of the closing of December 2019, Titularizadora Colombiana S.A. remains a shareholder of this company in the Dominican Republic.

7. MANAGEMENT AND HUMAN RESOURCES

7.1. HUMAN RESOURCES

Over the end of 2018 and through 2019, the company implemented the **INNOVA Program "where your job and contributions become visible,"** the base of the digital transformation aimed to update and build up the productivity, the balance of personal life and work life and the innovation in the light of the new trends. During 2019, the objective of the program basis of the cultural transformation was to get to challenge personal and institutional paradigms, take changing risks individually, in positions, in areas and the company in general to make it real that the job and the contributions become visible and to enter the digital transformation era. By means of training, follow-up and the advisory of experts in agile methodologies and digital transformation, the 36 ideas proposed by the officers were designed, performed and implemented.

Aiming to contribute to the work-life balance *Innova* implemented the flexible hours a Friday in the month with shortened hours and a 30-minute reduction in the daily hours. In addition, a rest area was enabled with food and drink permanently available to the officers,



as strategies that promoted the time management, greater commitment and simultaneously provided to the balance between social life and work life. Jointly with the wellbeing plan, the activities involving family providing for mental and physical health constituted the strategies implemented that no doubt caused a positive impact in the culture of the organization.

During 2019, we also took part in 34 technical training courses in order to keep our human resources and the processes up to date.

Regarding environmental sustainability, the program **“Think green: Committed to sustainability,”** was reinforced through a number of campaigns of internal communication, advisory of a company expert in recycling, contests, motivational and information messages; incentives were given to recycling, water saving, power saving, no use of disposables, virtual cleaning, paper and printing saving. Green spots were implemented for cans assigned to recycling of waste, disposables were abolished, color printing was cut out with and statistics were carried for each aspect to visualize the results, which were published to the entire company. Technological and telephonic elements were donated to a recycling company for proper disposal thereof. In general, the company was motivated to *“leave a footprint for the planet”* with favorable results.

7.2. QUALITY MANAGEMENT

7.2.1. QUALITY MANAGEMENT SYSTEM – MASTER SERVICING OF ISSUES

The quality management system, by way of the improvement system enabled each process to permanently and dynamically manage the initiatives aimed to correct and improve opportunities identified by the different sources of improvement of the organization, thus helping build up the satisfaction of our stakeholders and to ensure efficiency and effectiveness of the processes.

The main activities and achievements of 2019 were:

- ◆ **Certification renewal under the new ISO 9001:2015 Standard** granted by ICONTEC —the certifying body— proved the requirements compliance and the system evolution with zero non-conformities.
- ◆ **Quality software implementation:** The quality software Isolution was implemented in 2019, thus creating improvements such as an integrated management of continuous improvement, reduction of manual activities for follow-up and control thereof, and real time reporting of the Quality Management System status.

Review and update of documented information as well as strengthening of management of findings and closing of action plans, thus ensuring the quality of each process' performance and evolution.



7.3. INFORMATION SECURITY AND CYBERSECURITY

The Company continued in 2019 the project aimed to implement the new requirements established by the Superintendencia Financiera for information security and cybersecurity which allowed to reinforce the current controls and minimize the risks associated with information security.

The main subjects developed were:

- ◆ **Strengthening of the Information Security Management system:** creation of the Information Security and Cybersecurity Management Manual and the update and creation of new policies in line with the sector's best practices.
- ◆ **Implementation, update and strengthening of controls,** based on ISO 27001 Standard, new controls were implemented to ensure confidentiality, availability, and integrity of the information assets.
- ◆ **Proof of concept,** Ethical hacking, and Social engineering. In addition, the knowhow of the people in charge of this function was reinforced with participation in forums and training in information fraud and security.

8. LEGAL AND REGULATORY ISSUES

8.1. REGULATORY ISSUES

At the end of 2019, the Law of economic growth (Law 2010 of 2019) was enacted, whereby provisions for the promotion of economic growth, employment, investment, public finance strengthening, amongst others, were adopted. This Law is broadly based on the "Law of financing" (Law 1943 of 2018) that was declared as not adjusted to the Constitution by the Constitutional Court.

Article 11 of the Law of economic growth stands out for amending article 476 of the Tax Statute, and particularly item number 22 which maintains the exemption from sales tax for the fees paid for services provided in asset securitizations based on *universalidades* or autonomous capitals, the payment of which is exclusively made from resources of those *universalidades* or autonomous capitals.

This exemption provides an integral solution to the potential disadvantage of the loan securitization as a funding source because of higher costs arising from the sales tax (IVA) imposed on services provided for the execution of such securitizations. From the perspective of the *universalidades*, collecting said tax would create a higher cost fully attributable to the securitization structure given the impossibility to reallocate or deduct it otherwise, and thus the cash flow defined by Titularizadora would be affected substantially.

Consistently, Law 2010 of 2019 §92 paragraph 7 sets forth a surtax to the financial system, providing that the financial institutions must assess additional points on the income and complementary tax as follows: 4 additional points for 36% total income tax for 2020; 3



additional points for 34% total income tax for 2021 and 3 additional points for 33% total income tax for 2022. This ruling is pending the opinion of the Constitutional Court as to enforceability.

Note also that this law kept the benefit provided by the Law of financing, whereby whenever a foreign investor obtains a profit from public or private fixed rate instrument trade, the withholding tax applicable to such operation corresponds to 5% instead of the 14% previously applicable. This provision was included in §82, whereby item letter "f" was added to article 18-1 of the Tax Statute. This new withholding tax becomes an incentive for foreign investors to participate in the purchase of fixed rate instruments issued in the local market.

Also, Decree 1351 of 27 July 2019 is to be considered, whereby Decree 2555 of 2010 is amended as to the temporary security transfer operations in the over-the-counter market, the custodian function as a temporary security transfer agent, the divulgation of information in the exchange market via electronic media, and other provisions. Article 5 of this decree also kept the authorization to trade securities registered with the RNVE (Colombian Registry of securities and intermediaries).

Furthermore, it is worth mentioning the External Circulars of the *Superintendencia Financiera de Colombia* listed below, which apply to the Company's business:

- a) External Circular 005 of 2019, whereby *Superintendencia Financiera* delivered new instructions for entities that use cloud computing services to support their processes.
- b) External Circular 007 of 2019, whereby the *Superintendencia Financiera* amended the Basic Legal Circular to facilitate the bringing of claims by whoever detects any irregularities inside the entities subject to surveillance. Therefore, by means of the Circular an instruction was added regarding the communication channels and special tools available to the surveilled entities for receipt and processing of claims, in line with international standards.
- c) External Circular 017 of 2019, whereby the *Superintendencia Financiera* delivered instructions pertaining the contributions owed by surveilled entities under Organic Statute of the Financial System (EOSF in Spanish) §337 item number 5 for the second semester of 2019.
- d) External Circular 018 of 2019, whereby the *Superintendencia Financiera* amends the annexes issued with External Circular 017 of 2018 for reporting information to the Information and financial analysis unit (UIAF) in connection to the management of the risk of asset laundering and terrorism financing.



- e) External Circular 027 of 2019, whereby the *Superintendencia Financiera* created a chapter in the Basic Legal Circular related to Resolution Mechanisms which seek to meet the international standards as against the resolution frameworks applicable to the supervised entities. It is worth mentioning about this Circular is that the Superintendencia undertook to inform the eligible entities when to submit their resolution plans and the due date by means of individual memos and after the issuance of said Circular. Nevertheless, Titularizadora Colombiana has not received any memo in that respect, and therefore TC is not obliged to prepare and submit its resolution plan.
- f) External Circular 028 of 2019, whereby the *Superintendencia Financiera* amends External Circular 029 of 2014 to change the brief included in Form 528.

Note also that the issuance of External Circular 019 of 2019 pertaining the Net stable funding ratio (NSFR– CFEN in Spanish) intended to restrict an excessive dependency on unstable sources of financing for the strategic assets usually illiquid. It also seeks for entities to keep a stable funding profiles with respect to their assets, which will allow for enormous potential for banks to pursue the securitization of their mortgage loan portfolios.

Finally, the Report of Recommendations of the Capital Markets Mission was released in 2019, which placed emphasis in the sections that affect the securitization business. In particular, the changes that had been suggested to three segments namely, operability, demand for securitization, and supply of securitizable assets, were presented. Regarding the operational recommendations, the following topics were pointed out: 1. A license granted per activity rather than per entity (affecting the capital requirements and operational necessities). 2. The standardization of the asset management activity. It aims to find other than traditional management companies (Pension fund management entities (AFPs), Collective investment funds (FICs), etc.) which can perform this activity; 3. The specialization in intermediation of securities, placing emphasis on the process of issue underwriting and underwriting fees; 4. Segmentation of the process of placement in the public market, private market, and second (or OTC, “*balcón*”) market; 5. Implementation of the mechanism of management of conflict of interests; 6. Extended activities of custody and standardization of the collateralized loan obligation markets; and 7. Elimination of tax arbitration for similar activities. In turn, the recommendations on the demand for securitization were summarized as follows: 1. Regulatory changes for pension and severance pay funds; 2. Regulatory changes to insurance industry; 3. Regulatory changes to pension wealth; 4. Internationalization (emphasis on the Pacific Alliance). Lastly, regarding the supply of securitizable assets, the following recommendations were submitted: 1. Open Banking model deepening; 2. Promotion of the securitization of public assets; 3. Development of loan guarantees for securitizable assets, among other aspects.



8.2. LEGAL CONTINGENCIES

With respect to the legal contingencies of the company throughout 2019, none occurred.

8.3. LEGAL ISSUES

8.3.1. "CODIGO PAIS" SURVEY

Titularizadora complied with the reporting of the best corporate governance practices implementation for 2019 and implemented in that period the applicable corporate governance standards as per the recommendations of the new "Codigo Pais" and to the 2015 amendments to the Articles of Association and Corporate Governance Code of the Company.

8.3.2. KNOWN AND RECURRENT ISSUER

In September 2015, the *Superintendencia Financiera de Colombia* granted Titularizadora the capacity as a renowned and recurrent issuer for its compliance with requirements indicated in item 6 of the External Circular 029 of 2014 Part II Title I Chapter II and other applicable laws and regulations. This situation was held throughout 2019 by timely complying with the requirements set forth in items 6.1.1 to 6.1.6 of the regulation cited above, according to the official letter number 2019014568-005-000 dated 19 February 2019 of the *Superintendencia Financiera de Colombia*.

8.3.3. RELATIONSHIP WITH INVESTORS

Upon adoption of the best practices in the matter of information disclosure to and the relationship with investors, Titularizadora was certified by the Bolsa de Valores de Colombia (BVC – Colombian Stock Exchange) by granting the IR Issuer Recognition to the Company. This recognition was sustained throughout year 2019 for the compliance with the requirements established in the Only Circular of the Bolsa de Valores de Colombia.

9. OTHER

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

During 2019, the risk management system operated in abidance by the applicable laws and regulations and the methodological framework defined by the Company; the policies and procedures defined in its Asset laundering risk management system (SARLAFT) were duly applied, which prevented its being used directly or through its operations as an instrument for asset laundering and/or for channeling resources toward perpetrating terrorist activities.



The ongoing process of SARLAFT update and reinforcement counted in making adjustments to the criteria and scales used by the company to rate the risks in terms of probability and impact, an activity that allowed to extend from three to five levels and unify the measurement methodology and the measurement used for operational risk.

On the other hand, according to the new scale of measurement, all the risks were updated, including those identified in processes related to real estate securitization; in addition, the control measures applied for mitigation of these risks were profiled and the residual risk levels were validated with the aim of ensuring that they are kept in the acceptance levels established by the Company.

Regarding the key activities of asset laundering risk prevention applied to the securitization processes, it is worth highlighting the prior verification of SARLAFT criteria as to the assets to be securitized, the confirmation and validation every year of the compliance with the regulation by issued underwriting agents and the annual review of the loan originators and servicers' compliance with the agreements defined for SARLAFT.

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

9.2. INTERNAL CONTROL SYSTEM

Titularizadora Colombiana is provided with an internal control system (SCI) consistent with its corporate purpose, the nature of its operations, and in the framework of the regulatory requirements and standards established by the regulators on that matter.

During 2019 and in accordance with the SCI principles, the Board of Directors led a strategic planning process, conducted periodic monitoring to the fulfillment of goals and plans established by the Company, and with the aid of the committees that support its activities, reviewed and validated the application of investment management policies, analyzed the parameters for remuneration of the Board of Directors and Senior Management, verified the process of evaluation of Directors, supervised the compliance with and implementation of general standards of corporate governance, and was informed of the internal control system performance and the actions taken to reinforce it.

For each element of the SCI the following specific actions were taken among others:

- (I) Control Setting: General governance policies, including the code of ethics and conduct, have been duly updated and released to all the company officers.

Periodic review of the processes that allowed to keep their manuals up to date; reinforce the documentation of the key activities and controls; and compliance with the requirements established by the Quality Management System adopted by the Company.

The organizational chart, the description and responsibilities of each job, have been



determined, formalized, and reviewed and updated. Personnel training and education were conducted as per the defined annual plans; also, the performance management system was continuously evaluated for all the executives of the Company.

According to the External Circular 007 of 2019, the fraud risk prevention program was supplemented by the policy of protection of informants against retaliations, confidentiality of the reports and of the informant identity.

- (II) Risk Management: The stringent application of the policies, stages and elements comprising the risk management systems applicable to the company was continued, including monitoring activities performed by the various areas of the company and the corresponding control bodies.

The most relevant actions taken include:

- Risk management system consolidation for the information security and cybersecurity risk, which allows to recognize the importance of protecting information, information technology and communication systems, and technology against internal and external threats.
- Risk measurement methodology review and update for market, credit limit and counterparty risks.
- The criteria and scales used by the company to rate the asset laundering and terrorism financing risk were adjusted, thus allowing to extend from three to five levels and unify the measurement methodology and the measurement used for operational risk.
- Identification and valuation of the operational risks associated with the cybersecurity process.

- (III) Control Activities: During 2019, according to the manuals' update schedule and the comments received from control bodies, adjustments were made to the key activities and controls of the procedures associated with structuring the issues of the loan portfolios, real estate purchase and management, technological platform security, SARLAFT criteria for real estate purchase, servicing of the company's own portfolio, procedure of securities assessment and payment, accounting management of investments and tax administration, among others.

- (IV) Information and Communication: The company reviewed and updated policies and procedures of information management including the minimum applicable principles and elements for management of the physical, digital and electronic data; the verification and adjustment of the information classification determined



by the company; in addition, the description of the information assets and risks associated with information security and cybersecurity was supplemented.

As to the communication channels enabling the internal and external publication of information, they are provided with review and approval protocols to ensure the integrity and reliability of the information released to interest groups.

The Web Committee evaluated and supervised the actions taken to update the company website that included changes to contents and links of digital information; also, the company met the timely publication of information classified as relevant through the established communication media.

- (V) Monitoring: Ongoing supervision by process owners and the periodic follow up by the office of the president has allowed to verify the performance quality of the internal control and to validate the achievement of 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 role as well as supplemented by the internal and external quality assessments performed in the framework of the company's Quality Management System in place.

The results of the reviews carried out by the internal control area, the internal audit, and the statutory audit have been informed periodically to the Audit Committee which has given its opinion on the action plans defined by Management and has been kept informed of the progress in the recommendations' closing.

9.3. EVALUATION OF DISCLOSURE AND CONTROL SYSTEMS

The Company applied this year the disclosure and control procedures defined for preparing and releasing the company financial statements, including both the validation by the Financial Control area and the President's office and the evaluations by the statutory auditor and the internal control function, which all collectively confirmed that the preparation, presentation, and disclosure of the financial information as of the fiscal period closing abide by the law and reasonably present 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 led to conclude that such procedures were correctly applied and provided 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 position of the equity or the operations transacted during 2019.



9.4. OPERATING RISK MANAGEMENT

Consistently with goals and working plans for 2019, the operational risk management enabled the detailed assessment of the main risks identified in the company's processes, the incorporation of risks associated with cybersecurity, the review of operational risks identified for real estate securitization and the validation of control actions.

Accordingly, particular attention was kept on the fraud risks, and mitigation measures and the residual risk level were considered. During 2019, no events materialized in this risk category.

In turn, every risk event was duly recorded as per the applicable laws and regulations; the SARO Committee assessed such risk events and preventive actions were taken as required. Losses arising from operational risk amounted to COP 298,361,000 mostly originated by a difference in tax assessment (income tax 2018).

As to the Business Continuity Plan, the Company performed scheduled contingency tests on the applications that support the servicing to securitized assets and to investment portfolio; which tests included work hours at the alternate operation center, a recovery activation plan in case any of the internet channel providers crashes until backups are restored successfully, including the simulation of cyberattack scenarios or even damages to the servers.

High availability tests were conducted on the physical servers infrastructure and the virtualization platform rendering satisfactory results.

On this matter, action plans were prepared for the correction of the improvement opportunities observed, which have allowed achieving a higher level in the test results and strengthening the business continuity plan.

9.5. RISK DISCLOSURE

The note to the Financial Statements pertaining Risk administration and management 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 of 2000 §1, Note 27 to the financial statements lists the operations transacted between Titularizadora and its shareholders and managers.



9.7. GRATUITOUS TRANSFER OF OWNERSHIP

During this year, gratuitous transfers of assets took place for COP 48.6 million. They include a donation to Fundacion Catalina Munoz, an entity that provides housing solutions to single parent heads of households.

9.8. ASSETS IN OTHER COUNTRIES

As of the 2019 closing, the company records foreign investments for COP 464 million corresponding to shares in Titularizadora Dominicana.

The general special shareholders meeting held on 2 December 2019 approved the reduction of the subscribed and paid-in capital with the purpose of restoring the balance between the Subscribed and Paid-In Capital and the Shareholders Equity of the Company affected by cumulative losses. The reduction was achieved by cancellation of one million four hundred and sixty thousand eight hundred and fifty (1,460,850) of the company's outstanding shares and thus it affects all the company's shareholders proportionally. In approving the increase of the company's subscribed and paid-in stock capital, the company waived its pre-emptive right to share subscription in order to ratably bear the increase of subscribed and paid-in stock capital of the company.

9.9. 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 advertisement and PR expenses incurred by Titularizadora Colombiana are set forth in detail in an attachment to the financial statements.

9.10. COMPLIANCE STATUS OF INTELLECTUAL PROPERTY LAWS AND REGULATIONS

Further to plans and actions pursuing information availability, integrity and confidentiality, a new perimetral firewall was implemented in January 2019 aimed to reinforce the protection of our systems against potential external cyberattacks and internal users navigation; the implementation of the items requested for the second and third phases in Circular 007 of 2018 of the *Superintendencia Financiera* was supported; an internal ethical hacking analysis was performed in August 2019 upon 57 assets comprised of 100% of the physical servers and 100% of the virtual servers in our premises and at the alternate operation center in addition to the core communication equipment at Titularizadora's facilities and 5 external assets involving website, extranet, email service and Webserver publications, thus producing a remediation plan prioritized by critical and high vulnerabilities, which were mitigated by November 2019.

Under the plans pursuing innovation and digital transformation with efficiency, part of the projects covered by Innova program were supported, thus delivering resources mainly on



the online Sharepoint platform; technical advisory and the purchase and implementation of necessary applications as well as the evaluation of the G-suite and Office 365 platforms as enhancement of email, offimatics and collaboration platform services at Titularizadora.

Project HITOS+ and the analysis for the PORFIN version update were provided with technological support.

Aiming to comply with the applicable regulation, Apoteosys and its electronic billing module phase 2 were updated, thereby meeting the applicable laws and regulations.

Beginning October 2019, Hitos system was installed in TIDOM Republica Dominicana, seeking greater value generation from technology.

The new design of Titularizadora Colombiana contingency website was launched on Microsoft online SharePoint platform with the purpose of updating information and providing a channel available in case of a disaster and contingency plan activation as well as providing the feasibility of migrating the contingency infrastructure from a data center in the city of Bogota to the Oracle platform in the cloud, taking into account that our critical business information systems use these databases.

Over the year, the technology area indicators were satisfactory within the agreed upon levels of service and action plans were created when they fell below.

9.11. IMPLEMENTATION OF INTERNATIONAL STANDARDS

The international standards application was given the periodic review, the effects of IFRS-16 leases were tackled, assessed and recorded because IFRS-16 leases develops a unique recording model in the balance sheet similar to the current capital lease model.

10. FINANCIAL STATEMENTS

The company financial statements as of 31 December 2019 are presented in accordance with the Accounting and financial information standards accepted in Colombia (NCIF in Spanish). The financial statements reflect the following information:



10.1. BALANCE SHEET MAIN FIGURES

ASSETS	
147,5	2019
148,5	2018
-1,0	Variación

Ending December 2019, Titularizadora Colombiana's total assets amounted to COP 147.517 billion, a 1% reduction with respect to 2018 closing. Assets primarily comprise Financial investment assets (44%), trade creditors (22%), investment properties (17%), cash equivalent (9%), and assets kept for sale (4%).

The main change in the accounts with respect to the preceding year is shown in trade creditors as an effect of the increase in initial expenses financing to the Universalidades; an increment correlative with the reduction of cash equivalent and financial assets. PP&E grew due to the application of IFRS 16.

LIABILITIES	
12,2	2019
13,9	2018
-1,7	Variación

The company leverage at the fiscal period closing is 8%.

The main liabilities correspond to the obligation recognized by IFRS 16 leases.

The higher variation with respect to the previous year is the payment of the income tax and recognition of IFRS 16.

EQUITY	
135,3	2019
134,6	2018
0,7	Variación

Titularizadora Colombiana Shareholders' equity grew by 0.7% with respect to the preceding year, resulting from the fiscal year earnings. The company closed 2019 with a COP 135,316 million worth equity.



10.2. INCOME STATEMENT

The operational income corresponds to 87% of the total income arising from structuring, servicing, guarantee and underwriting fees of the issues for COP 25,848 million, from financial income represented in the yields of investments and loans for COP 9,273 million.

Operational income shows that fees increased by 24% with respect to 2018 and financial yields grew by 14% associated with the investment portfolio and the securitized loans portfolio.

Other income for COP 5,311 corresponds to lease and expense provision recovery mostly.

Company's expenses amounted to COP 17,533 million. Operating expenses show 9% decrease and non-operating expenses show 88% decrease in financial expenses primarily.

Net profits amounted to COP 15,380 million in 2019 fiscal year i.e. COP 369 million higher than in 2018.

10.3. FINANCIAL AND OPERATIONAL INDICATORS

ROE before taxes corresponds to 17% in December 2019. In turn, ROE after taxes changed from 12.4% in 2018 to 11.6% in December 2019.

The operational efficiency indicator grew from 47% in 2018 to 59% in 2019.

10.4. FINANCIAL STATEMENTS CERTIFICATION AS OF 31 DECEMBER 2019

Pursuant to Law 964 of 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 an 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.