



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

**FEBRUARY 2016**

## TABLE OF CONTENTS

1. MACROECONOMIC ENVIRONMENT .....	6
2. CAPITAL MARKETS .....	11
2.1. INTERNATIONAL MARKETS.....	11
2.2. COLOMBIAN MARKETS.....	13
3. MORTGAGE-BACKED SECURITIES ISSUES .....	15
4. ISSUES AND LOAN PORTFOLIO PERFORMANCE .....	17
4.1. ISSUE PERFORMANCE .....	17
4.1.1. SECURITIZED PORTFOLIO.....	18
4.1.2. LOAN PREPAYMENTS .....	21
4.2. PAYMENTS TO LOAN PORTFOLIOS .....	22
4.2.1. MORTGAGE LOAN PORTFOLIO.....	22
4.2.2. CONSUMPTION LOANS WITH DRAFTS.....	24
4.3. ASSETS RECEIVED AS PAYMENT (REO).....	25
4.4. SECURITIZED PORTFOLIO SERVICERS .....	26
4.4.1. SECURITIZED MORTGAGE LOAN SERVICERS .....	26
4.4.2. SERVICERS OF SECURITIZED CONSUMPTION LOANS WITH DRAFTS .....	27
4.5. MASTER SERVICING INTERNAL PROCESSES .....	27
4.5.1 SUPPORT TO MORTGAGE SECTOR .....	27
4.6. OUTREACH AND MARKETING.....	28
5. OTHER PROJECTS .....	28
5.1. MORTGAGE-BACKED SECURITIZATION.....	28
5.2. NEW ORIGINATORS .....	29
5.3. TITULARIZADORA DOMINICANA.....	29
6. MANAGEMENT AND HUMAN RESOURCES.....	29
6.1. HUMAN RESOURCES.....	29
6.2. COLLABORATION AGREEMENT .....	29
6.3. INSURANCE .....	30
7. TECHNOLOGY.....	30
8. LEGAL AND REGULATORY ISSUES.....	30
8.1. REGULATORY ISSUES.....	30
8.2. LEGAL CONTINGENCIES .....	31
8.3. COMPLIANCE WITH SPECIFIC REGULATIONS.....	31
9. OTHER.....	31

9.1.	MANAGEMENT REPORT OF ASSET LAUNDERING AND TERRORISM FINANCING PREVENTION AND CONTROL (SARLAFT) ACTIVITIES.....	31
9.2.	INTERNAL CONTROL SYSTEM.....	32
9.3.	EVALUATION OF DISCLOSURE AND CONTROL SYSTEMS.....	34
9.4.	OPERATING RISK MANAGEMENT .....	34
9.5.	RISK DISCLOSURE .....	35
9.6.	REPORT OF OPERATIONS WITH SHAREHOLDERS AND MANAGEMENT	35
9.7.	GRATUITOUS TRANSFER OF PROPERTY AND ASSETS OWNED ABROAD .....	35
9.8.	ASSETS IN OTHER COUNTRIES .....	35
9.9.	INVESTMENT IN OTHER NATIONAL OR FOREIGN COMPANIES .....	36
9.10.	STATUS OF COMPLIANCE WITH INTELLECTUAL PROPERTY LAWS AND REGULATIONS.....	36
9.11.	PAYMENTS TO DIRECTORS, CONSULTANTS, ADVERTISEMENT, AND PUBLIC RELATIONS .....	36
9.12.	IMPLEMENTATION OF INTERNATIONAL STANDARDS .....	36
9.13.	INFORMATION SECURITY .....	36
9.14.	FREE CIRCULATION OF INVOICES.....	36
10.	FINANCIAL STATEMENTS.....	37
10.1.	ASSETS .....	37
10.2.	LIABILITIES.....	37
10.3.	EQUITY .....	37
10.4.	PROFIT AND LOSS STATEMENT.....	37
10.5.	FINANCIAL AND OPERATIONAL INDICATORS.....	38
10.6.	CERTIFICATION OF FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015	
	38	
11.	ENTERPRISE SUSTAINABILITY REPORT .....	40
11.1.	LETTER FROM THE PRESIDENT.....	40
11.2.	THE COMPANY .....	41
11.3.	CORPORATE SOCIAL RESPONSIBILITY.....	41
11.3.1.	ETHICAL REALM.....	42
11.3.2.	ECONOMIC ARENA .....	42
11.3.3.	LABOR REALM.....	43
11.3.4.	SOCIAL REALM.....	43
11.3.5.	ENVIRONMENTAL REALM .....	43
11.4.	BOARD OF DIRECTORS.....	44

11.5. MANAGEMENT .....	44
11.6. CONTROL.....	44
11.7. EDITORIAL COMMITTEE .....	44

## INTRODUCTION

The total amount of the issues in 2015 was COP 0.8 trillion on mortgage loans and on consumption loans with drafts, the latter being the first issue that Titularizadora managed on non-mortgage loans. Thereafter, this fact became a milestone relevant to deepening the portfolio of products offered by Titularizadora Colombiana to be able to service financing needs of other economic sectors by taking advantage of the know how gained over the years of operation.

Another major development last year was the engagement of new originators for securitization processes, all hand in hand with the development of new businesses. In particular, progress has been achieved in potential issues with entities out of the traditional bank system; a securitization survey has been conducted in the real estate and infrastructure sector achieving major advances in identifying key factors to projecting issues in these sectors. In addition, the entering into operation of Titularizadora Dominicana sets a baseline for the company internationalization given that at the end of 2015 there was a legal, operational, and administrative framework for joining efforts for the first issue of mortgage-based securities.

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

Traditional mortgage loan originators continued in 2015 with Titularizadora Colombiana their contribution to streamlining the administrative processes that brought the industry closer to international standards. The mentioned remain committed to a sustainable development of the mortgage market. Given the optimal structure of the mortgage-backed securities, the performance of the existing issues was significantly positive throughout the year. The securitized portfolio shows quality indicators of comparable size, which are better than the quality indicators of the mortgage loans included in the entities' balance.

In summary, 2015 was the launchpad for the following phase of consolidation of Titularizadora Colombiana. Such challenges will require great creativity and ability at visualizing risks. The door to the future has opened.

## 1. MACROECONOMIC ENVIRONMENT

The international macroeconomic environment in 2015 was influenced firstly by the continuing economic deceleration in China, the Asian "steroids" are not so powerful anymore, and the world will have to get used to a growth under 10%. The issue lies in the pressure asserted by this contraction of raw material demand particularly in emerging countries depending on the demand for these materials.

Second, the end to FED's *Quantitative Ease* brought a new beginning with the growth of referent interest rates free of global risk for the first time in almost a decade, thus affecting risk valuation and perception of the other investment references and it is the start of the adjustment to the long term financing in the world towards higher levels.

Third, the geopolitical pressure focused on the zones with the greater crude oil movement in the world, along with Saudi Arabian quasi direct war to production schemes that threaten their hegemony as one of the largest oil exporters in the world, took the international quote to levels unthinkable when the barrel was around USD 100/barrel.

Fourth—highly correlated to the second and third—is that the world is watching a dollar strengthening dynamics, which along with several Yuan devaluations and near 40% Yen devaluation strained the international trade landscape as well as the Yuan-denominated sovereign and corporate debt, where possibly because of the USD appreciation we will return to a new situation of unpaid obligations rendered more expensive.

In Colombia, the end of the commodities super-cycle brought an up to 60% reduction in the oil price thus producing a major adjustment in the economic performance of Colombia in 2015. As it is, the adjustment started for external accounts, in which as per the consensus of the analysts the current account deficit would be increased near 6% of the GDP this year, an annual devaluation in the exchange rate of 35%-40% (close to COP 2,730/USD average in 2015). In addition, this resulted in a deterioration of fiscal revenues. The inflation target was also overflowed closing above the 4% cap, near 6.77% in December and in the end, with a lower economic growth closer to an actual 2.5%-3% for 2015 in whole.

Analyzing the GDP with respect to the demand, the strong deceleration of private and total investments is remarkable, with respective annual variations of -0.4% and 1.0%. The variations of both components are significantly lower than the figures for the third quarter of last year. Furthermore, a less dynamic behavior is observed in the foreign trade variables. In the third quarter, actual imports grew by just 0.6% whereas actual exports decreased by 0.7%. The country risk indicator calculated by JP Morgan for Colombia evidenced a weekly fall of 12 basis points in the last week of December and was placed in 330 points, a high horizon of risk perception that could result in pressures on the debt structuring at all levels.

In turn, the Monthly Survey of Manufacturing (EMM in Spanish) of November indicated a 4.8% increase in the actual production of the manufacture sector as against the same month 2014. Out of the 39 industrial activities represented in the survey, 29 showed positive variations in actual production, among which the industries of coking, oil refinery, and fuel mix with 17.4% stand out for contributing to the total sector variation. This is good news for the industrial sector in general because the positive boost for the reactivation of the Refineria de Cartagena (Reficar) is evident, not ignoring though that this effect may dissipate away over time. Other industries include 6.6% drink manufacture and 11.1% pharmaceutical product and medicine chemicals manufacture, which jointly added 3.8 percentage points to the total variation.

The remaining 13 subsectors showed negative variations in production, where the basic iron and steel basic industries with -12.9%, machinery and equipment manufacture with -15.3%, manufacture of other types of transportation equipment with -24.0% and the industries of electrical devices and equipment with -7.8% were remarkable for contributing to the total sector variation and collectively subtracted 1.0 percentage point to the production.

Fortunately, the Colombian labor market displayed a good performance in 2015. Sure enough, year to date November 2015, the average unemployment rate was 8.9% (lower than 9.1% a year before). In fact, according to estimations of specialized analysts, the rate would close in 9.0% average in December 2015, thus making its long term level converge. For November 2015, the overall labor force participation rate was 65.5% slightly above the 65.4% of November 2014.

In November the number of working population in the country total was 22.6 million a 1.5% increase with respect to the same period of previous year. The branches of economic activity that gathered the higher number of working population were trade, hotels and restaurants; community, social and personal services; and agriculture (including livestock), hunting, forestry and fishing. The three branches encompassed 64.2% of the working population.

The branch with the greater growth with respect to the same period in the previous year, was community, social and personal services (4.4%) followed by real estate, entrepreneurial and lease activities (3.5%) and trade, hotels and restaurants (3.2%). Although unemployment has shown a downward trend recently and inflation a considerable jump above the cap of the target range established by the central bank Banco de la Republica (resulting from the exchange-rate pass-through and the Niño climate phenomenon), discrepancies persist in the regions data. For example, whereas cities as Cali and Pereira keep high inflation and unemployment rates, Bucaramanga unemployment rate is low and inflation the lowest of the country (although above the upper limit of the target range of the Banco de la Republica, central bank). The foregoing reflects the need to carry out reforms to minimize such heterogeneity between regions. Undoubtedly, transversal and regional strategies that the Government is adopting under the National development plan (Plan Nacional de Desarrollo) 2014–2018 should lead us in that direction.

In this regard, the 100 basis points increment in the Banco de la Republica interest rate at their three most recent meetings (brought the reference repo rate to 5.5%) occurred in the context where the inflation as from February exceeds the target range of the Banco de la Republica and the price increase in the last months translated into a strong increase in the inflation expectations. The change by the Banco de la Republica to the monetary posture is a proactive action towards an international environment accommodation. Different analysts agree that the measure seems appropriate to the current economic situation that requires ensuring an anti inflationary reputation.

In 2015, the Colombian Economy expectations moved around the oil price evolution. The fall in crude oil market price represented a significant shock still having effects that will determine to a great extent the economic dynamics in 2016 and following years. On the one hand, the productive deceleration started in 2014 particularly due to the reduced internal demand.

The positive side is that the moderation is expected to touch bottom next year and that as from 2017, the recovery will gradually begin drawn by tradable sectors and investment in infrastructure. Regarding the latter component, note that the 4G road infrastructure projects are currently under execution, allowing for capital investments (pre-construction and construction CAPEX) for more than COP 35 trillion and an estimated COP 47 trillion total investment.

The plan consists in three 'waves' of contracts, two of which were awarded in full already and a few contracts of the third phase are yet to be awarded. As of this date, six contracts of the first wave have reached the financial close, therefore, in 2016 are expected to start the construction phase estimated to last five years approximately. In 2016 also, financial closes are expected for the remainder of contracts of the first wave and all the contracts in the second wave. The drag force of these projects will allow buffering the reduction to some extent in terms of exchange that will impact the economy in the long term, which will be reflected in a lower potential growth.

In addition, a slight reduction is expected in the lack of balance of Colombia as against the rest of the world in 2016 although the extent of the current account deficit remains a vulnerability factor. Furthermore, public finance will be affected by the fall in oil revenues more than was foreseen by the authorities, which will probably entail greater efforts towards austerity in expenses. Inflation is expected to continue accelerating in the short term and will slack in the second half of the following year as expected to happen with the inflation expectations. In face of this, Banco de la Republica would act with more increases in the reference rate of the months to come. Regarding the exchange rate, we may expect that the COP weakening trend with respect to the USD will continue although at a less dramatic rhythm of devaluation than before last August.



## 1.1. Evolution and Outlook of Housing Market and Mortgage Sector

### 1.1.1 Evolution

The inertia inherent in the market and the volumes of activity continued in the construction suggest a 4.4% annual expansion at the year closing. They contribute additional 2.7 percentage points from projects of the "Casa Ahorro" government subsidy program and the continuing FRECH II with 30,000 loans coverage to be implemented throughout 2015. That is to say that upon the most recent information available, the GDP construction expanded by 7.1% as of the 2015 closing. This level exceeds considerably the general economic level, but let us recall that a great part of the growth anchor resulted from the construction and real estate sector capacity to pull substantial monetary and labor resources.

According to information published by Galeria Inmobiliaria, in the eight foremost markets (Bogota, Medellin, Cali, Bucaramanga, Barranquilla, Cartagena, Santa Marta, and Villavicencio) house sales added up to 128.5 thousand units, 6.7% more than in 2014. These Sales amounted to COP 21.8 trillion (12.4% above the immediately preceding year's) and 8.5 million m<sup>2</sup> area (6.2% more than in 2014). Thereby, 2015 ended with positive results for the housing sector despite the adverse perspectives of the beginning at the year.

The dynamics of NO-VIS sales in Bogota and surroundings stands out among the cities. In 2015, 7.5% more units were sold in relative annual terms and circa 1,400 units more in absolute terms, thus buffering the -7.1% total contraction boosted by the exhaustion of VIP units in this market. (In 2015, 3,724 VIP units were sold, i.e., -64.2% compared to one year before.) Medellin is in general an exemplary market that grows 44% total as a result of the 79% VIS and 22.5% NO-VIS increase. Barranquilla constitutes the third market in performance, with total sales adding up 9.6 thousand units, 6% above 2014 measures. NO-VIS housing contributed 5.1 thousand units and 16.8% increase. VIS housing did not perform so well with 3.7% contraction but 4.4 thousand units sold throughout the year, anyway. The other markets showed moderate levels of sales except for NO-VIS housing in Bucaramanga and total sales in Santa Marta evidencing considerable contractions above 20%.

The construction licenses showed a positive behavior. For 2015, the number of units granted license grew in 4%, 12-month cumulative 200 thousand units total as of November. In turn, housing licensing was reflected in the dynamics of the construction activity. This push allowed the buildings' GDP to record in the third quarter an annual variation greater than 8.5 %, which kept the construction sector as the leader of the economic activity.

The mortgage sector showed a moderate growth in disbursements by 8% and receivables by 12%, as well as a fall in originated loans from 150 thousand in 2014 to 140 thousand in 2015. It is important to highlight the share increase of used house, the use of commercial lease as a financing product and the underwritings in UVRs for the

VIS segment. Additionally, we saw a substantial growth in participation of nontraditional banks, a considerable reduction of prepayment, and stability in loan quality indices.

### **1.1.2 Perspectives**

In 2016, GDP construction suggests a much higher growth than the expected for the entire economy, circa 5.5% in a basic scenario that contemplates initiatives as FRECH permanence for VIS and implementation of the remainder "Casa Ahorro" projects ending the construction phase at the year's closing. In addition, when we contemplate the continuity of non residential construction projects that started works in 2015 and the market sustainability resulting from new public policy strategies aimed at guaranteeing the access to housing. In the scenario that provides for the public policy strategy implementation (GDP + Policy), the foreseen performance of the sector aggregate value is a 9.7% annual variation, whereas the projects of "Mi Casa Ya" program, NO-VIS housing with subsidy at an interest rate of PIPE 2.0 (Plan of productivity and employment boost), the national infrastructure plan, and other strategies of the central government related to execution of building projects are currently in progress.

This new year, the materialization of subsidy at an interest rate for home purchase priced 135 to 335 minimum legal monthly wages as contemplated in the PIPE 2.0 will stimulate the marketing of 74,542 housing units (16.8% annual) in this segment. Otherwise, with the regulatory 33,500 allotments for FRECH II and the incremental sales foreseen for the segment of "Mi Casa Ya" program, the social housing forecast exceeds the 70,000 units sold in 2015.

The 2016 macroeconomic outlook for Colombia evidences challenges not seen since the global crisis in 2008. Several macro indicators will give less favorable readings than other years. The economy will be adversely affected by the downward trends in oil prices, a persistent depreciation of the Colombian peso, a lesser public expense capacity due to less oil revenues, the Chinese economy deceleration, subsequent volatility of international markets and additional pressures from stronger climate effects of El Niño.

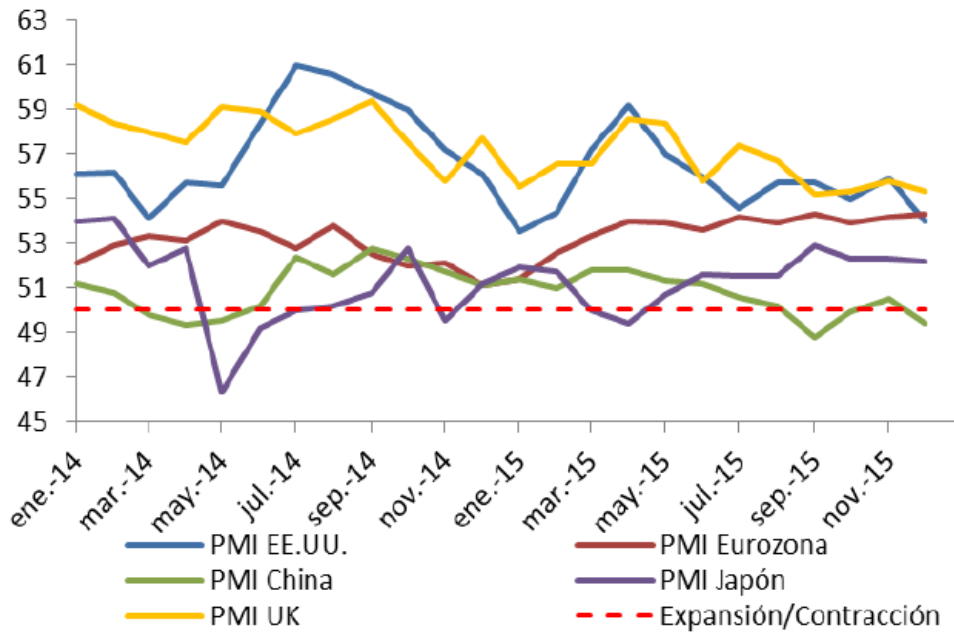
Nevertheless, our economy will begin to stabilize and to gain traction. To this effect, Colombia will appeal to factors that enabled Colombia to be the Latin American country with the most stable economic cycle and growth above the average. Given that we have the first push from the structuring and implementation of the 4G road concessions, then there is room for the countercyclical policies promoting housing and mortgage finance to continue and a circumstance that had not happened months ago, the reactivation of industrial activity with the Reficar launch, together with a robust internal market, a sound policy frame and a diversified productive base. In face of the perspectives, in 2016 the economic agents must combine optimism with patience and prudence.

## 2. CAPITAL MARKETS

### 2.1. INTERNATIONAL MARKETS

Year 2015 was marked by a change in the world growth dynamics in favor of developed economies and in detriment to emerging economies mainly of Latin America. Global economic growth (Chart 1) began with a better outlook and deteriorated throughout the year, affected mainly by the economic weakening in China and fragile recovery in the USA. The lesser economic growth perspectives and unbalanced demand and supply in turn had an adverse impact in prices of commodities, which underwent strong devaluations over the year and affected considerably the countries exporters of those commodities by strong currency devaluations, risk premium increments, and less growth perspectives.

**Chart 1: PMI (Purchasing Manager's Index)**

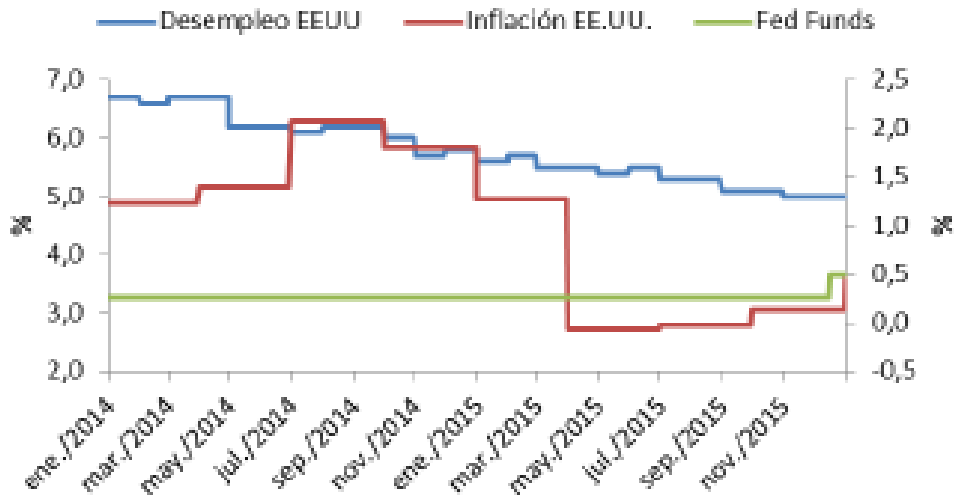


(blue)	PMI US	(sepia)	PMI Eurozone
(green)	PMI China	(lavender)	PMI Japan
(yellow)	PMI UK	(red)	Expansion/Contraction

Central banks were main characters once more. The U.S. Federal Reserve started its intervention rate increase, considering the labor market recovery although actually incremented it in December in face of a fragile economic recovery, a low inflation, and the uncertainty for the impact of a lower growth in the other economies (Chart 2).

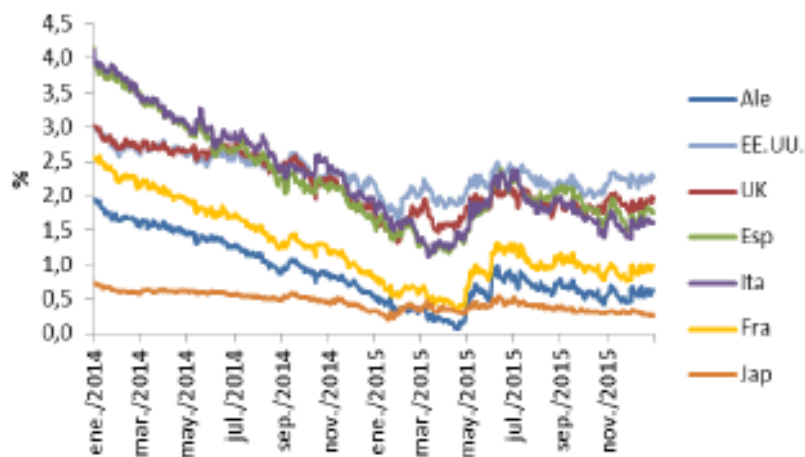
**Chart 2: U.S. Indicators**

(blue) US Unemployment (red) US Inflation (green) Fed Funds



In Europe, the first half of the year was highly uncertain for the crisis in Greece given the probability of default of its financial debts and a lack of consensus in the country. Upon the signature of new agreements by midyear, the markets were able to focus on the start of the economic activity recovery. The intervention of the ECB European Central Bank (Eurosystem) by purchasing sovereign bonds generated major valuations and helped central and peripheral countries improve their financing conditions through lower rates (Chart 3).

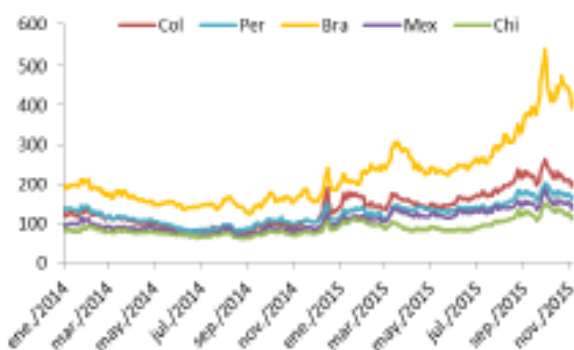
**Chart 3: 10-year Sovereign Bonds**



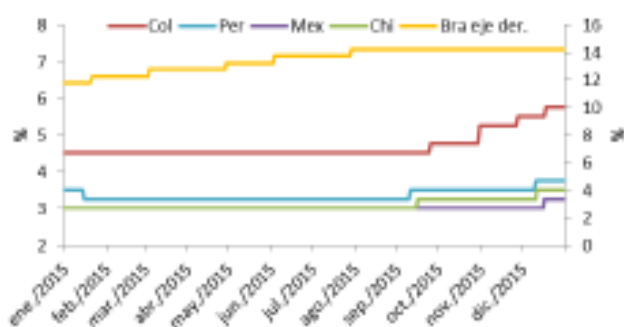
In Asia, the role of Japanese central bank was essential as the monetary stimuli by purchase of securities contributed to the valuation of financial assets and to push the real economy, however the deflation risk increased all over the year. On the other hand, the Chinese economy behavior helped rising the uncertainty and volatility of commodities and financial asset markets globally, not only because of the expectation of reduced economic growth but also for the strong devaluation of their foreign exchange indices started in June and lasting until the end of the year and because of the currency devaluation of their currency promoted by the authorities in August.

In face of this global scenario, the Latin American economies were damaged the most. On the one hand, the expectations of deceleration of their economies increased and the exports decreased considerably because of lower prices of commodities and lower world demand. On the other hand, after several years as receivers of capital flows from other countries they watched the reversing of those flows with the interest rate growth in the US and the recovery of developed economies. In addition, they had strong inflationary pressures from their currency devaluation and the food price rise due to extreme climate conditions. The effects were reflected in the risk premium rise, currency devaluation, economic growth, and central bank intervention through the intervention rate increase in spite of the real economy deceleration (Charts 4 and 5).

**Chart 4: CDS 5 and USD**



**Chart 5: LA Monetary Policy**



## 2.2 COLOMBIAN MARKETS

In 2015, Colombia was not beyond the effects suffered by the other Latin American economies. The main effects were felt through the economic deceleration (after growing 4.5% in 2014 the economy grew at a rate close to 3%<sup>1</sup>); currency devaluation (33% in the year); risk premium increase (USD CDS to 5 years passed from 140.9 to 242.5) and strong inflation growth (closed 2015 in 6.77%, off the target range of the Banco de la Republica set in 2%–4% and the highest since December 2008) among others.

The peso devaluation associated with the steep oil price fall (Chart 6), and the food price rise owing to the lower supply caused by the phenomenon of El Niño led Banco de

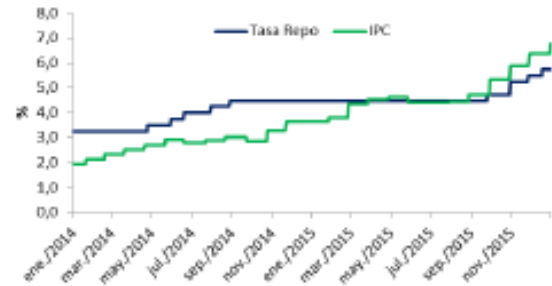
<sup>1</sup> At the time of preparing this report, DANE had not published the GDP growth in 2015.

la Republica to change its posture as to monetary policy by increasing the repo rate from 4.5% (a level sustained since 29 August 2014) to 5.75% (Chart 7).

**Chart 6: COP- Brent**

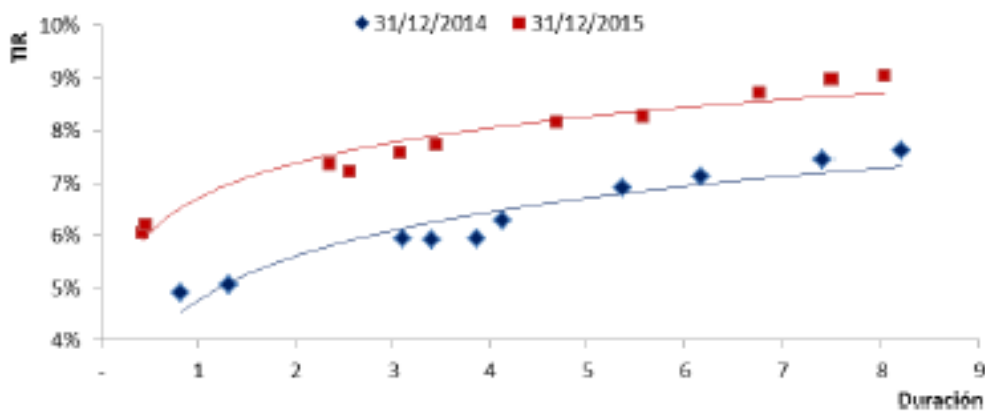


**Chart 7: Inflation and Repo Rate**



On the other hand, foreign exchange rates showed strong depreciation (Colcap -24% YoY; IGBC -27% YoY ), foreign direct investment declined 24.3% (2014 USD 15,109 million, 2015 USD 11,445 million) and portfolio investment fell by 64.4% (2014 USD 12,372, 2015 USD 4,400) putting even more pressure on the exchange rate. In the public debt market, the lesser attraction to Latin American assets reflected in less flow from other countries, as well as the Banco de la Republica intervention rate increase pushed the interest rate rise thus creating yield curve movements and devaluation of securities and increasing each reference by 130 points average (Chart 8).

**Chart 8: Fixed Rate TES curve**



With respect to fixed-income debt backed issues, the total amount of underwritten TES was COP 30.2 trillion (out of which COP 22.8 trillion corresponded to fixed income and UVR auctions and COP 7.4 trillion were placed with public entities through agreed and forced transactions). In addition, COP 1.8 trillion were issued in short term TES aimed

at regulating the liquidity of the economy. Regarding private debt issues by the Colombian stock exchange (BVC), the total amount issued was COP 5.9 trillion in 2015 (41% less than in 2014).

**3. MORTGAGE-BACKED SECURITIES ISSUES**

Titularizadora Colombiana carried out two (2) issues in 2015 corresponding to TIPS Pesos N-11 in June and TIPS UVR U-1 in October. The total value of the mortgage loans, securities, and the size of the auction are shown in the following Table:

**Table 1: Titularizadora Colombiana Issues**

	<b>A/R</b>	<b>Securities*</b>	<b>Auction</b>
TIPS pesos N-11	\$ 367,102	\$ 374,444	\$ 266,040
TIPS UVR U-1	\$ 416,929	\$ 434,891	\$ 371,067
<b>Total</b>	<b>\$ 784,031</b>	<b>\$ 809,335</b>	<b>\$ 637,107</b>

Figures in million pesos  
 \*Including subordinated securities

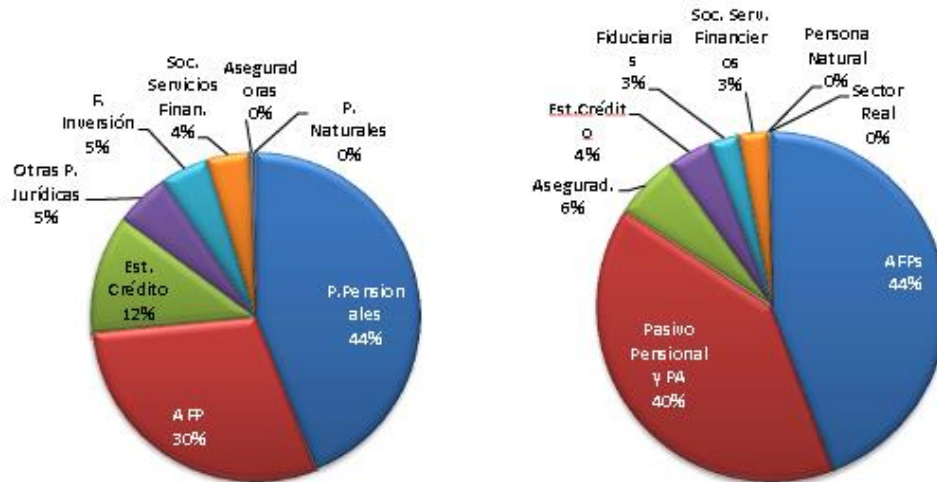
In both issues, originators were banks. In the case of **TIPS Pesos N-11** originator was Banco Davivienda. The amount offered in auction of Series A securities was COP 264,313 million and included an auction extended by COP 1,726 million. The demand amounted to COP 310,240 million for a 1.17 bid-to-cover ratio.

The originators for the **TIPS UVR U-1** issue were Banco Caja Social and Banco Davivienda contributing 70.4% and 29.6% of the mortgage loans in UVR, respectively. The amount initially offered in auction was COP 325,204 million and included an extended auction for COP 45,862 million fully underwritten, for a total COP 441,899 million of Series A securities. The demand amounted to COP 418,468 million with 1.29 bid-to-cover ratio.

Below is the summary of allocations by segments of investors for the two issues.

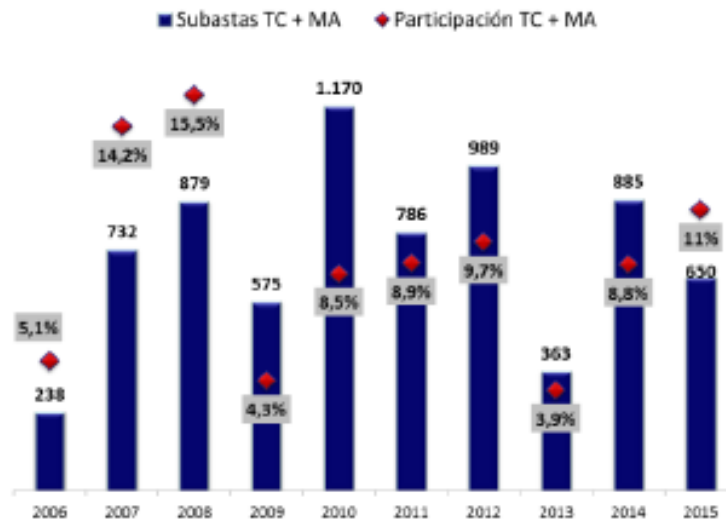
**Chart 9: Allocations TIPS Pesos N-11 Chart 10: Allocations TIPS UVR U-1**

Pension Liabilities & PA 44% AFPs 30% Insurers 12% Other Legal Entities 5% Investment Funds 5% Financial Svcs 3% Insurers 0% Individuals 0%	AFPs 44% Pension Liabilities & PA 40% Insurers 6% Credit Institutions 4% Trusts 3% Financial Svcs 3% Individuals 0% Real Sector 0%
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Moreover, Titularizadora Colombiana's share in private debt issues in 2015 was 11 %, greater than in previous years (Chart 11).

**Chart 11: Share in Bolsa de Valores de Colombia Issues**



Including 2015, 44 issues were completed for total mortgage loans of COP 18.3 trillion and a mortgage backed securities' balance of COP 3.7 trillion as of December 2015.

The investor segments with the higher share in the three issues of 2015 continued to be Pension liabilities and Pension funds (AFPs: Pension fund management companies).



## 4. ISSUES AND LOAN PORTFOLIO PERFORMANCE

### 4.1. ISSUE PERFORMANCE

Ending 2015, the company reached a COP 16.1 trillion total in issues of Class A Mortgage-Backed Securities, 76% of which was transacted in COPs and 24% in UVR currency. The balance of these outstanding Class A securities amounts to COP 1.8 trillion as of 31 December with total amortizations of 89% of the principal issued (Chart 12).

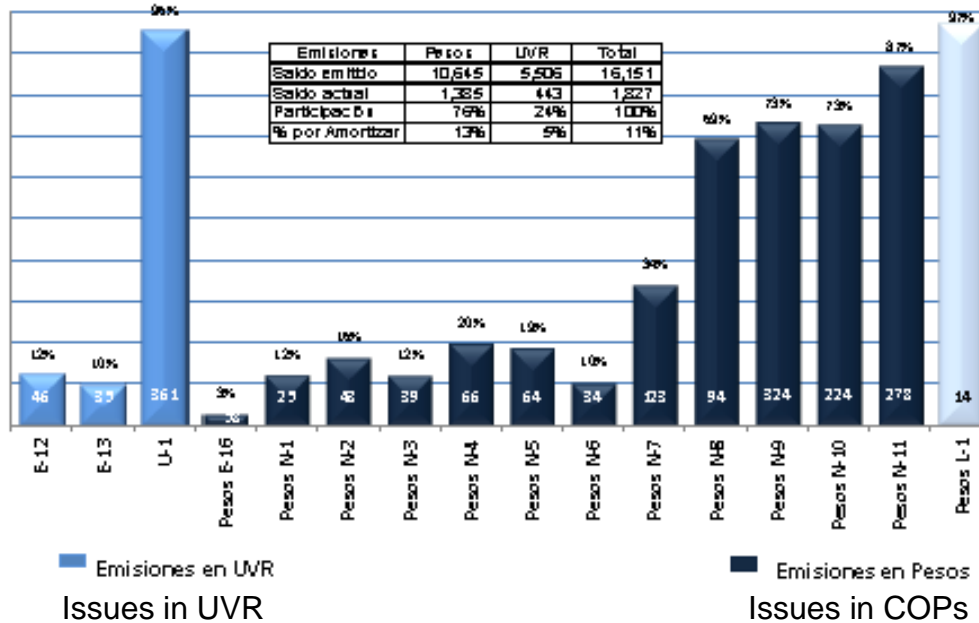
This year, the early liquidation event and cancellation were formalized for the Tips Pesos E-3, Tips E-8, Tips Pesos E-10, Tips Pesos E-11, and Tips Pesos E-13 issues, as provided in the respective prospectus and rules of issue. Tips Pesos E-3 issue was cancelled in November upon meeting the criteria determined for that issue and the liquidation of that issue was carried out and the issue cancellation with the Colombian Registry of Securities and Intermediaries was duly started. The other issues' cancellations are ongoing.

Under Titularizadora Colombiana S.A. amendment of articles of association and corporate purpose extension, the company received from Multiactivos S.A. STANH the management of TIL Pesos L-1 issue carried out by Multiactivos S.A. STANH, which was voluntarily wound up early upon decision of the Special Shareholders Meeting held the 28 December 2015.

**Chart 12: Class A TIPS Balance and Outstanding Percentage  
(Figures in Billion COPs)**

**Source: TC**

<b>Issues</b>	<b>COP</b>	<b>UVR</b>	<b>Total</b>
Issue balance	10,645	5,506	16,151
Current balance	1,385	443	1,827
Share	76%	24%	100%
% to be amortized	13%	5%	11%



#### 4.1.1. SECURITIZED PORTFOLIO

As of 2015 closing, the securitized portfolio comprises mortgage loans and consumption loans with drafts. Below are the loans balance and general characteristics.

- **MORTGAGE LOANS**

The issues' loan balance amounted to COP 3.8 trillion as of the December 2015 closing. The balance is represented by 100,250 individual mortgage loans with 88% in NO-VIS mortgage loans and 12 % in VIS mortgage loans (Chart 13).

The securitized portfolio keeps FRECH mortgage loans. For 2015, 16 issues contained FRECH mortgage loans, with 16% of share on the total balance of securitized mortgage loans. As of this date, these mortgage loans show a good performance. FRECH (Fund of reserve and stabilization of mortgage loans) is a benefit offered by the national government to cover a percentage of the remuneratory interest rate agreed for the mortgage loans, in abundance by the law.

**Chart 13: Loan portfolio breakdown by type of loan**  
Source: TC Calculations



Below is the breakdown of the mortgage loans per issue:

**Table 2: Mortgage loan portfolio breakdown by type**  
**Source: TC**  
**Principal Balance as of December 31, 2015 (COP Million)**

**Total Balance of the COP debt securitized portfolio by issues**

<b>ISSUE</b>	<b>UVR</b>	<b>%</b>	<b>PESOS</b>	<b>%</b>	<b>Total general</b>	<b>%</b>
E-1	3,316	0%			3,316	0%
E-8	56,114	5%			56,114	1%
E-9	51,016	5%			51,016	1%
E-10	33,318	3%			33,318	1%
E-11	38,372	4%			38,372	1%
E-12	138,694	13%			138,694	3%
E-13	133,182	12%			133,182	3%
UVR U-1	403,706	38%			403,706	10%
PESOS E-4			32,666	1%	32,666	1%
PESOS E-5			30,244	1%	30,244	1%
PESOS E-6			15,247	1%	15,247	0%
PESOS E-7			33,698	1%	33,698	1%
PESOS E-8			30,198	1%	30,198	1%
PESOS E-9			28,820	1%	28,820	1%
PESOS E-10			37,171	1%	37,171	1%
PESOS E-11			31,225	1%	31,225	1%
PESOS E-12			25,280	1%	25,280	1%
PESOS E-13			15,914	1%	15,914	0%
PESOS E-14			67,944	2%	67,944	2%
PESOS E-15			124,248	4%	124,248	3%
PESOS E-16			559,525	19%	559,525	14%
PESOS N-1			69,076	2%	69,076	2%
PESOS N-2			100,758	3%	100,758	3%
PESOS N-3			106,254	4%	106,254	3%
PESOS N-4			133,664	5%	133,664	3%
PESOS N-5			130,982	4%	130,982	3%
PESOS N-6			95,434	3%	95,434	2%
PESOS N-7			187,952	6%	187,952	5%
PESOS N-8			111,443	4%	111,443	3%
PESOS N-9			379,942	13%	379,942	9%
PESOS N-10			267,268	9%	267,268	7%
PESOS N-11			323,212	11%	323,212	8%
TECH E-1	185,162	17%			185,162	5%
TECH E-3	24,541	2%			24,541	1%
<b>TOTAL</b>	<b>1,067,432</b>	<b>100%</b>	<b>2,949,075</b>	<b>100%</b>	<b>4,016,457</b>	<b>100%</b>

Regarding the risk profile for TIPS issues, the loan to value ratio remains in very favorable levels. Ending the year, 83% of the portfolio has a <50% LTV, 15.6% keeps a 50%-70% LTV, and only 1.6% keeps a 70%-80% LTV. See LTV table. (Table 3)

**Table 3: Portfolio Balance by LTV – TIPS Issues**  
**Source: TC**  
**Principal Balance as of December 31, 2015 (COP Million)**

LTV Range	Balance	%
>70%	58,376	1.6%
50%-70%	581,637	15.6%
0%-50%	3,093,820	82.9%
<b>Total portfolio</b>	<b>3,733,833</b>	<b>100.0 %</b>

The performance of the collection of securitized mortgage loans in 2015 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 2015 closing, the portfolio balance of issue TIL Pesos L-1 was COP 14 billion represented in 2,062 loans with a distribution of operational agreements of 99.66% with private companies and only 0.34% with public entities.

#### **4.1.2. LOAN PREPAYMENTS**

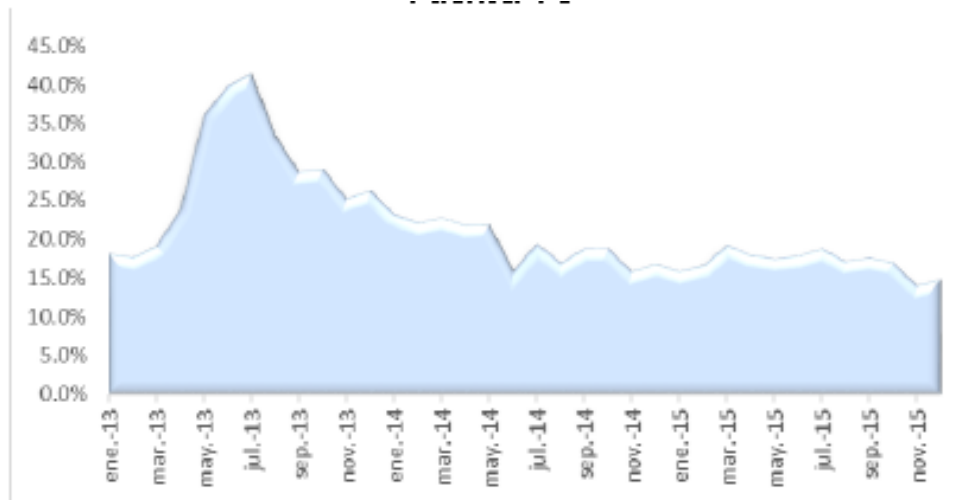
The payment in advance in full or in part of the principal balance of the loans of an issue is named "Prepayment" and for securitized portfolio is measured by an annualized index (value of principal prepayment as against principal value of loans at the start of the period).

- **MORTGAGE LOAN PORTFOLIO**

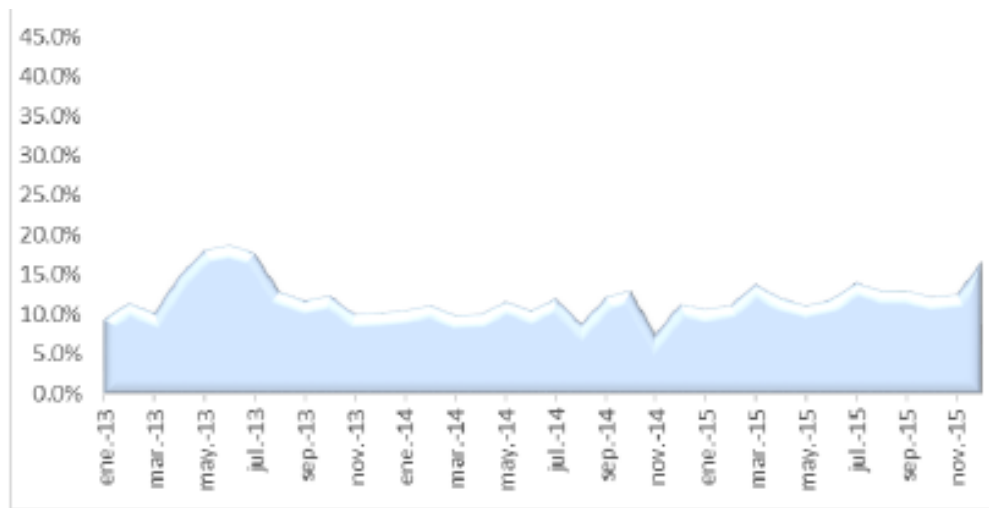
With respect to the mortgage loans, the average in the last 12 months was 17.1% at the 2015 closing for pesos issues, which was less than the average of the immediately preceding year, 19.7% (Chart 12). Notwithstanding the index reduction, it is still higher than the expected levels in stable market conditions, due to the banks competition for customers and the need of the entities specialized in mortgage loans to develop customer retention strategies.

As to UVR mortgage loans, the general impact of competition in the sector was lower in this segment and kept the performance over time. In 2015, the prepayment rate was 12.6% (Chart 13).

**Chart 14: Annualized prepayment index for PESOS Issues Source: TC**



**Chart 15: Annualized prepayment index for UVR Issues Source: TC**



- **PORTFOLIO OF CONSUMPTION LOANS WITH DRAFTS**

Consumption loans with drafts show an annualized prepayment of 18.62% rolling average since the start of the issue, which average is within the expected range in stable market conditions.

#### **4.2. PAYMENTS TO LOAN PORTFOLIOS**

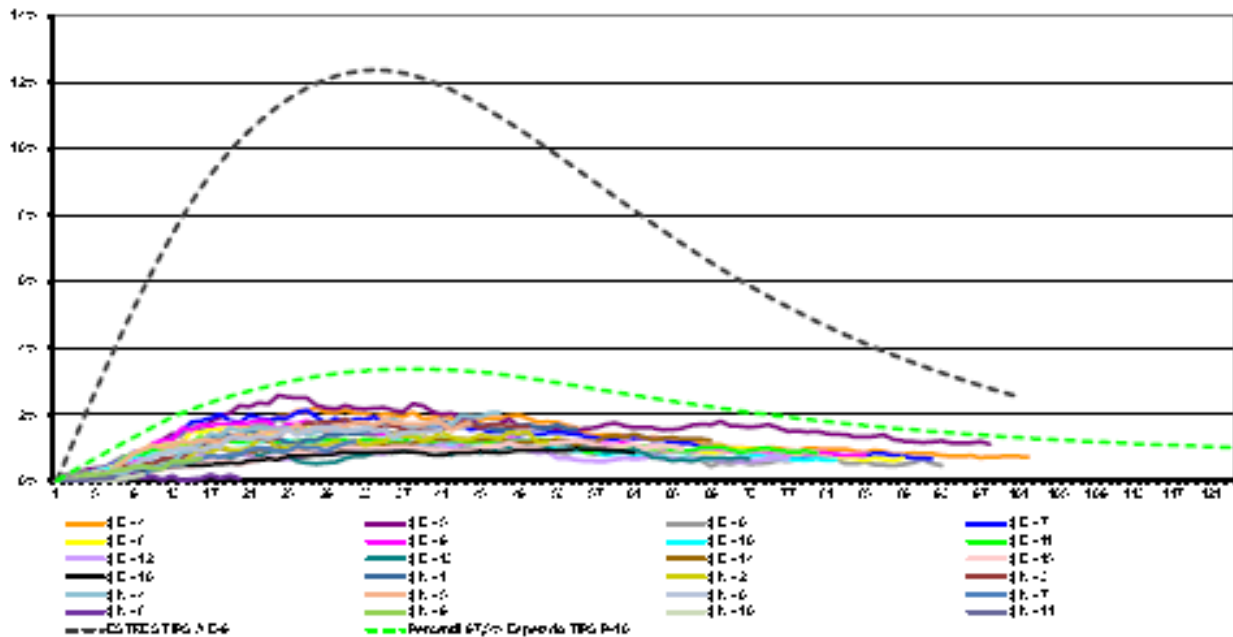
##### **4.2.1. MORTGAGE LOAN PORTFOLIO**

Good payment habits of the borrowers of securitized mortgage loans year to date 2015, kept delinquency within the expected levels as reflected in the good levels of non-performing index in the different issues. In like manner, the excellent mortgage loan

performance in face of the delinquency levels of the projected maximum deterioration scenarios allowed the TIPS securities to hold the highest credit rating.

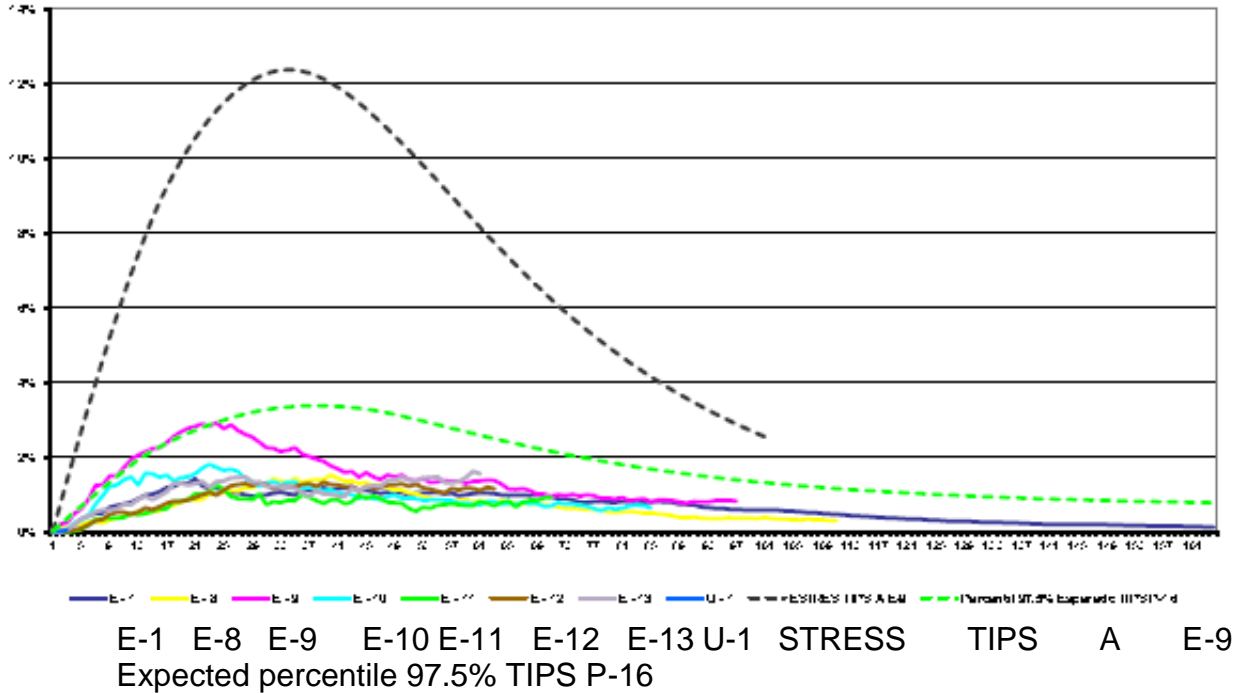
The following charts reflect the greater than 120-day delinquency with respect to the projected levels in the expected and stressed scenarios for each effective month of both UVR and Pesos issues, standing out the excellent performance of securitized mortgage loans during 2015 (Charts 16 and 17).

**Chart 16: Maximum Delinquency Scenario–PESOS Issues**  
Source: TC



COP E-4	COP E-5	COP E-6	COP E-7
COP E-8	COP E-9	COP E-10	COP E-11
COP E-12	COP E-13	COP E-14	COP E-15
COP E-16	COP N-1	COP N-2	COP N-3
COP N-4	COP N-5	COP N-6	COP N-7
COP N-8	COP N-9	COP N-10	COP N-11
STRESS TIPS A E-9	Expected	97,5%	
	Percentile	TIPS	
	P-16		

**Chart 17: Maximum Delinquency Scenario–UVR Issues**  
**Source: TC**



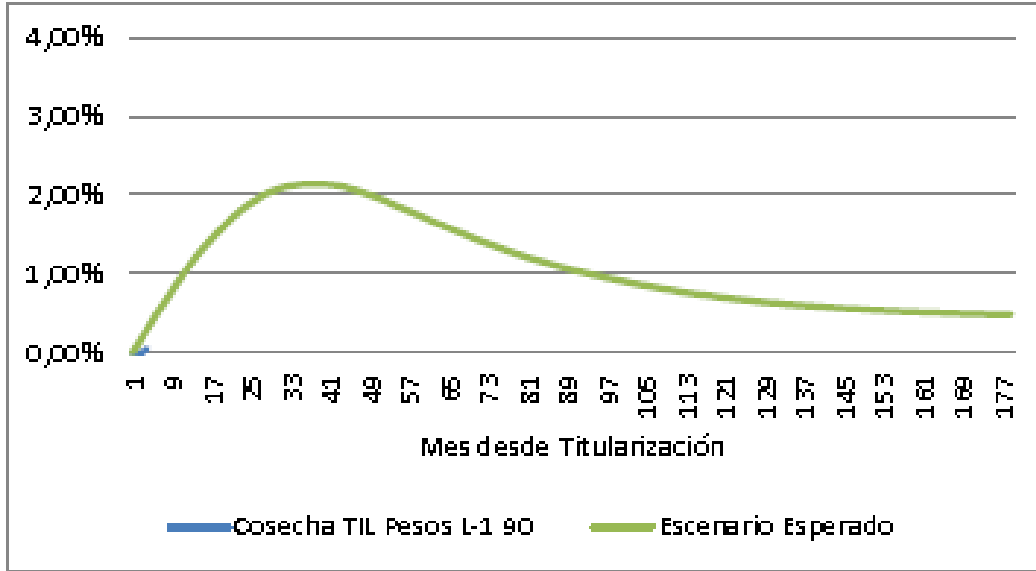
**4.2.2. CONSUMPTION LOANS WITH DRAFTS**

The portfolio of securitized consumption loans with drafts as of 2015 closing evidenced good payment behavior, thus allowing deterioration levels to remain within the expected delinquency levels as reflected in the non performing loans indicator of the TIL Pesos L-1 Issue. (Chart 18)



**Chart 18: Evolution of >90-day delinquency for TIL Pesos L-1 on balance as of the issue date – with recovery**

Source: TC



**Month Since Securitization**  
 Loan Pool TIL Pesos L-1 90                      Expected Scenario

### 4.3. 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 award).

As of the year closing, Titularizadora's inventory is nine (9) real properties with a market value of COP 1,302 million, broken down by Issue (Table 4).

**Table 4: REO by Issue**  
 Source: TC  
 (COP million)

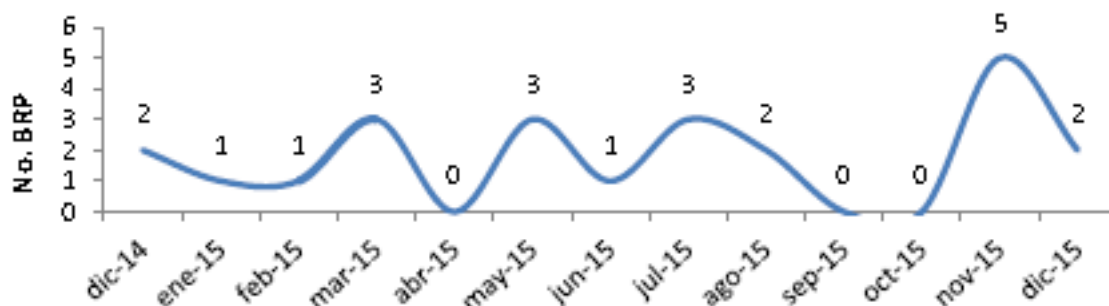
ISSUE	REO QTY	MARKET VALUE
E-9	1	118
E-12	1	127
PESOS E-8	1	334
PESOS E-9	2	270
PESOS E-10	1	90
PESOS E-16	2	249
PESOS N-3	1	114

Total	9	1,302
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Sales of these real properties showed good performance with the sale of 21 properties during the year (Chart 19).

**Chart 19: REO Sales Performance 2015**

Source: TC



#### 4.4. SECURITIZED PORTFOLIO SERVICERS

##### 4.4.1. SECURITIZED MORTGAGE LOAN SERVICERS

Below is the mortgage loan distribution per Servicer for TIPS and TECH issues as of December 2014 (Table 6).

**Table 5: Mortgage Loans by Servicer Source: TC**

SERVICER	Issues		%
	Principal Balance *	Loans Qty	
BANCO AV VILLAS S.A.	27,176	1,629	1 %
BANCO BCSC	712,273	17,514	19 %
BANCO COLPATRIA S.A.	45,416	1,080	1 %
BANCO CORPBANCA COLOMBIA S.A.	17,631	458	0 %
BANCO DAVIVIENDA S.A	1,756,807	39,145	46 %
BANCOLOMBIA	1,049,217	35,876	28 %
BBVA COLOMBIA	64,738	1,709	2 %
FONDO NACIONAL DEL AHORRO	111,169	2,839	3 %
<b>TOTAL PORTFOLIO</b>	<b>3,784,429</b>	<b>100.250</b>	
<b>* Figures in million pesos</b>			

As to the performance of the Servicers of securitized mortgage loans, they remain within the established standards and levels, according to the resulting indicators defined for mortgage loan portfolio servicing processes and servicer recertification processes.

#### **4.4.2. SERVICERS OF SECURITIZED CONSUMPTION LOANS WITH DRAFTS**

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

#### **4.5. MASTER SERVICING INTERNAL PROCESSES**

In the last year, the company maintained procedures and activities for improving and integrating its technological structure, thereby optimizing the security, application management, and reporting about the underlying assets and structured liabilities. In this regard, the company progressed in the maintenance and tuning of the application essential to our business (HITOS) for the servicing of non-mortgage products and integration with other applications.

The documents of service agreements with servicers were updated and certain indicators were improved for the process of securitized portfolio servicing.

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

##### **4.5.1 SUPPORT TO MORTGAGE SECTOR**

In 2015, Titularizadora Colombiana kept 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 Collection— All through the year, Titularizadora led and developed with the securitized loans servicers, a strategy to strengthen the collection mainly focused on facilitating the required knowledge tools for Collection process methodology, development and analysis, where practical knowledge was obtained about the development methodology of a Loan scoring model. This process addressed subjects such as the population segmentation and strategy

design, concentrating resources and activities in the customers' most risky segments.

- From the stand point of strengthening the teams that support the collection at each servicer, an "Inspirational Leadership" workshop was held with the aim of raising awareness among the attendees about the need to build skills to effectively lead work teams and achieve the goals set and the operational efficiency, establish and develop new leadership strategies, and build self leadership skills, among others.

Custody Processes– During the year, the company worked with servicers in outreaching and implementing better practices in the preservation, control, and report of the documentary guarantees.

#### **4.6. OUTREACH AND MARKETING**

Titularizadora's plan of communication to the market and general public was based on positioning the mortgage securitization as an essential tool for housing sector and housing finance development and on highlighting the benefits of the securities in terms of diversification, security, and return for investment portfolios.

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

### **5. OTHER PROJECTS**

#### **5.1. MORTGAGE-BACKED SECURITIZATION**

Due to the new regulatory and legal climate, in 2016 Titularizadora Colombiana may process securitizations on non mortgage assets, and therefore consider developments in businesses with assets such as rediscount loans, real estate assets, and fourth generation (4G) concessions. The company has already started the adjustments to human resource capacity, operations, processes, and technology to respond to new market requirements, which jointly with the skills and knowledge gained over the path in mortgage backed securitization pose a new challenge to securitization.

About real estate securitization, it is worth of mentioning that major advances have been achieved in the estimation of providers and assessment of real estate advisors to structure the business unit that will support the operation and the decision making in technical real estate matters.

## **5.2. NEW ORIGINATORS**

- **CREDIFAMILIA COMPAÑIA DE FINANCIAMIENTO S.A.**

In 2015, the company completed the certification process of Compañía de Financiamiento Comercial Credifamilia S.A. as an originator/ servicer of mortgage loans, and thereby determined the commitments to fill existing gaps. As of December 2015, the company is waiting for better market conditions for the issue of securities.

- **CONFIAR COOPERATIVA FINANCIERA**

With 100% of progress in closing activities at the December 2015 cutoff, Confiar Cooperativa Financiera and Titularizadora Colombiana consolidated their efforts to achieve a mortgage-backed securities issue. As of this date, the company is waiting for better market conditions that guarantee the success of the operation.

## **5.3. TITULARIZADORA DOMINICANA**

During 2015, Titularizadora Colombiana's participation as a shareholder of Titularizadora Dominicana was formalized and they agreed that the company will provide consulting services in the setting up of the securitization company and the structuring of issues of mortgage backed securities in the Dominican Republic. This project includes providing outsourcing services for master servicing the issues carried out in the Dominican Republic as of 2016.

## **6. MANAGEMENT AND HUMAN RESOURCES**

### **6.1. HUMAN RESOURCES**

The results are the product of the work performed by our 61 highly qualified employees. Under our human resource strengthening strategy, in 2015 we carried on technical training, skill strengthening and formal refresh at top class universities and in all the organization levels.

### **6.2. COLLABORATION AGREEMENT**

Under the enterprise collaboration agreement between Titularizadora Colombiana S.A. and Multiactivos S.A. maximization of synergies and economies of scale in both companies were achieved based on experience, human resource team, technology and general expertise of Titularizadora Colombiana in structuring and managing asset securitization. As of 31 December 2015, the agreement was terminated upon the voluntary winding-up process decreed by Multiactivos STANH S.A. and all its officers moved to provide services to Titularizadora.

### **6.3. INSURANCE**

Up to 31 December 2015, appropriate insurance coverage was maintained. Prudent standards relating to industry practices in similar companies were followed with respect to protection of the company's assets, premises, and technology infrastructure; liability of directors and officers; and loss of securities due to dishonest or fraudulent acts by employees.

### **7. TECHNOLOGY**

All through 2015, the company executed all its projects seeking to deliver solutions faster to the business areas in the frame of the following notions: software and hardware optimization, business project development, and process innovation. These actions enhanced the services provided by the information systems, the communications, and the continuity plan. Actual examples follow: Change of alternate data center, alternate internet 6 Mb channel for the main site, backup appliance implementation, tests to Hitos databases virtualization, development of Apoteosys version for automating the trust transfer orders and quota control.

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

### **8. LEGAL AND REGULATORY ISSUES**

#### **8.1. REGULATORY ISSUES**

Law 1753 of 2015 (National development plan 2014-2018) §169 authorized the mortgage asset securitization conduits incorporated under Law 546 of 1999 for non-mortgage asset securitization with the aim to take advantage of the know how gained to facilitate the financing of other productive activities by means of the Colombian exchange market. Extending the corporate purpose was deemed appropriate insofar as the issues would be carried out on *universalidades*, thus allowing for proper risk management. The corporate purpose extension enables the securitization conduits to compete in equal conditions with trust companies that according to the applicable laws may securitize both mortgage and non mortgage assets. Under this legal enablement, Titularizadora carried out the corporate purpose adjustment and enhancement to securitize mortgage and non-mortgage assets by way of the statutory reform that was formalized in October 2015.

At another level, Law 1555 of 2012 provided for the preservation of the quality of the mortgage loan borrower in favor of a creditor who assigns a guaranteed loan to a securitization conduit or a trust company subject to Law 546 of 1999 §12. Under said Law 1555 of 2012, central government issued Implementing Decree 1310 of 18 June 2015, providing instructions for the issuance of an enforceable copy in the accreditation

of preserving the quality of the mortgage loan borrower in securitization operations. A full scheme of preservation of the credit quality of a mortgage loan borrower guarantees a neutral impact of the securitization from the borrower's perspective to the extent that the borrower may continue honoring current and future obligations to the originator and therefore keep the possibility to access different credit lines backed by the real property subject to mortgage collateral, as was their initial intention when granting the open mortgage lien.

In 2015, the Superintendencia Financiera de Colombia issued External Circular 020 of 2015, whereby it regulated the prerequisites for an entity to be deemed a known and recurrent issuer and the procedure of automatic registration of issues made by such entities. Titularizadora in turn was granted the condition as known and recurrent issuer by the Superintendencia Financiera in September 2015.

## **8.2. LEGAL CONTINGENCIES**

No contingency, legal proceedings, or lawsuit has been brought against Titularizadora as of 31 December 2015.

## **8.3. COMPLIANCE WITH SPECIFIC REGULATIONS**

On the matter of the corporate governance rules applicable to the company, Titularizadora conducted an analysis, assessment, and diagnosis of the recommendations provided in the new Código Pais contained in the External Circular 028 of 2014 issued by the Superintendencia Financiera, and completed the applicable adjustments to the Articles of Association and the Corporate Governance Code of Titularizadora.

In 2015, Titularizadora Colombiana maintained the "IR Recognition," a distinction that the Colombian Stock Exchange BVC grants to issuers that have adopted better practices for information disclosure and relationship with investors.

With regard to the Investors Committee, during 2015 meetings were held as per schedule, considering that the Committee is a privileged forum for properly and timely informing the investors of the company position and the development, performance, and perspectives of the securitization processes.

## **9. OTHER**

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

In compliance with the provisions of the applicable regulations on the risk management of the asset laundering (AL) and terrorism financing (TF) risk, Titularizadora maintained in 2015 the application of the policies, principles and procedures defined for such risk management. In accordance with the relevant roadmaps, the company followed up the

performance of SARLAFT elements and stages, assessed and updated the company level of risk, and verified the mechanisms defined for gaining an effective and timely knowledge of its customers and of third parties involved in the company's operations.

Regarding the applicable AL/TF risk prevention policies and procedures, they are duly up to date and made official in the SARLAFT manual of procedures and the Code of Conduct, the compliance with which is mandatory for the Company's officers, which were assessed in the training plan developed throughout the year.

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

In addition, the securitized loan portfolio servicing provides for include permanently in the contracts entered into with the servicers, the provisions required for AL/TF risk prevention and control, which provisions are reviewed by the company from time to time.

Moreover, the Compliance Official and process owners jointly carried out the update of the risk rating criteria, the implementation of automatic crossing of constraint lists, and the periodic follow up to the requirements defined for engaging third parties.

The monitoring of transactions with third parties, the execution of alert signs, and the review of indicators reflected satisfactory results.

Finally, the company complied with its reporting duty under the applicable laws and regulations, timely addressed the requirements from control bodies, and implemented the recommendations from the Superintendencia Financiera, statutory auditor, and internal control.

## **9.2. INTERNAL CONTROL SYSTEM**

Titularizadora Colombiana's Internal Control System meets the regulatory requirements and demands applicable to entities of the Financial Sector and according to its size and type of business, permanently defines and publishes its guiding general policies, responsibilities with respect to its performance, its elements and its special areas; and the methodology for an appropriate and sustainable operation.

During 2015, the activities carried out for each element of the company's internal control system included:

- (I) Control Setting: The company strategic planning was defined jointly with the Board of Directors and disclosed to company officers; the goals and projects established were presented periodically and the review and update of the



Code of Good Governance was carried out by incorporating recommendations and actions indicated in the Código Pais survey designed by the Finance Superintendence.

Moreover, the company continued the enhancement and publication of functions and procedures manuals, the management indicators definition and application as per the Quality Management Policies, and the personnel training and education plans.

The operability of the "Transparence channel" was permanently available and monitored as a key tool to detect potential frauds and incorrect conducts.

- (II) Risk Management: The company applied the appropriate actions to the different risk management systems (SARM, SARO, and SARLAFT) according to predetermined methodologies and strategies, maintained the monitoring of control measures, verified the implementation of improvement actions, and periodically reported to the Board of Directors and relevant committees.
- (III) Control Activities: The company continues applying appropriately the control procedures defined in the company's processes and key activities, the information systems supporting the performance keep the structure and definitions that allow the compliance with the established control objectives. Additionally, it is worth of noting that the application of the quality management system policies allowed deploying a continuous improvement strategy and the strengthening of self-control and self-management principles that frame the process management.
- (IV) Information and Communication: Throughout the year, the information systems that support the company's process performance enabled the compliance of data generated and published with the security, quality, and reliability criteria. The company runs data vulnerability and security tests on the applications and technological infrastructure. The communications processes have been followed appropriately, encompassed all the organization levels, and comply with the rules and demands of the different interest groups.
- (V) Monitoring: Throughout the year, the company carried out a timely monitoring of process performance and a periodic evaluation of the improvement plans implemented as identified by both self-assessment activities and those submitted by surveillance bodies. According to the functions and responsibilities assigned by the internal control system to the directors, process owners, and vice presidents,

The evaluation of the internal control system's efficiency was conducted by the statutory auditor, the external auditor and the internal control function supplemented by the

internal and external quality assessments carried out in the framework of the company's Quality Management System in place. The results evidence the commitment of the Management and each of its officers in achieving the fulfillment of the institutional objectives and carry out the actions required to strengthen the internal control activities.

### **9.3. EVALUATION OF DISCLOSURE AND CONTROL SYSTEMS**

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

The results of periodic reviews of the company's control measures specified in the accounting, financial, and operational procedures, lead to conclude that such procedures were correctly applied and provide a reasonable assurance that Titularizadora's financial information has been properly recorded, processed, and presented. It also shows that the financial statements and other reports disclosed to the public do not contain any defects, inconsistencies, or material errors that might prevent understanding the actual situation of the equity or the operations transacted during 2015.

### **9.4. OPERATING RISK MANAGEMENT**

Titularizadora Colombiana managed the operational risk under the determined methodological framework structured by definition, documentation and formalization of processes, identification and estimating of risks in terms of impact and probability, and application of the monitoring procedures required to keep the risk levels within the limits set by the Board of Directors.

In accordance with the work plan, together with the process owners and using the technological tool that supports SARO the company conducted periodic reviews and updates of risk matrices, analyzed improvement plans defined in the self evaluations carried out by the Quality Management System and reviews conducted by control bodies. Likewise, the company validated materialized risk events, maintained a stringent monitoring on the fraud risk behavior, and the periodic reporting obligation about the operational risk management was fulfilled.

As of the 2015 closing, the risks identified in the company's processes are duly qualified and categorized according to the methodology in place, and the associated control measures allow keeping processes in low and middle risk levels.

In 2015, any risk events occurred were duly recorded according to the applicable laws and regulations. In addition, the SARO Committee assessed those risk events and the

company took the actions necessary for prevention purposes. Any events occurred did not result in losses for operating risk.

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

With respect to the Business Continuity Plan, the alternate operation center strategy was implemented with the three predetermined options, which facilitates the selection of the most convenient according to the contingency situation. In addition, the alternate processing center was moved to a more convenient physical location thus obtaining the added value of an additional internet connection as the main channel contingency.

The gamification strategy was implemented for user testing, including the documentation of technological and electrical tests thus increasing the plan scope. Lastly, the contingency website contents manager version was updated and the actions required to change website information were taken with the aim to allow a more intuitive navigation.

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

#### **9.5. RISK DISCLOSURE**

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

#### **9.6. REPORT OF OPERATIONS WITH SHAREHOLDERS AND MANAGEMENT**

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

#### **9.7. GRATUITOUS TRANSFER OF PROPERTY AND ASSETS OWNED ABROAD**

During this year, gratuitous transfers of property took place for COP 5,136,000.

#### **9.8. ASSETS IN OTHER COUNTRIES**

As of the 2015 closing, the company does not have any investments or liabilities in foreign currency.

### **9.9. INVESTMENT IN OTHER NATIONAL OR FOREIGN COMPANIES**

As of the 2015 closing, the company has investments on CIFIN S.A. for COP 94 million and Multiactivos S.A. for COP 3,979 million.

### **9.10. STATUS OF COMPLIANCE WITH INTELLECTUAL PROPERTY LAWS AND REGULATIONS**

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

### **9.11. PAYMENTS TO DIRECTORS, CONSULTANTS, ADVERTISEMENT, AND PUBLIC RELATIONS**

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

### **9.12. IMPLEMENTATION OF INTERNATIONAL STANDARDS**

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

### **9.13. INFORMATION SECURITY**

In the business context, Titularizadora's management of technological infrastructure, information, and IT assets in 2015 complied with the requirements set in the Basic Legal Circular Part 1 Title 2 Chapter 1 issued by the Superintendencia Financiera regarding the minimum security and quality requirements for transacting business. Furthermore, the Ethical Hacking Test was performed and the company remained at a security level appropriate to the standards defined.

### **9.14. FREE CIRCULATION OF INVOICES**

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

## **10. FINANCIAL STATEMENTS**

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

### **10.1. ASSETS**

Ending December 2015, Titularizadora Colombiana's total assets amounted to COP 148,361 million, 2% reduction as against 2014 closing. Assets mainly comprise investments (64%), investment properties (18%), accounts receivable (8%), and cash (7%).

The foremost variation in accounts with respect to the previous year was the decrease in accounts receivable (12%) due to the collection of the initial expenses of the issues in 2015.

### **10.2. LIABILITIES**

The company leverage at the fiscal period closing was 8%, similar to the previous fiscal period.

The most relevant liabilities correspond to a provision of COP 5,310 million for income and complementary tax and CREE (income tax for fairness).

Deferred liabilities show a 9% increase from the deferred tax; whereas the revenues received in advance from the credit enhancement that the company provided to the issues decreased by 11%.

### **10.3. EQUITY**

Titularizadora Colombiana Shareholders' equity decreased by 3% with respect to the preceding year, due to the dividend distribution and the resulting profit reduction. The company closed 2015 with a COP 136,085 million worth equity.

### **10.4. PROFIT AND LOSS STATEMENT**

The operational income corresponds to 78% of the total income, and results from structuring, servicing, guarantee and underwriting fees of the issues for COP 15,665 million and from financial income represented in investment yields for COP 8,626.

Operational income shows that fees decreased by 2% with respect to 2015 and financial yields decreased by 22% owing to the investment valuation at market price.

Other income for COP 5,079 million corresponds mainly to lease, investment properties valuation, and provision recovery.

The company's expenses amounted to COP 19,627 million. Operating expenses show a reduction by 8% and non-operating expenses show a 2% reduction of provisions.

Net profits amounted to COP 9,750 million in 2015 i.e. COP 1,379 million less than in 2014.

#### **10.5. FINANCIAL AND OPERATIONAL INDICATORS**

ROE before taxes corresponds to 13% as of December 2015. In turn, ROE after taxes<sup>2</sup> changed from 8.8% in 2014 to 8.3% in December 2015.

The operational efficiency changed from 80.4% in 2014 to 76.4% in 2015.

#### **10.6. CERTIFICATION OF FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015**

Pursuant to Law 964/2005 §46, for the preparation of financial statements and any other reports for the general public, Titularizadora Colombiana established, implemented, and evaluated disclosure and monitoring procedures and systems that ensure an adequate presentation of the financial information. The financial statements collectively do not contain any defects, inconsistencies, or errors that could prevent the understanding of the actual position of the equity or operations of the company. 39

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<sup>2</sup> Market price valuation adjustments are not included.



**EXHIBIT 1**

**ENTERPRISE SUSTAINABILITY REPORT**

**FEBRUARY 2016**

## **11. ENTERPRISE SUSTAINABILITY REPORT**

### **11.1. LETTER FROM THE PRESIDENT**

Titularizadora Colombiana was born as an innovative response from the Colombian bank sector to ensure the dream of "A house for everybody." In these 14 years of existence, mortgage-backed securitization has been the transforming pivot of the mortgage system in the country. Thanks to the company development, more Colombian families have been able to purchase their own home at low and stable interest rates, thereby being able to save more than COP 2.5 trillion per year. This achievement has been recognized internationally, to the point that several countries in the region are working on emulating it.

The commitment of our shareholders, of Titularizadora Colombiana's proud employees and my own is to continue working toward the modernization and sustainability of the home purchase financing system. It requires that we continue strengthening the trust between all the actors in the chain of value of the mortgage industry, by a responsible and prudent management of the resources that the investors entrust to us and by the creation of added value to the originators and the best loan conditions to the borrowers. These individual benefits must be recognized only in the context of a deep respect for the environment, labor rights, professional ethics, and social solidarity.

The systemic role of mortgage-backed securitization poses other challenges for the country economic sustainability. We want an industry that totally fulfills the mortgage loans demand so that it contributes significantly to the economic growth and social development without exposing the sector financial stability. In closing, we believe that only through working towards the excellence, we can continue contributing our bit to turning Colombia into an exemplary country with equal opportunities for all.

Alberto Gutierrez Bernal  
President



## 11.2. THE COMPANY

Titularizadora Colombiana, a leader in the engagement of resources from the capital markets for the financing of home purchase by Colombian families of all the socioeconomic levels. Titularizadora Colombiana started operations in 2001 as the axis of modernization of the mortgage sector after the 1999 crisis. All through the years of operation, Titularizadora has provided for the financing of mortgage loans for about 450 thousand homes for a total value that exceeds COP 18 trillion.

**Table 6: The Company in Figures**  
**Source: TC**

LINE ITEM	2015
Assets	COP 148.3 Billion
Net Profit 2015	COP 9.7 Billion
Solvency Ratio *	132 %
BRC Rating	AAA
Employees	61
Total Securitized Portfolio	COP 18.37 trillion
Number of Securitized Credits	453 Billion
Number of Issue	44
Securitized Mortgage Loans Balance	COP 3.78 trillion
Issues	COP 798 Billion

\*Figures as of November 2015

## 11.3. CORPORATE SOCIAL RESPONSIBILITY

The social function of the business is a part of our corporate DNA. All the initiatives pay attention especially to the impact that they could have on the society in general and on our groups of interest in particular. We work to maximize the favorable effects that our activities could have on the welfare of all our related parties.

Our vision as to the corporate social responsibility is understood from the notion of enterprise sustainability. The actions we perform daily aim to build a virtuous cycle of human development, cooperation and social multiplication, based not only on the static value distribution to non related social groups.

### 11.3.1. Ethical Realm

One of the primary values we involve in our actions is the corporate ethics. We reinforce this assertion with the process to accede to the United Nations Global Compact that allows to align our strategies and operations to four vital points of action:

- Human Rights
- Labor Standards
- Environment
- Fight against corruption

### 11.3.2. Economic Arena

The generation and creation of Economic Value is a priority to Titularizadora Colombiana. All over 2015, the Economic Value Generated by the company amounted to COP 275 billion equivalent to all the benefits distributed among the related parties (Chart 20).

**Chart 20: Economic Value Generated**  
**Source: TC**  
**(COP million)**

Providers 0% Shareholders 2% Workers 3% Government 2% Investors 93%



### 11.3.3. Labor Realm

In 2015, we continued contributing to the academic education of our employees, not only to increase the technical abilities related to their work realm but also to improve their citizen skills and the responsible development of each person in society. Almost 51% of our employees were trained in 2 non-formal courses, 19 congresses, and seminars held throughout 2015. Consistently, collaborators of the company are supplementing their formal academic education by pursuing graduate diplomas in different subject matters supported by Titularizadora Colombiana.

### 11.3.4. Social Realm

Titularizadora Colombiana continues its contribution to the mortgage sector modernization by providing for the standardization and mitigation of the risks associated with the mismatch of rates and terms in mortgage loan origination.

**Best Practices and Process Standardization:** Since the foundation, we have been creating added value to the mortgage sector in connection with promissory note and mortgage standardization, best practice identification in the standards for the insurance industry, and action protocol in the case of catastrophic losses, with the cooperation of insurance companies, securitized loans servicing banks, banks association (Asobancaria) and insurers association (Fasecolda). Likewise, regarding the legal actions brought by the company, jointly with the servicing banks we carried out an analysis of the implications of the Insolvency Law to securitized mortgage loans and identified good practices. In addition, together with the originating banks we held workshops about monitoring the macroeconomic variables, a determinant factor to the mortgage loan portfolio performance.

**IR Certification:** In pursue of certification of the institutional investors' responsible management of the savings of millions of Colombians, we received from the BVC (Colombian stock exchange) the IR Issuer Recognition meaning the adoption of best practices for information disclosure and investors relations.

### 11.3.5. Environmental Realm

Jointly with *Piensa Verde* (think green) we developed the institutional culture of our commitment to the protection of the environment by creating awareness and promoting campaigns of recycling and rational management of energy and water.

- Saving Power
- Saving Water
- Saving Paper
- Handling Waste Properly
- Strategic Alliances
- Employee Training

#### **11.4. BOARD OF DIRECTORS**

*Principal:* Efrain Forero Fonseca / Jose Humberto Acosta Martin / Diego Fernando Prieto Rivera / Juan Mario Laserna / Juan Camilo Angel Mejia

*Alternate:* Alvaro Carrillo Buitrago / Maria Cristina Arrastia Uribe / Oscar Eduardo Gomez Colmenares / Jorge Alberto Linares Alarcon / Santiago Perdomo Maldonado

#### **11.5. MANAGEMENT**

*President:* Alberto Gutierrez Bernal

*Secretary General:* Ricardo Molano Leon

*Finance Vice President:* Mauricio Hernando Amador Andrade

*Operative Vice President:* Adriana Martinez Antorveza

#### **11.6. CONTROL**

*Statutory Audit (Revisoria Fiscal):* PricewaterhouseCoopers

*Internal Control Director:* Hector Andres Giraldo Castellanos

#### **11.7. EDITORIAL COMMITTEE**

*President's Assistant:* Liliana Giraldo Aristizabal

*Planning Director:* Diego Alejandro Rojas Ortega