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

JANUARY 2014

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INTRODUCTION

In 2013, the economy reversed the prior product deceleration because of the joint effect of fiscal and monetary incentives implemented along the year. In the first semester, the government implemented a Productivity and employment boost plan (PIPE) with the aim to promote the construction sector in both civil works and buildings, speed up the industrial business with lower customs for supplies, and eliminate the industrial surtax on electric power and gas, among others. Besides, specific measures were issued to foster the agricultural sector competitiveness.

The central bank (Banco de la Republica) maintained a slack approach for monetary matters. In 2013, it reduced the intervention rate by 75 basis points due to the inflation that fluctuated around the target range minimum level. Measures taken for COP revaluation contention purposes—particularly the announced accumulation of international reserves—caused an additional favorable effect on the country production.

In this context, the building activity has been a leading sector in the economic growth. The implementation of subsidies to interest rates, the favorable execution of the free housing policy, and the reduction of credit costs for most of the year brought the performance of the lead indicators to historical top values. For example, the cumulative sales in the main eight cities of Colombia surpassed 111 thousand units, whereas the construction licenses closed above 208 thousand housing units.

This favorable environment helped improve the mortgage sector results as well. Disbursements are estimated in COP 13 trillion, thus enabling the mortgage loan portfolio to amount to COP 40 trillion approx., counting banks' mortgage loans on balance, securitized balance, housing leasing, and the mortgage loan portfolio of the Colombian National savings fund (FNA: Fondo Nacional del Ahorro). In actual figures, this amount exceeded any prior record of the financial history of the country. The current ratio of the mortgage loan portfolio to the GDP is 5.6%.

Despite the positive performance of the real business in Colombia, the financial markets were shaken by the announcement of the withdrawal of monetary incentives, especially in the US. It influenced the yield curve of the national economy with the increment in more than 200 basis points on its longest portion, which together with the volatility in the second and third quarters kept the capital markets frozen.

Therefore, the issuance of mortgage-based securities faced a complex environment throughout the year. Summing up, an issue for COP 428 billion was carried out in May (TIPS-Pesos N-7), which constituted the 39th operation of the company reaching a total amount greater than COP 16 trillion since the company started operations.

1. Macroeconomic Environment

1.1 Economic Growth

After an even 4.5% growth along the first nine months of 2012, this rate decreased to 3.9% for the same period of 2013. The year-to-date result was affected by the performance in the third quarter. In this period, the construction sector activity (21%) provided a primary support; the agricultural sector also contributed an annual growth of 6.6% in the third quarter, helped by the current position of the foreign exchange rate and a more favorable climate throughout the year. The power-mining sector held the third place with 6.1%, but still faces troubles related to the issuance of environmental licenses and the growth of physical insecurity of oil pipelines.

Thus, the total economic growth in 2013 year-end is expected to be 3.9% at most (Chart 1). The rebound in the expected growth during the second semester of 2013 could be insufficient for reaching the 4.5% target set by the government at the beginning of the year, because the cumulative growth in the first semester was only 3.4%. The retail commerce recovery (at 3.7% annual rates in January-August) has been dimmed by the manufacture production contraction of -2.8% annual.

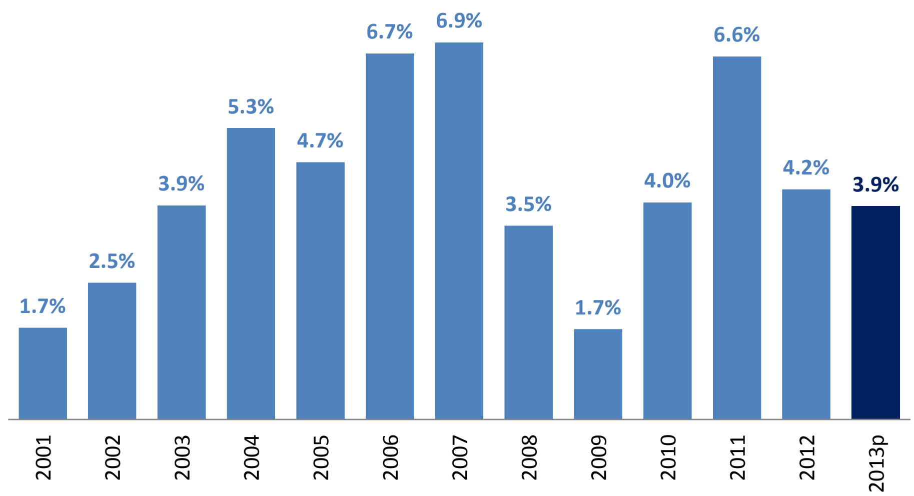
In addition, as we pointed out above, the mining-power sector deceleration combines current situation troubles (strikes, attacks from the guerillas, environmental events) and structural difficulties (resulting from the shale gas oil revolution in the US).

Most sectors of the Colombian economy still show favorable results in the same line as the financial sector (Chart 2).

On the one hand, the mortgage loan portfolio maintained a very satisfactory performance with 15.5% annual growth as of October 2013. This figure is slightly above the figure in October 2012 (15.3%). The gross mortgage loan growth comes with coverage strategies for the credit risk: The traditional coverage indicator was

152.9% in October, and the system's approach has been to increase these levels consistently since the beginning of 2010. Therefore, credit institutions have maintained a sound asset management as evidenced in a growth more than twice the actual growth of the economy.

Chart 1. Economic Growth
Source: DANE



The construction sector showed the best cumulative performance from January to September 2013, with 10.8% growth. The sub-sector of buildings boosted most of this growth contributing 13.6% in this period, proving thereby the effectiveness of the plans focused on home purchase. Civil works also showed 8.3% growth. This result was favored by Santos government's commitment to the monitoring and execution of infrastructure works as contemplated in the development plan.1

In general, eight out of the nine productive activities accelerated with respect to data reported for the first three quarters of the year. The manufacture industry was the only sector that showed a negative variation, and this trend continued throughout the last 18 months.

[1] In November 2013, Law 1682—Infrastructure Law—was enacted. Its main scope covered: i) declare infrastructure projects and works in the public interest, ii) regulate the relocation of public service networks, and iii) speed up processing of environmental licenses.

Chart 2. Economic Growth per Sector
Source: DANE

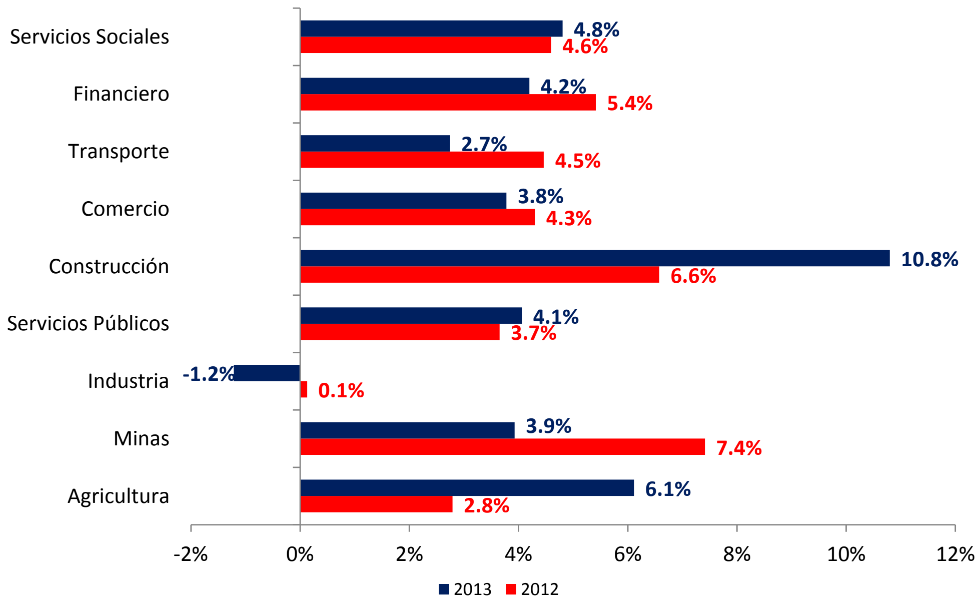
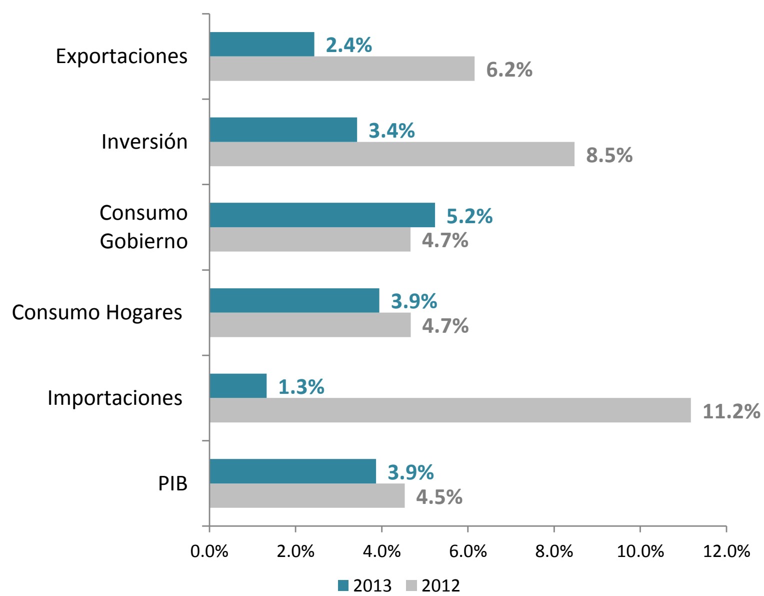


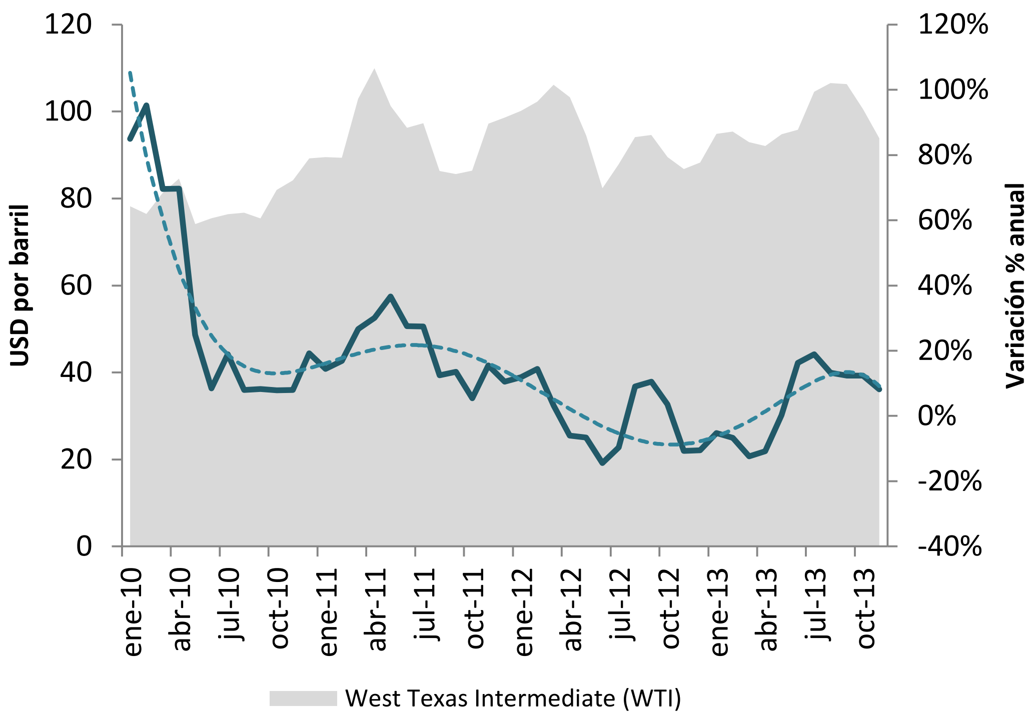
Chart 3. Economic Growth Expenditure Component
Source: DANE



At another level, the components of the aggregate demand reflect the uncertainty caused by the international economic situation. It includes the macroeconomic situation in the USA and the EU. Note the FED's message on the USD 10 billion monthly reductions for the asset purchase program in the first quarter promoting the movement of investors' resources. The effect was felt in all the emerging economies. Therefore, the growth of the investment component decreased with respect to 2012 (Chart 3). In the first nine months of 2013, the cumulative annual growth of investment was 3.4%, five percentage points less than in 2012.

Private consumption also decelerated slightly from 4.7% between January and September 2012 down to 3.9% in the same period of 2013. The average growth of consumption and *microcreditos'* receivables respectively decreased from 21.3% and 22.7% in 2012 to 14% and 19.5% in 2013. The causes of this behavior include the hardening of banks' policies of loan granting and in a lesser extent, the reverse depreciation of the COP/USD exchange rate in 2013.

Chart 4. Crude Oil Price Annual Variation
Source: UPME



Unlike household consumption, public consumption behavior improved by growing from 4.7% in 2012 to 5.2% in 2013. These figures reflect the activation of the fiscal policy as a countercyclical tool, despite the low rate of building works execution.

Exports reflected the global economy behavior. They grew by 6.2% in the first nine months of 2012 and by 4.3% in the same period of 2013. The smaller global demand of products, the more competitive international markets, and the decreasing prices of raw materials were determinant to the lower volumes of sales to other countries.

The crude oil price tended to stabilize in 2013 with respect to the relative fall in prices observed since 2010. The year-end closing price per barrel remained below USD 100 in average (Chart 4). The risk factor of this market is explained with respect to the demand by the low growth of the US economy and resulting reduction in their purchases to other countries. With respect to the supply, it is explained by differences with workers, slowness in reaching the one million barrel per day goal, and public order situation attacking the crude oil transport infrastructure.

1.2 LABOR FORCE

October's country unemployment rate (7.8%) was the lowest in the Colombian history since monthly records started. A rebound of this rate occurred in November, to record 8.5%. Notwithstanding this slight rebound, the unemployment rate has kept to single-digit figures since May 2013 (Chart 5).

For the first time in Colombian history, more than 22 million employed Colombians were recorded, although the industrial sector—with the largest share of workers—has constantly destroyed employments during the past 13 months. The trend in 2013 was marked by a slow first quarter as to working population generation with an average growth close to 1%. Since June, this trend turned upward with near 2.6% average growth between June and November (Chart 6).

Chart 5. Unemployment Rate
Source: DANE

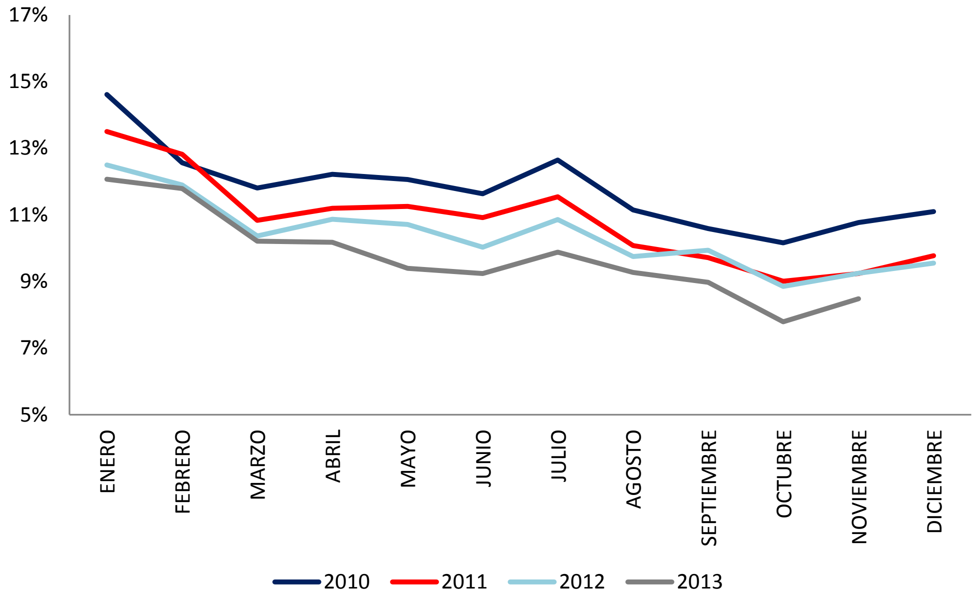
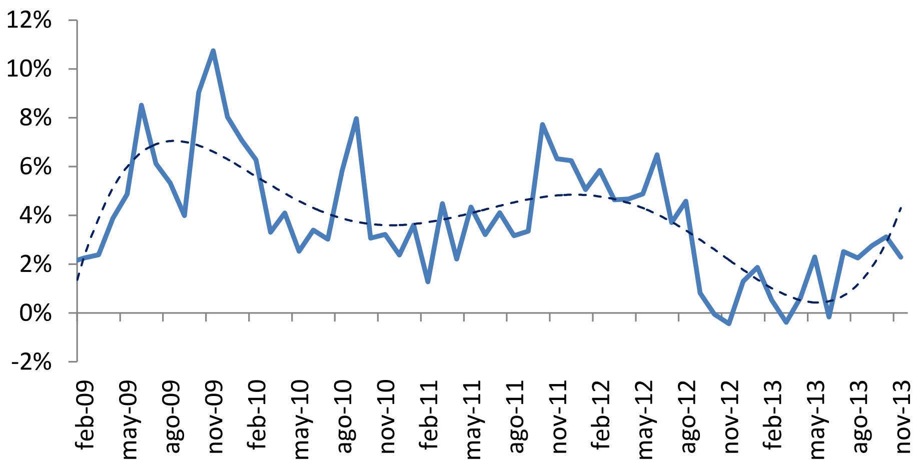
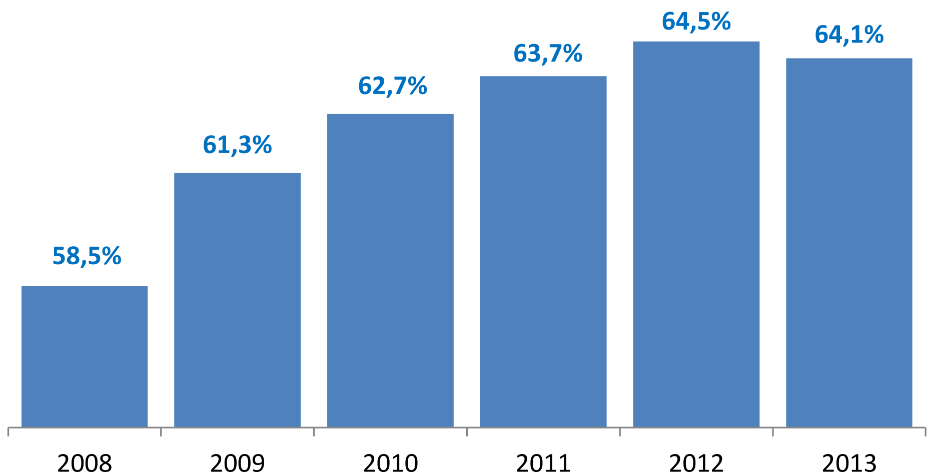


Chart 6. People in Work -Annual Variation
Source: DANE



The unemployment rate drop in Colombia the last four years was possible despite the sustained increase in job supply. The overall labor force participation rate (TGP in Spanish) has been growing since 2008 when it was 58.5% (percentage of people in work over the total working-age population), up to a stable level around 64% in 2012 and 2013 (Chart 7). This increase indicates that 4.7 million additional people joined the labor force and encountered satisfactory jobs.

Chart 7. Overall Labor Force Participation Rate
Source: DANE



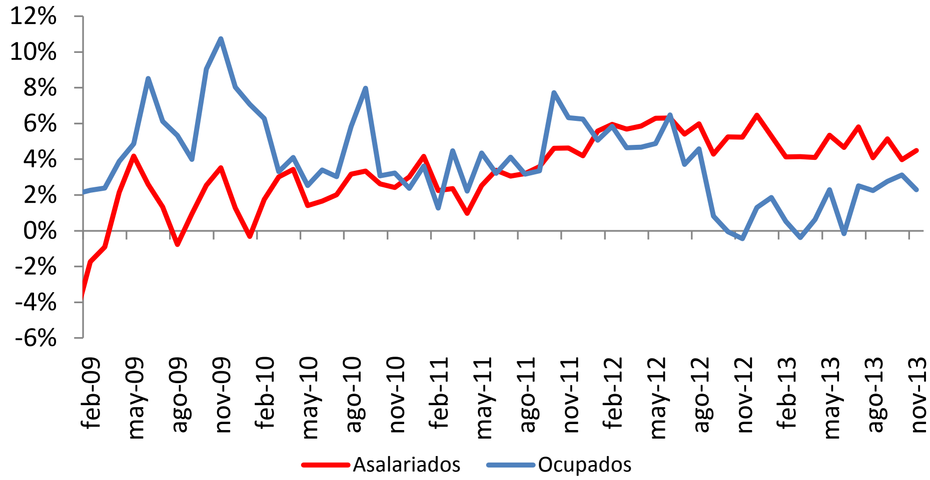
The unemployment rate drop has been heterogeneous across the country. In cities like the Atlantic coast cities, Bucaramanga, and Bogota, the average unemployment rate decreased to single-digit figures throughout the year, whereas cities of the coffee-growing region, the Pacific coast, and the department of Norte de Santander still show high unemployment rates. For example, cities such as Quibdo, Popayan, or Cucuta have not achieved any significant progress in unemployment rates, which remain 18%, 16.08%, and 16.02% respectively.

Part of the reason is that these regions were affected by the international crisis that reduced the in-flow of remittances, partly the long-lasting instability in Venezuela, and partly the non-negotiable asymmetries in sectors' growth, which have deteriorated the dynamics of employment creation in traditional sectors as agriculture and industry.

In fact, the industry sector has destroyed around 121 thousand jobs average across the country since October 2011. In the agriculture sector, the same comparison shows the destruction of around 58 thousand employments average, out of the total employments in the country.

In the last two years, a positive progress has been achieved in the labor market formalization. In 2013, around 389 thousand wage-earning jobs were created, a very favorable number because the growth rate of wage-earning jobs has been greater in average than the growth rate of total working population (Chart 8). If this trend consolidates, the behavior of the aggregate demand will show improvement, particularly in the distribution of income, among other advantages.

Chart 8. People in Work (*ocupados*) v. Wage-Earners (*asalariados*) Annual Variation
Source: DANE



This labor market scenario reflects a context of slight economic recovery and major governmental reforms (Law of the first employment and dismount of payroll taxes) which promise a structural effect on the employment in the country. The unemployment rate might be expected to remain in single-digit figures in the country, as the growth effect and reforms promoting formalization are expected to deepen.

1.3 Inflation, Monetary Policy, and Foreign Exchange Policy

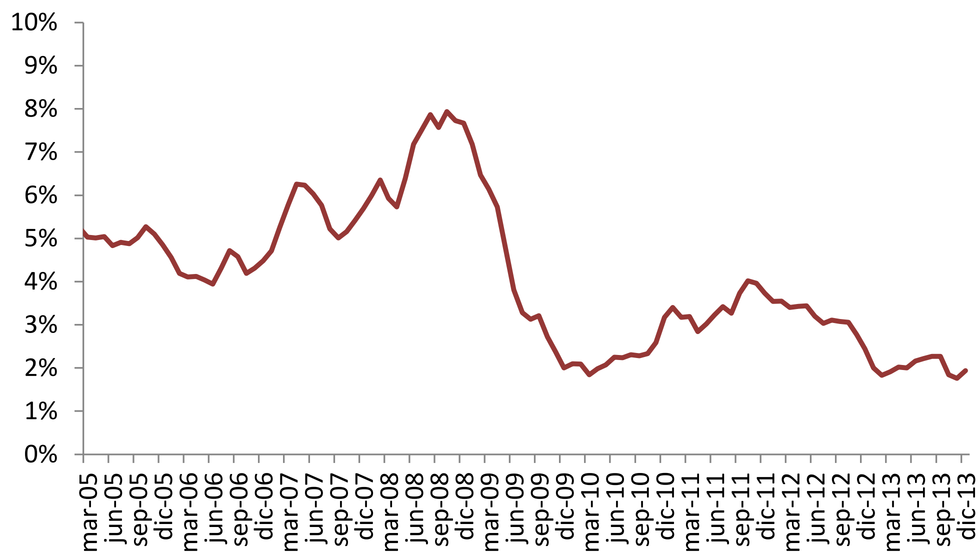
Year 2013 monetary policy orientation was the continuance of 2012-second semester, i.e. an expansionist policy. Three reductions were applied to the intervention rate during the year, specifically in the first quarter. The intervention rate was set to 4% in January, reduced by 25 basis points in February, and further reduced to 3.25% in March for the last time that year.

These acts were urged by the Board of Directors of the Banco de la Republica with the intention to provide a monetary incentive in response to signs of a slow recovery of the global economy (even though it resulted better than forecasted). The GDP increase observed in the US in the third quarter was revised upwards and November figures showed a slight recovery. The Eurozone would probably grow again and the large emerging economies in Asia and Latin America are growing in a rather heterogeneous way. In addition, this motivation was produced by the trust in the positive inflation behavior and pressures from the foreign exchange rate appreciation that are still disturbing the economic environment.

Inflation closed in 1.94% year-end 2013 (Chart 9), lower than the rate expected by the market and the target range lower point, thus making room for monetary intervention. Four groups are placed above the national average (1.94%) in 2013: Health (4.44%), Education (4.37%), Communications (2.75%), and Housing (2.74%). The other expenditure groups were below average: Entertainment (1.84%), Transportation (1.39%), Other expenses (1.02%), Clothes (0.94%), and Food (0.86%).

In general, inflation did benefit from tradable assets, which showed a less than 1% variation in the last 12 months, due to the foreign exchange appreciation effect.

Chart 9. Inflation
Source: Banco de la Republica (Central bank)



From the foreign exchange perspective, the USD/COP exchange rate was COP 1,769 per USD 1 in January, and closed in COP 1,932 per USD 1 in December, i.e. 9% depreciation. This behavior was influenced by capital movements and portfolio adjustment by large investors. Capital in-flow into the country particularly by direct foreign investment (DFI) is accounted for the first nine months of 2013 circa USD 13,251 million and portfolio in-flow was around USD 6,150 million for the third quarter.

1.4 External Sector

Colombian FOB exports year-to-date November 2013 was less than in the same period of 2012 by -3%, partly due to a reduction in the world demand of commodities, which translated in a contraction of both prices and quantities of commodities traded in international markets. In Colombia, there are additional factors as workers movements in the agricultural, mining, and hydrocarbon sectors, which ended up in stoppage. Greater difficulties arose in coal sector companies along the year.

In these circumstances, in January-November of 2013 the exports in USD decreased by -32.7% for gold, -18.3% for coal, and -22.5% for ferronickel, and slightly increased by 1.3% for oil. In quantity, coal exports decreased by -5.4% and iron and steel manufactures by -21.3%, whereas coffee and oil tons exports increased by 31% and 8.5%, respectively.

Industrial exports breakdown by CIIU classification shows a heterogeneous behavior between sectors. The goods with a larger growth are motor vehicles that increased sales by 43.5%, which translates into USD 787 million sales YTD November 2013. Another noted sector was chemical substances and products, with an export volume amounting to USD 3,129 million YTD, with an 8.1% increase. Exports with a negative behavior include diminished sales of basic metallurgy products, oil refinery, and food and beverages, which were reduced by -26.8%, -7.8%, and -1.5%, respectively.

Breakdown by destination of exports measured in USD FOB shows a significant increase in sales to countries such as China (USD 1,610 million), Germany (USD 400 million), and Brazil (USD 264 million), amongst others. The main commercial partner of Colombia in the export market is still USA with USD 17,226 million and a 32.3% share. China is Colombia's second trade partner with a 55.9% growth and

8.4% share of Colombian sales. India is in the third place with a 5.3% share and 148% growth.

A similar behavior is found for imports. 34.4% growth in 2011, 7.2% in 2012, decreased by -0.2% in January-November 2013, although consumables grew by 1.8%, raw materials grew by 0.4%, and capital assets decreased by -2.1%.

Capital asset import reduction obeys to purchases that reduced by -10.1% in transportation equipment. Capital assets for industry, capital assets for agriculture, and construction material grew by 2.5%, -0.8%, and -2.1%, respectively.

Import performance shows an increase in purchases to countries such as USA (USD 1,824 million), China (USD 415 million), Bolivia (USD 242 million), and Spain (USD 153 million), amongst others. The main country of origin of the Colombian imports remains USA with 27.6% share and an annual growth of 13.8% in January-November 2013, followed by China as the second commercial partner of Colombia with a 4.6% growth and 17.2% share in Colombian purchases.

Therefore, the trade balance is favorable YTD for fuels and extracting industries production USD 29,544 million, for other industries USD 2,042 million, and for food and beverages USD 673 million. It denotes a positive balance of USD 1,633 million for Colombia.

1.5 Fiscal Balance

Up to the third quarter of 2013, the fiscal accounts' behavior was favorable. Revenues from taxes amounted to COP 82.2 trillion, 5.1% higher than the collections in the first three quarters of 2012. Total revenues of the central government amounted to COP 93.4 trillion that include COP 9.7 trillion from capital resources. As of October 2013, the balance indicates a COP 5 trillion surplus equivalent to 0.7% of the GDP (Chart 1).

Central government's debt balance was placed in COP 249 trillion, out of which, COP 182 trillion correspond to internal debt and the remaining COP 67 trillion to external debt. The public debt to GDP ratio is 36.1%, a moderate value if compared to European countries such as Ireland (125%), and Greece (157%) with serious debt troubles or to Japan (238%) with the highest public debt in the world.

Table 1. Consolidated Public Sector Balance (2013)
Source: *Ministerio de Hacienda y Credito Publico* (Ministry of Finance)

COP Trillion	MFMP Sc	3rd Q
Total Revenues	119.9	93.4
out of which Tax	102.3	82.2
out of which Capital Resources	15.4	9.7
Total Expenditure	136.9	88.4
out of which Operation	97.8	61.6
out of which Investment	21.0	14.5
Total Balance	-17.0	5.0
Total Balance (GDP %)	-2.4	0.7

1.6 Recent Evolution of Housing Market

The building activity continues consolidating as a sector of the utmost important in the economy by contributing significantly to value-add generation in the national production.

The positive dynamics experienced by most of the indicators that lead the activity and the absorption of policies aimed at promoting the sector by providing it with the tools required to boost its development has helped greatly to the strengthening of the building activity. Several fronts have benefited, namely, the 100,000 free house plan helps reducing the amounts of housing deficit and poverty in the country, makes new house start dynamics, and generates employment in the construction sector and its value chain. The third version of the subsidy to interest rate—FRECH III—helps the middle-income consumer access a mortgage loan under more favorable conditions, thus forcefully strengthening the housing demand.

Still, there is a misalignment between new housing sales and launches, undoubtedly impacting the housing prices and market size, which throughout the most recent years showed an uninterrupted expansion. Nevertheless, the lead indicators of the construction activity show an evident recovery the last part of the year, so its positive performance has improved and negative figures reduced, as in the case of launches.

Lastly, the following factors are noteworthy, as positive/negative for 2014. A good outlook is expected regarding: i) employment generation, ii) private consumption dynamism, iii) credit channel, iv) interest rate subsidy, v) 'Housing for savers' program (VIPA), vi) non-residential building performance, and vii) intermediate regions potential. At another level, we highlight: i) mortgage loan interest rate adjustments, ii) impact of the election year on the market, and iii) review processes on plans of land use ordinance (POT).

Therefore, under the countercyclical policy promoted between April 2009 and October 2011, the housing sector indicators showed an exceptionally good performance, such as housing sales, construction licenses, and mortgage loan disbursements that reached historical top records.

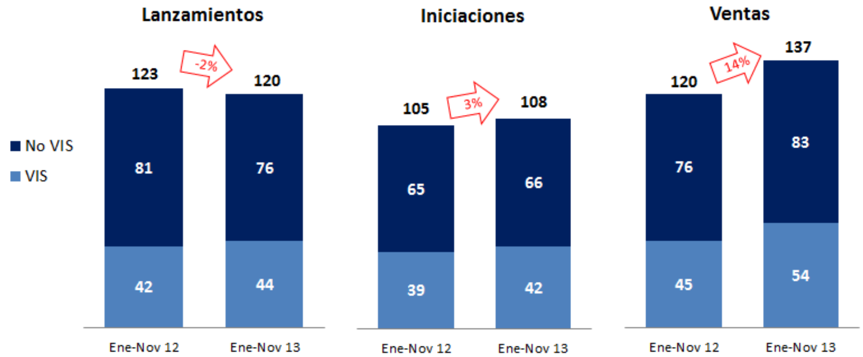
Thereby, different analysts who tracked the sector's figures jumped to conclusions on strong price misalignments already existing in those years and consistent with data from abroad that indicated that such misalignments pointed to the formation of price bubbles for residential real estate.

Nonetheless, facts and figures tell that from the third quarter of 2011, the trend shifted but not so the prices, which continued growing while the extravagance decreased in other variables associated with the construction and real estate business dynamics.

From January to November of 2013, the previous dynamics in launches and starts has been decreasing and does not match the two-digit rates of recent periods. In the case of housing sales with a growth of 17,000 units approximately, this performance is explained by the lesser-value segment that contributed 8 percentage points to the variation (Chart 10).

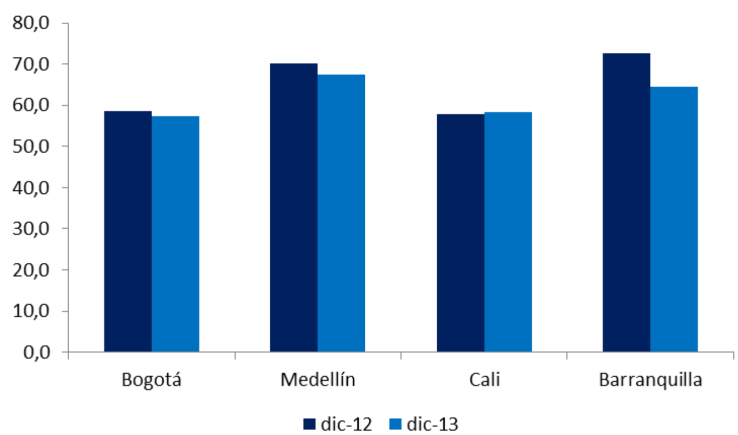
In this respect, the good performance of this market depends upon the housing policy approach, the demand promoting programs such as the 100,000 free house plan and the FRECH (in its three versions), which have proved to be effective in supporting families while obtaining the financing agreement closing. However, a fragile market has been perceived when facing a shift in the approach, as well as a stop in the flow of resources, which would reflect in an almost immediate performance contraction in that segment.

Chart 10: Housing Sector Lead Indicators (thousands of units)
Source: Camacol – 13 Region Offices



Two differently originated phenomena caused the distressing situation of the housing sector in Bogotá. The first is the frail housing demand (Chart 11) that shows signs of fatigue in face of the accelerated increase in prices, and the administrative rulings of the capital district government aiming to stop the expansion of the city towards suburbs and to create urban soil for more vulnerable social sectors in downtown areas. To that effect, the greatest regulatory change was produced by the issuance of Decree 634 of 2013 that implemented the changes to the former Land use ordinance plan (POT).

Chart 11: Do you think this is a good time for home purchase?
Source: Fedesarrollo



Camacol released an impact analysis of the regulation stating that:

(i) DC environmental authorities are vested with the power to declare the principal ecologic structure: competent DC officers may establish, delimit, and incorporate the changes at their discretion.

(ii) Lack of a precise delimitation of risk phenomena as a stringent tool for land use ordinance: all soils may be subject to new studies and therefore those already determined to be high risk may become mid- or low risk soils according to the then valid interests.

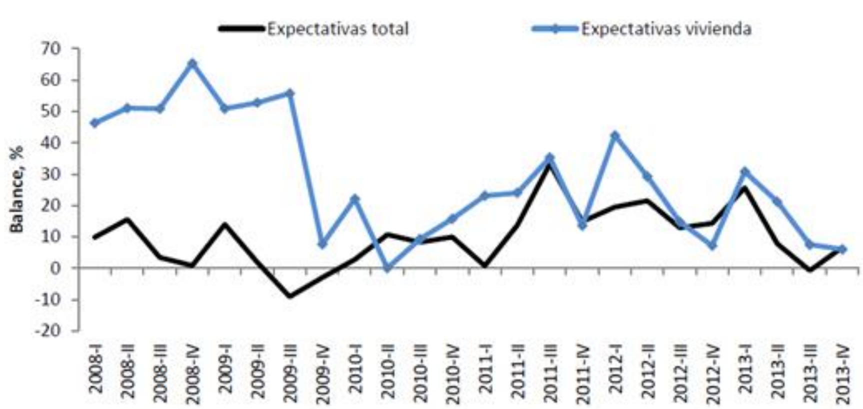
(iii) A clear discouragement to development of soils with development treatment located west, north, and south town is evident.

(iv) The extended downtown has buildings without the structural, architectural, and buildability support required for newly established soil densities and mixed purposes: it does not determine any legal vehicles for restructuring.

(v) Obligation of mixed purposes for projects with a total built area greater than 269 thousand square feet: they must provide for residential use for a minimum percentage of 35% of the total built area.

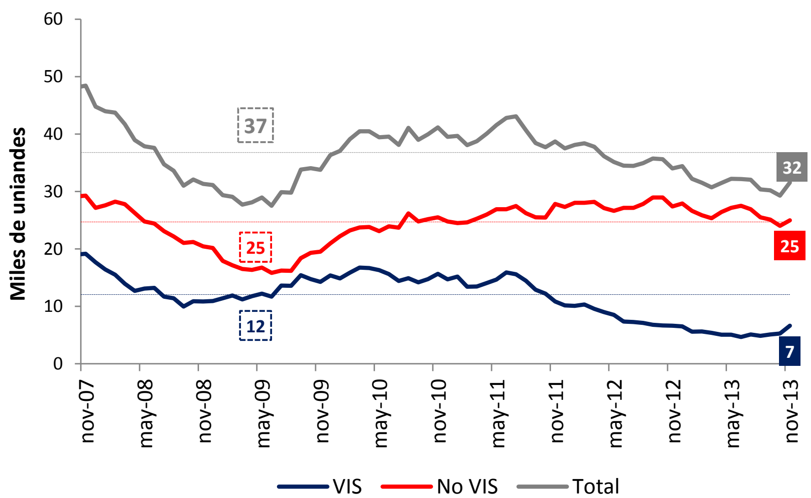
In face of this perspective, builders' trust fell sharply (Chart 12), impacting new housing launch for sales, which showed a reduction with respect to the total market average, a mismatch that occurred mainly for the VIS segment (Chart 13).

Chart 12. Builders Expectation
Source: Fedesarrollo



Launches have not contracted only for Bogota (-8.7%) but similarly for major markets such as Bucaramanga and Cali, which showed negative growth rates for this period, -10.7% and -34.8%, respectively. In Bogota, the reduction in the number of housing launches is a logical consequence in the current scenario, because the price increase imposed by those measures (particularly in soil price) is not without limits (there is a VIS price regulation) and thus, the margins for constructors tend to narrow. Although some builders have tried to substitute the Bogota market with other cities' markets, records show that this is still insufficient (Chart 14).

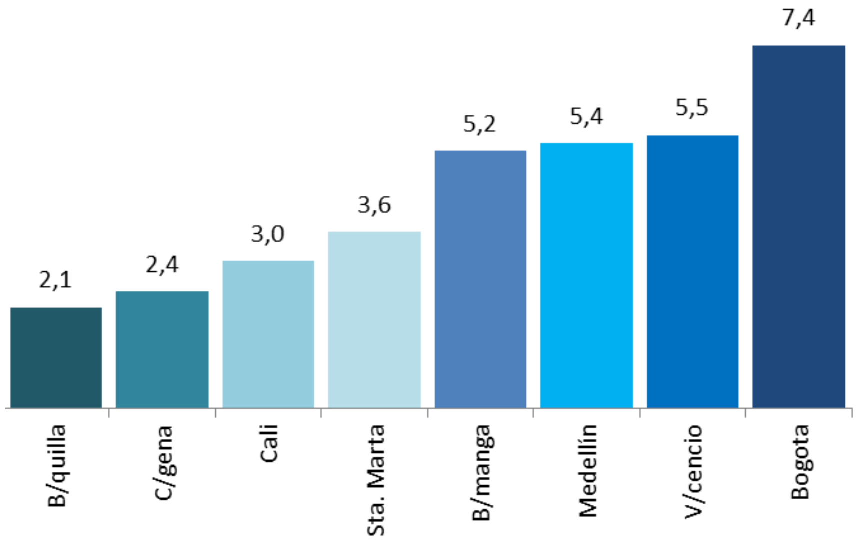
Chart 13. Housing Launches Bogota (Units, Annual Accumulated)
Source: Camacol



Nota: La línea punteada se refiere al promedio de la serie

The reduced number of launches affected the sales performance particularly in the VIS market. Insofar as the supply begins to be exhausted without replacement of the units sold, sales also decay. This has been partly the case of the entire VIS/VIP segment in Bogotá and the NO-VIS bottom-level component, showing respective 68% and 32% sales reductions.

Chart 14. House Sales per 1,000 inhabitants
Source: Galería Inmobiliaria, DANE, and TC Computations



In turn, the effect on sales in higher social strata resulting from the frail demand is smaller but not negligible. In this NO-VIS segment, COP 300-400 million, the sales were reduced by 11%. In addition, in capital neighboring municipalities, COP 400-600 million housing unit sales contracted by 43%, and greater than COP 600 house sales decreased by 7% (Chart 2).

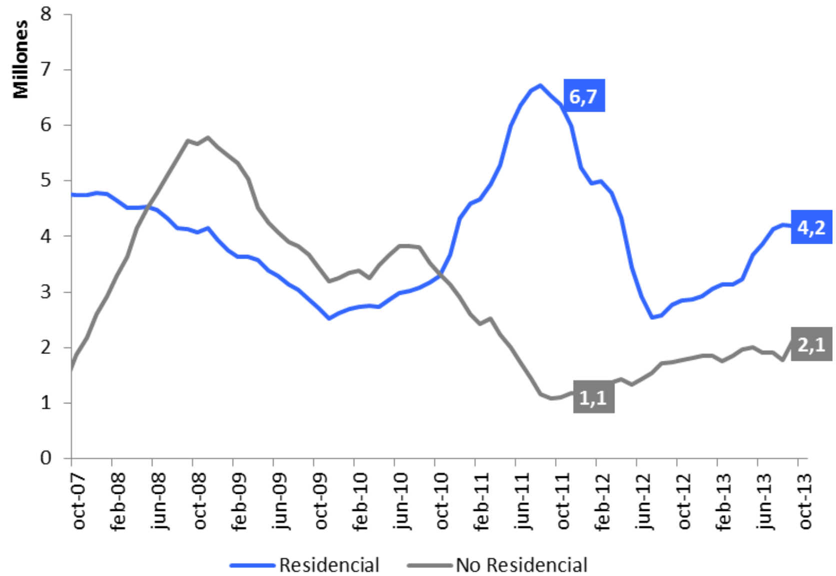
Table 2. Sales in Bogotá and neighboring municipalities (Units)
Source: Galería Inmobiliaria

	Bogotá			Otros municipios		
Rango de precios	2012	2013	Var%	2012	2013	Var%
VIP	1.006	317	-68%	4.668	6.502	39%
VIS	10.515	12.020	14%	17.514	18.994	8%
Total VIS	11.521	12.337	7%	22182	25496	15%
VIS-200	6.346	4.321	-32%	1.834	1.933	5%
200-300	4.862	5.476	13%	732	1.021	39%
300-400	3.298	2.948	-11%	218	291	33%
400-600	2.037	2.357	16%	345	198	-43%
> 600	1.181	1.705	44%	530	469	-12%
NO VIS	17.725	16.807	-5%	3.659	3.912	7%
Total	29.245	29.144	0%	25.841	29.408	14%

Again, regulatory changes had a distorting effect on the rhythm of construction licenses for the capital (the most recent had been the implementation of the Earthquake Construction standard in 2010), for both residential and non-residential segments (Chart 15). The foregoing was supported by the expectation created by the approval of the exceptional change to the Land use ordinance plan (POT) to include new load requirements, reduction in buildability at zones outside the so-called "extended downtown." These and other reasons caused a construction license behavior different from the expectations and sales performance, by growing in 22.2% compared to the figures of November 2011 and October 2012.

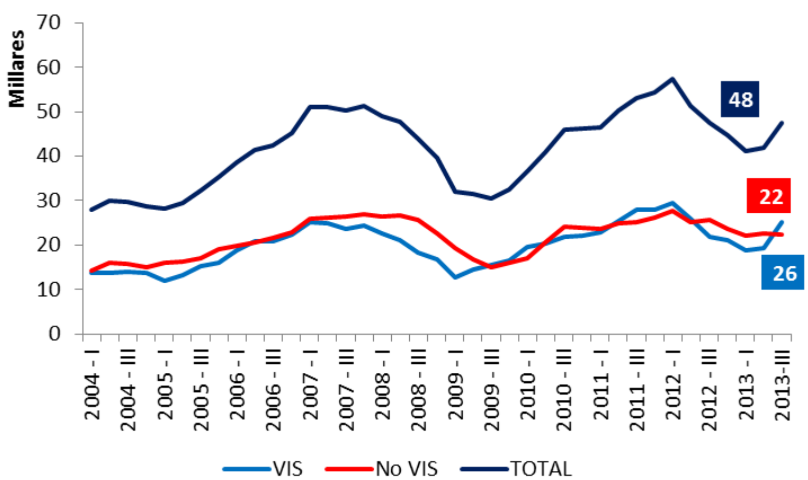
During the first six months this year, the number of housing units started shows 28.6% increase (Chart 16). The construction starts growth refers to materialization of projects that reached a balance point and entered the market in 2012. Therefore, no spillover effect arose in terms of employment and related activities dynamics. Between March and November 2013 only, the construction sector in Bogotá destroyed more than 37 thousand direct jobs average, without considering the adverse consequences on related activities such as cement shipments (year-to-date November 2013, shipment fall reached 7.6%).

Chart 15. Bogotá Construction Licenses (Annual Accumulated, million m2)
Source: DANE



In the rest of the country, the sector behavior is combined. Whereas cities connected to mining-energy activities such as Barrancabermeja, Villavicencio, and Valledupar show an interesting rebound, bigger cities like Medellin are showing a deceleration process, less sharp than in Bogotá though. Cali, in turn changed the trend of the recent past years.

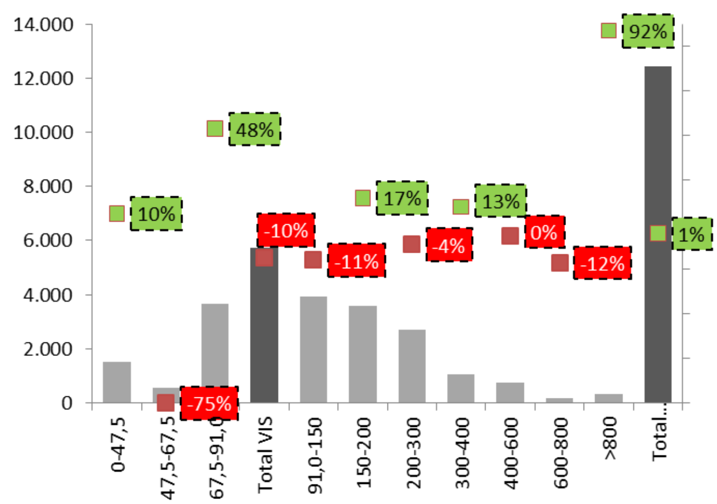
Chart 16. Housing Construction Starts Bogotá (Thousand units)
Source: DANE



Medellin—Antioquia capital—portrayed a negative correction to the volume of sales in 2013. The VIS segment showed a slower sales rhythm. VIP sales were 1,523 units, 10% less than sales reported in 2012. Sales in the COP 47.5 to COP 67.5 million range had a greater adjustment, 548 units were sold, 75% less than the previous year. The 48% growth in the higher VIS range did not offset or surpass 2012 behavior. The total VIS segment of Medellin reduced sales volume by 10%.

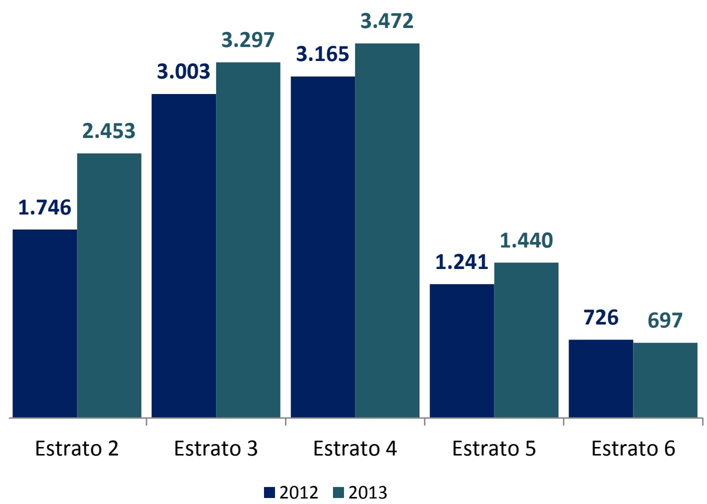
In particular, sales in Medellin began to correct the supply excess in non-VIS segment that had been growing since 2010. In that period, the number of units sold exceeded the structural demand for housing (11 thousand NO VIS housing units sold v. 9 thousand NO-VIS households formed per year), which translated into an accumulation of buildings in the investors' hands. In face of the growth in times to sell/lease these real properties, the demand in this niche has been decelerating, especially in the 5 and 6 strata. Accordingly, the Space building collapse in October distorted the confidence and the demand driving (Chart 17).

Chart 17. Medellin Housing Sales (Units)
Source: Galería Inmobiliaria



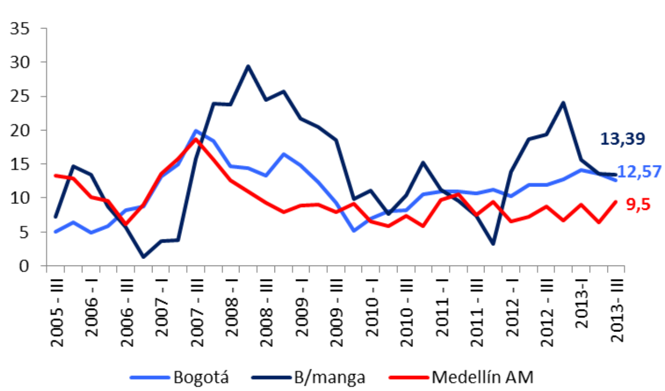
In turn, building activity in Cali has shown a recovery. Sales in Cali have been growing by 15% in the year. In this case, the basic elements behind this phenomenon seem to obey to the institutional strengthening, a stable consumers' trust, and a very active behavior of middle and low segments despite the deceleration in the new supply formation (Chart 18). The easy service at the *ventanilla unica* (one-stop window), the Principal Mayor's office continuity after the governability crisis of previous years, facilitated the real estate activities.

Chart 18. Cali Housing Sales (Units) per stratum
Source: Galería Inmobiliaria



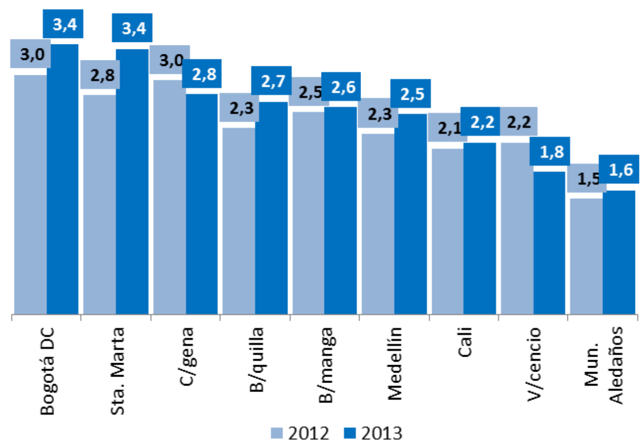
The current landscape of the economy continues favoring price acceleration. Bogota, Medellin, and Bucaramanga still show a two-digit growth (Chart 19) reflecting that the supply restrictions surrendered to the demand upward pressures. Therefore, the probability that a mortgage bubble explodes in Colombia becomes less and less significant because the regulations aimed at freezing the city expansion represent a strong restriction to housing construction.

Chart 19. Housing Price Annual Variation
Source: DANE



Notwithstanding, the low risk of a price reversion does not imply moderation in prices. For example, the average price per square meter for housing supply in Santa Marta grew by 21% between 2012 and 2013 (Chart 20) explained by the share reduction of VIS housing supply from 15% to 10.6%.

Chart 20. Average Price per Square Meter
Source: Galería Inmobiliaria and TC Computations



1.7 Mortgage Sector Recent Evolution

The mortgage sector continues evidencing signs of solid growth. The monetary policy and the incentives agreed upon by the government and the banking sector, have allowed mortgage loan disbursements to grow 37% average during 2013. The following factors stimulate growth, the implementation of the third version of the housing subsidy program and the request of an adjustment to the mortgage loan interest rate made by the office of the President of the Republic and the Ministry of Finance by way of the PIPE.

In the last week of October, interest rates of the No-VIS mortgage loans reached about 10.8% and remained even with respect to the previous month's closing, as opposed to the interest rates of VIS mortgage loans that showed an increase by 27 basis points compared to September 2013 cut-off with 11.9% interest rate. (Chart 21). In October 2013 in turn, the total amounts disbursed for housing loans amounted to COP 1.52 trillion, exceeding those of the previous month (COP 1.12 trillion). This enabled sector disbursements for COP 12.9 trillion representing 24% growth with respect to the COP 10.4 trillion of the 12 previous months (Chart 22).

Chart 21. Interest Rate (%) Mortgage Loan in Pesos
Source: Superfinanciera

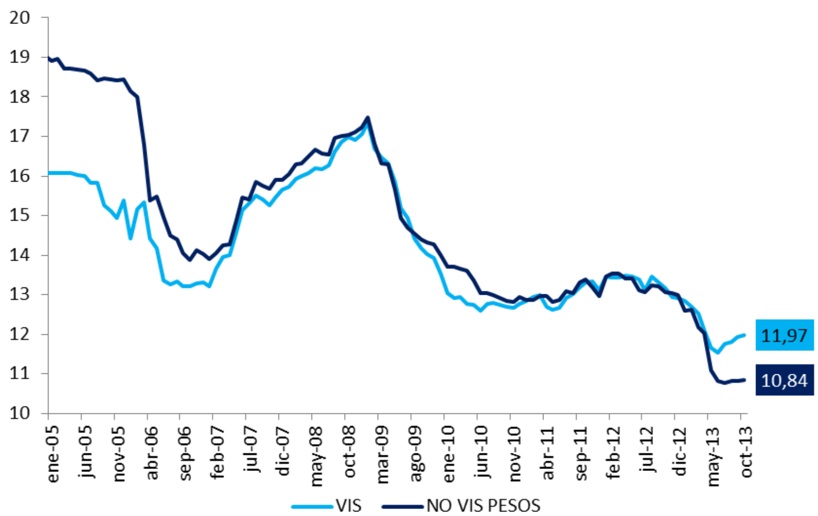
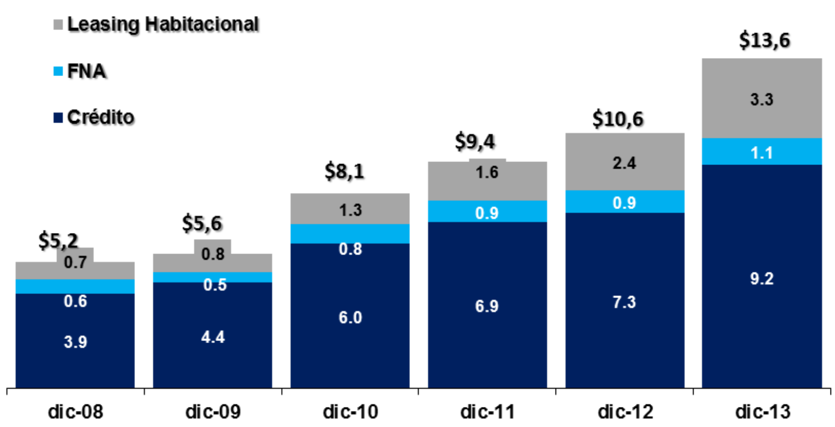


Chart 22. Mortgage Loan Disbursements (COP trillion, 12-month accumulated)
Source: Superfinanciera



This favorable behavior resulted from three elements. First, a lag of one year approximately between the lead variables in the housing sector and in the mortgage activity. Second, the positive dynamics of some of the essential components of a mortgage loan such as housing prices and LTV. Third, the dynamics of used housing, which increased its share of the total disbursements.

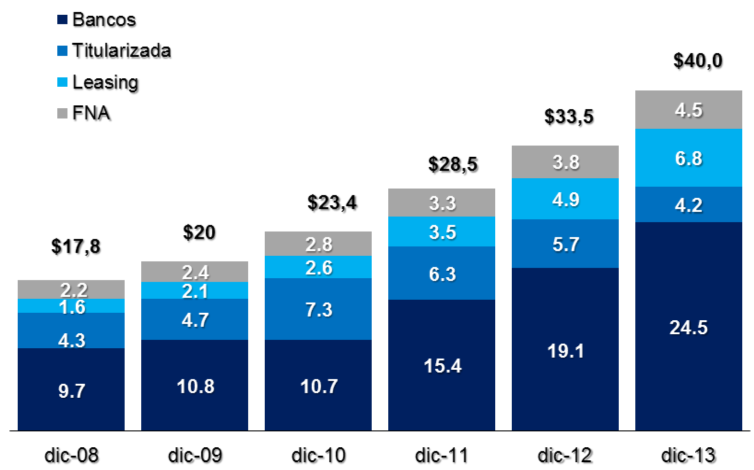
A notorious change in the mortgage loan origination dynamics in 2013 was a greater disbursement of UVR mortgage loans. Whereas in October 2012, close to COP 114 billion were disbursed, in 2013 the figure increased by 45% consistently with circa COP 166 billion disbursements. Despite this performance, the volume of mortgage loans in UVRs remains relatively low. This phenomenon is related to the growth of VIS mortgage loan demand, which requires loans with lower monthly installments during the first months of the loan life in order to be able to close the financing agreement.

In the first quarter of 2013, the number of financed housing units hit a historical maximum. A total of 44 thousand mortgages were originated in this quarter, out of which 59% corresponded to new home purchases and 50% to social interest housing (40% NO VIS). Even though this figure improved in the last years, it still shows failures in access for the most vulnerable households in the country. Nonetheless, in the last two quarters there was a decrease in the figures for this indicator, thereby reflecting partly the fatigue in the demand.

Year-to-date home purchase receivables showed a growth rate uptrend. In December, the variation was 19% annual after reaching a balance of COP 40 trillion, 6 trillion above the figure for same month previous year (Chart 23).

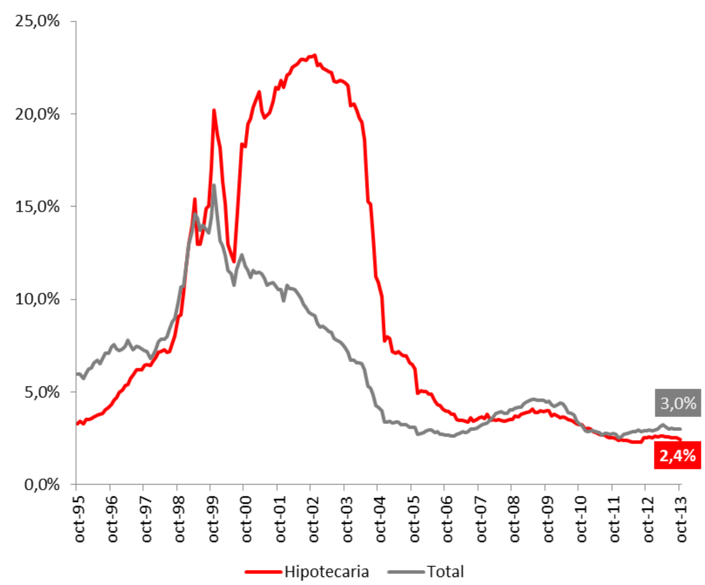
The total delinquent balance of the mortgage loans was COP 496.97 billion whereas provisions amounted to COP 461.19 billion. Therefore, the coverage indicator was 92.80%, i.e. less than 100% because of the high-quality guarantees that back this portfolio.

Chart 23. Mortgage Loan Balance (COP trillion)
Source: DANE



Notwithstanding, the mortgage debt growth in Colombia is not reflected in an increase in the households' financial load. These obligations hold only 2% of families' income (14% consumption loans) and represent only 7% of their total wealth, thus favoring the behavior of the mortgage loan delinquency indicator (Chart 24).

Chart 24. Mortgage Loan Portfolio Quality
Source: Superfinanciera



2. CAPITAL MARKETS

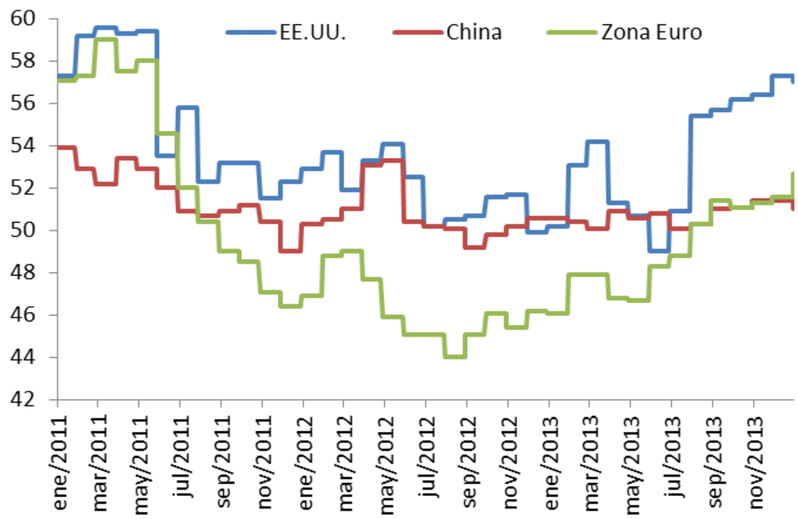
2.1 INTERNATIONAL MARKETS

Year 2013 was a significantly better year for international capital markets, although rather characterized by a strong volatility of all assets starting in May and throughout the second half. Some uncertainties noted in 2012—such as the Eurozone breakup and fiscal and financial crises in several of their country members, as well as the US slow economic recovery—actually evolved optimistically along 2013, contributing thereby to the increase in value of financial assets in developed markets and generating a favorable expectation for the starting year.

The most important event of the year was the announcement of a gradual withdrawal of the Federal Reserve monetary incentive, as well as the speculation about its timing and magnitude. May was the turning point because of the announcements of the US monetary authorities that impacted fixed income and variable income assets around the world. The markets' reaction to the announcement reflected in the constant rise of the interest rate of sovereign debt bonds and of stock market indices in developed countries. It also reflected in the deterioration of financial assets in emerging countries, mainly by their currency devaluation, stock market index fall, CDS increase, and sovereign debt deterioration, produced by a lesser demand of those assets and by the net outflows to emerging-markets dedicated funds.

The real economy showed positive signs of recovery in developed countries, which passed to contribute more than 50% growth around the world. In the US, there was a major recovery in the job market (with 6.7% year-end unemployment rate) and in the manufacture and services indicators that evidenced an expansion. The behavior of these indicators was similar in the Eurozone and China, but at a lower level (Chart 25). In terms of economic growth, a major concern was the deceleration in some Latin American countries, but central banks reacted in time by reducing their intervention rates.

Chart 25. Manufacture Indices
Source: Bloomberg



Capital markets were also affected by political events. Disagreements between democrats and republicans in the US, stoppage of Government activities, and the discussion around the budget, and debt ceiling increase, influenced the US capital markets. A particular expectation arose in China around the reforms announced by the Government in November. Finally, Middle Eastern instability, mainly in Syria, Iran, Israel, and Egypt continued affecting commodities in a greater extent.

The monetary policy remained widely expansive in most countries (Chart 26). The rate reductions of the European Central Bank in May and November were complemented by the uninterrupted asset purchase of the Federal Reserve and the Bank of England, and the start of a strong incentive policy by way of purchases in the secondary market of the Bank of Japan since May. The effect was a strong increase in value of the stock market indices (Chart 27), which reached historical tops at the end of the year and allowed for yields not seen in several years. At another level, the Federal Reserve announcement of starting a reduction in their purchase of assets that materialized in December resulted in quite a volatility of all assets and a gradual increase in the interest rates of sovereign debt bonds (Chart 28). Finally, less uncertainty about the Eurozone fiscal and financial crises helped reducing the risk premium and the differential between sovereign bond rates of central and peripheral countries.

Chart 26. Monetary Policy
Source: Bloomberg

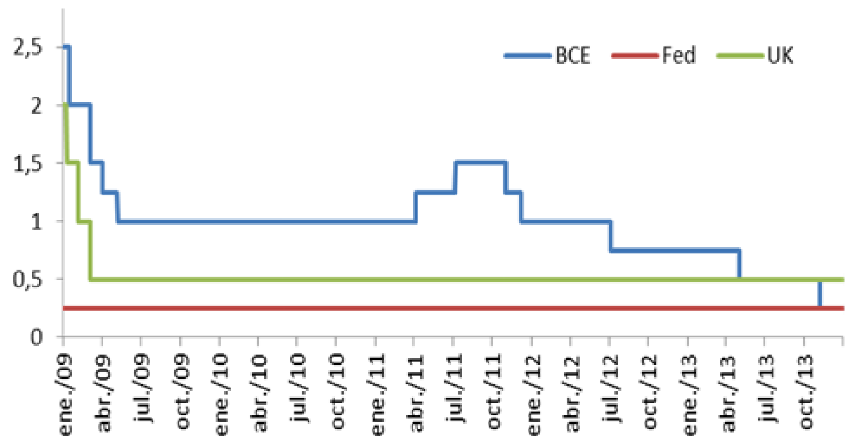


Chart 27. Stock Indices
Source: Bloomberg

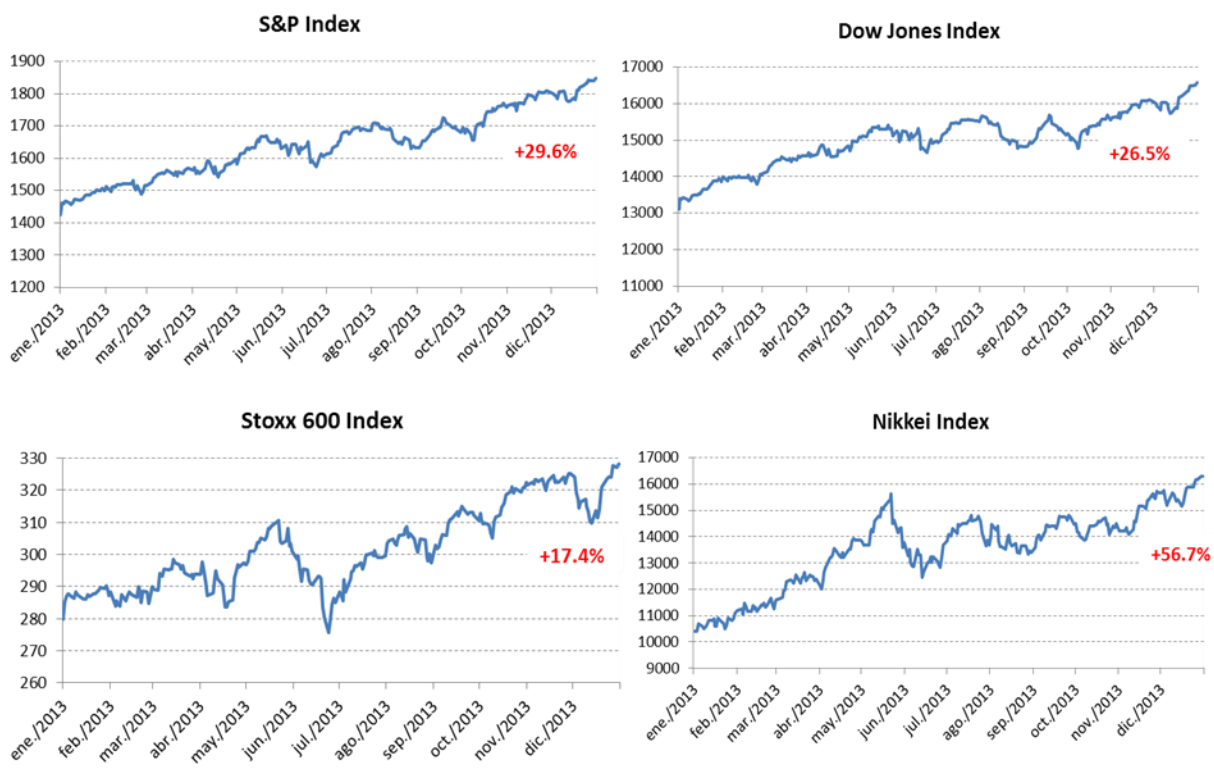
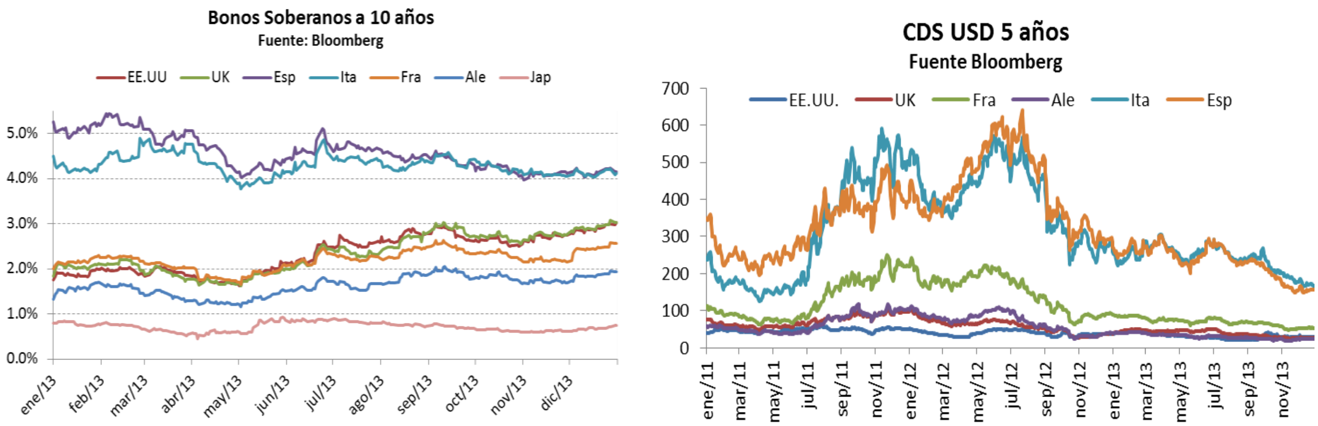
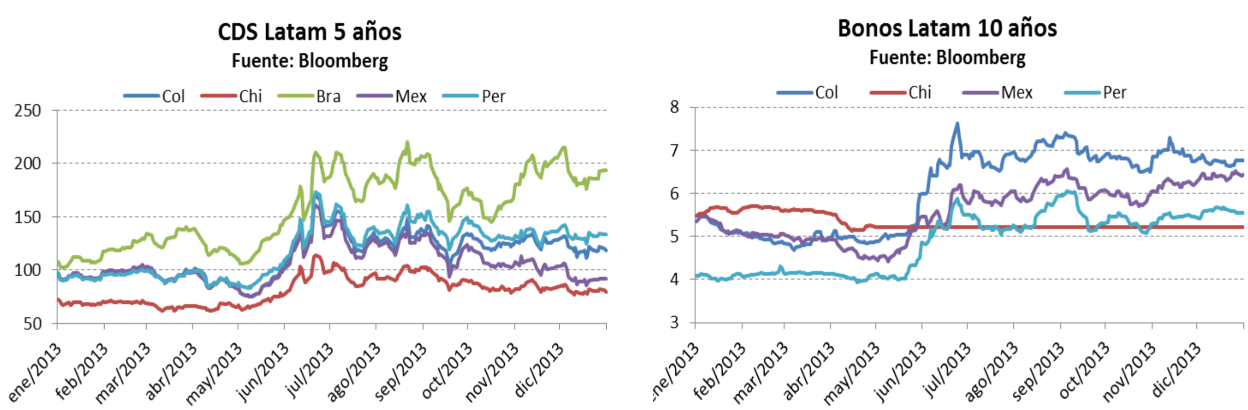


Chart 28. Sovereign Debt - Developed Countries
Source: Bloomberg



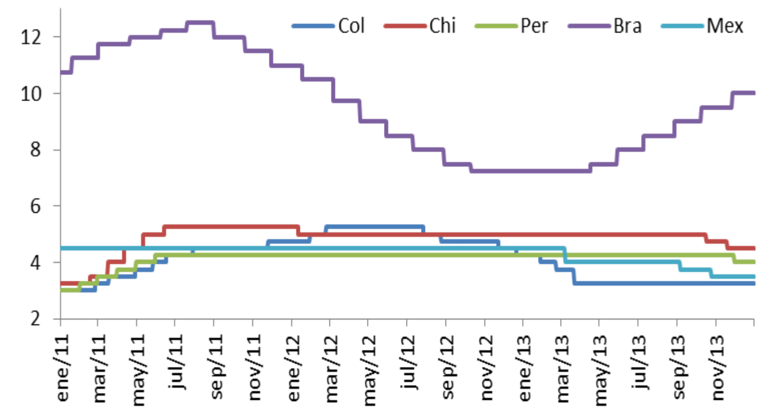
In Latin America, the reduction in the demand of emerging countries assets was felt. That is to say, that since the Federal Reserve announcement in May, risk premium increase (Chart 29), currency devaluation, and sovereign debt rate increase were observed.

Chart 29. Sovereign Debt - Latin America
Source: Bloomberg



Central banks of Colombia, Peru, Chile, and Mexico tried to compensate the economy deceleration by reducing their intervention rates in face of quite favorable inflationary conditions that gave them room to act. Brazil was the exception because the inflationary pressures forced the central bank to establish a contractive monetary policy by increasing their intervention rate in six occasions despite the weakness of the economic recovery (Chart 30).

Chart 30. Monetary Policy - Latin America
Source: Bloomberg

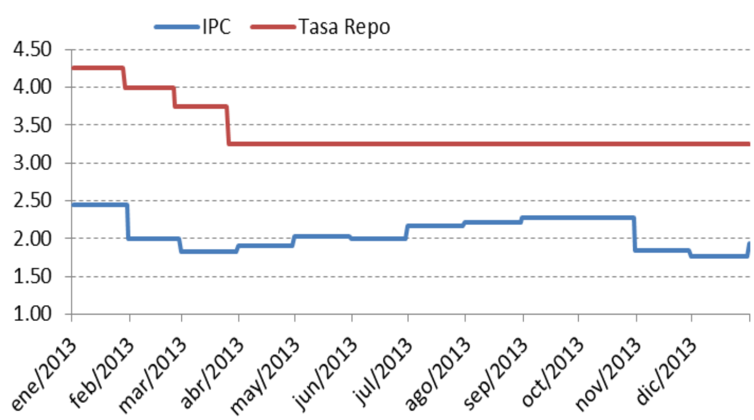


2.2 National Markets

2.2.1 Fixed Income

Inflation gave a surprise closing the year below the expected target (2%-4%) in 1.94% (Chart 31) explained mainly by the low inflation in food (0.86%) and regulated (1.05%), 50 basis points below the inflation recorded the year before (2.44%) and giving rise to discussions on the convenience of such a low indicator. The good behavior of inflation allowed Banco de la Republica to reduce its intervention rate in January, February, and March by helping boost the economic growth.

Chart 31. Inflation and Repo Rate
Source: BanRep



Local markets were affected by the international volatility. The record levels reached in the first months of the year (minimum TES Jul 2024 4.85% by April end) were followed by strong volatility from May. It caused a rise of near 230 basis points in securities, reaching top levels in August and stabilizing in the last quarter, although 200 basis points above the levels reported at the beginning of the year (Chart 32). Low inflation and abundant liquidity in the local market, added to the general market volatility helped the yield curve to show a sharp rise taking the differential between short and long-term rates up to a 336 basis points peak and closing the year in 300 basis points.

With respect to issues, the total amount of underwritten TES was COP 30.4 trillion, out of which COP 20 trillion corresponded to auctions and COP 10.4 trillion were placed with public entities through agreed upon and forced transactions. For private debt issues, the total amount issued was COP 9.26 trillion during the year (Chart 33).

Chart 32. TES Yields Curve
Source: Infovalmer

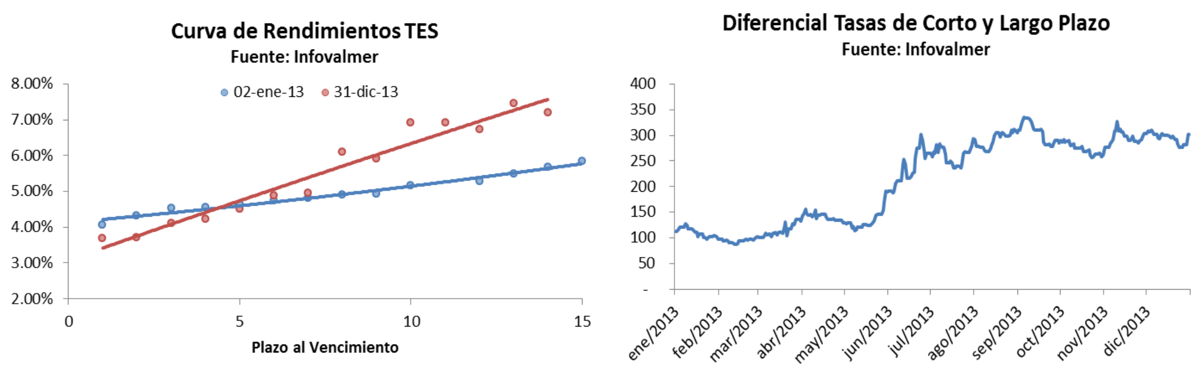
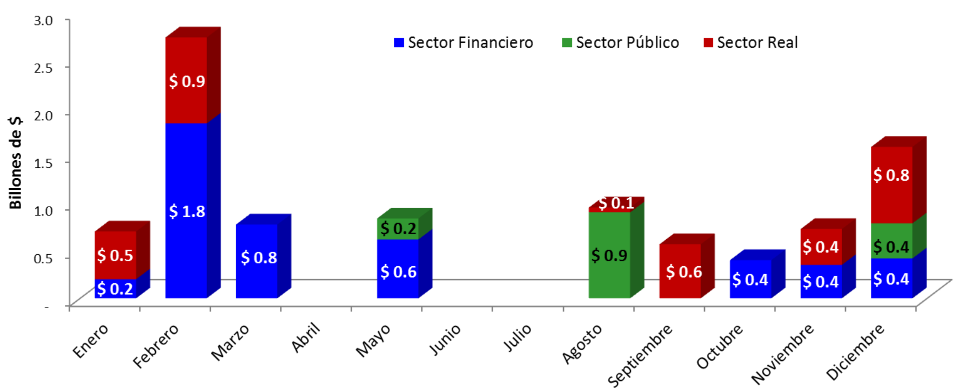


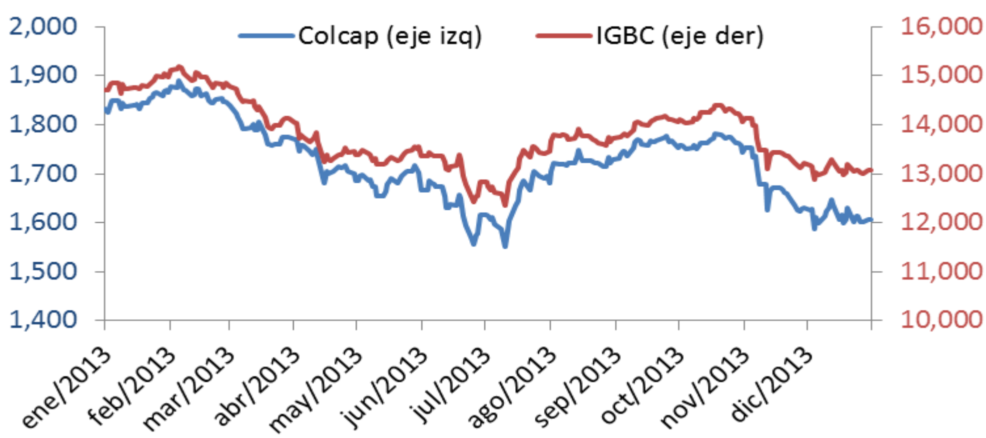
Chart 33. Amount underwritten per month and per Issuer
Source: BVC



2.2.2 VARIABLE INCOME

The local stock indices underwent strong deterioration in 2013, in line with the behavior of most emergent markets and not reflecting the results of the listed companies. The deterioration of Colcap (the most relevant index) reached 12.35% in the year, whereas the IGBC fell by 11.18% (Chart 34).

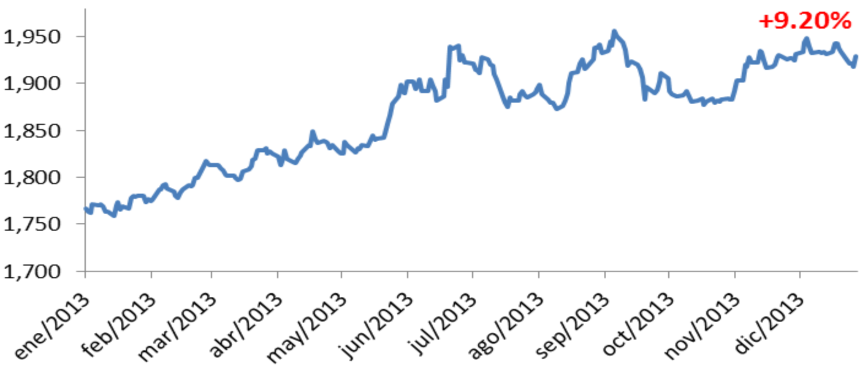
Chart 34. Stock Indices - Colombia
Source: Bloomberg



2.2.3 FOREIGN EXCHANGE RATE

Like the other Latin American currencies, the Colombian Peso bore a devaluation trend throughout 2013. It was driven by the intervention of Banco de la Republica by purchasing dollars in the market. It was also promoted by the speculation around the announcement of the withdrawal of the Federal Reserve monetary incentives that brought the exchange rate to close the year in COP 1,929.51 thus reporting 9.20% devaluation (Chart 35).

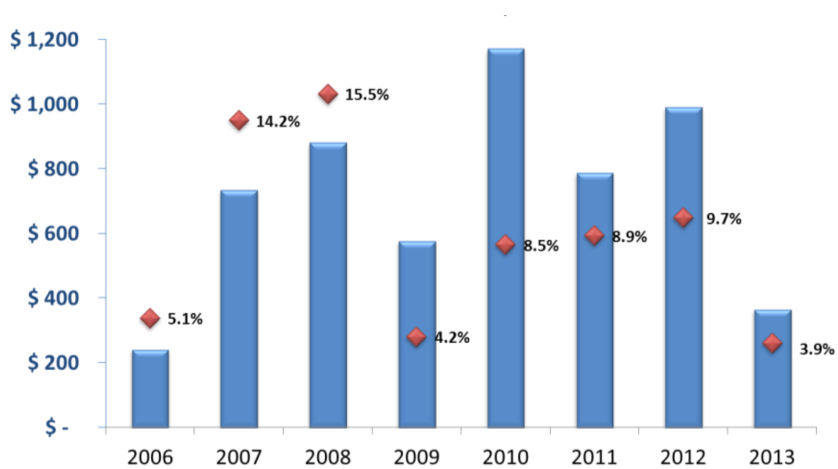
Chart 35. Peso/Dollar exchange rate
Source: Bloomberg



2.2.4 Mortgage Backed Securities (TIPS)

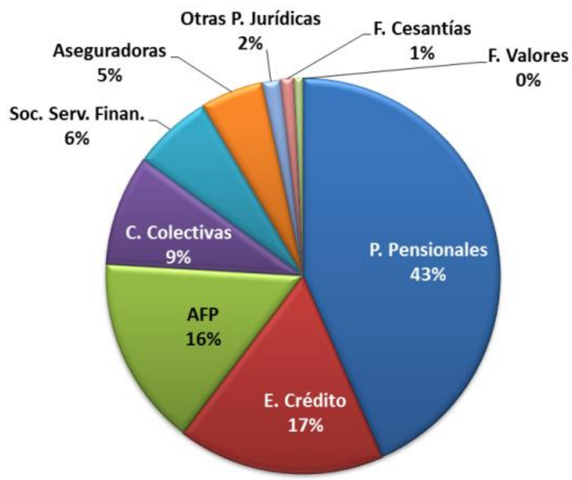
Fixed income issues (COP 9.26 trillion) reached 9% below those of 2012 (COP 10.17 trillion). TIPS Pesos N-7 issue for COP 428,025 million implied a COP 362,803 million equivalent to 3.9% of the fixed income issues of the year (Chart 36).

Chart 36. Amount underwritten by TC and share
Source: BVC and TC computation



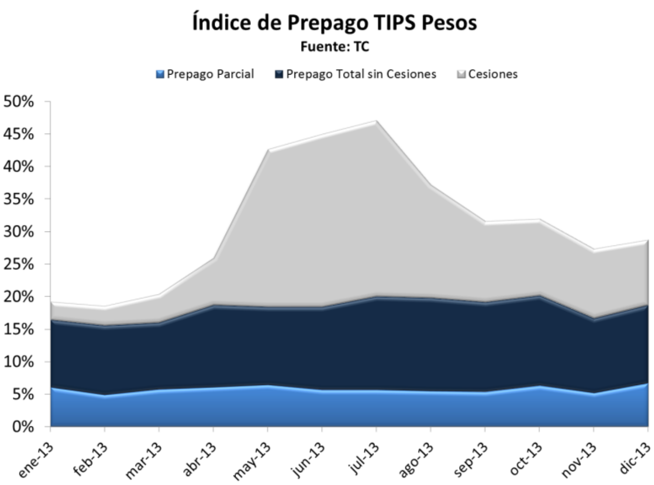
With the TIPS Pesos N-7 issue, 39 issues were completed for total mortgage loans of COP 16.6 trillion and a balance of mortgage backed securities of COP 4.1 trillion as of December 31, 2013. Regarding issue demands and awards, the greater share was held by public pension liabilities, credit establishments, and pension funds (Chart 37).

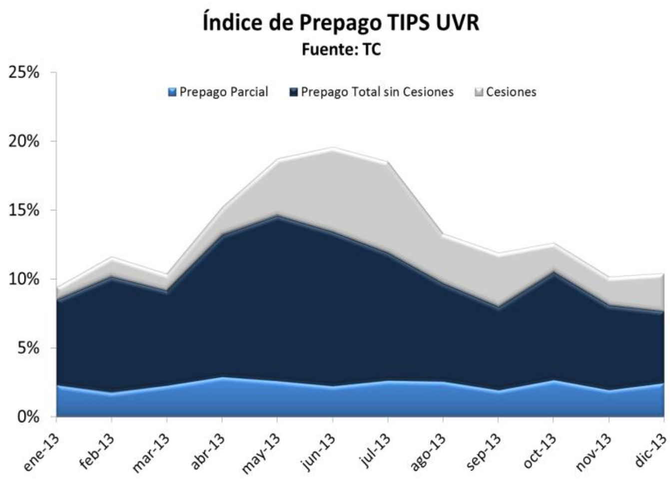
Chart 37. TIPS Pesos N-7 awards
Source: TC



In respect of the lead variables of mortgage-backed securities performance, the prepayment index showed an important rebound since April, resulting from the mortgage loan interest rates reduction by the banks as a part of the Plan of productivity and employment boost (PIPE) promoted by the Government to further push the economy. Prepayment indicator of the issues in pesos was placed on 31.1% average throughout the year and was particularly high in May to July. UVR issues did not show a high prepayment index, 13.5% average in the year (Chart 38).

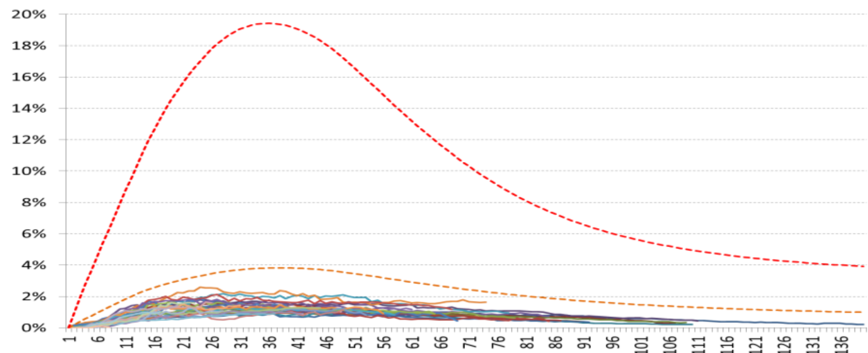
Chart 38. Prepayment Indices
Source: TC





As to the credit risk, the issues' mortgage loan pool analysis evidences that the current levels are quite far from the stress scenarios levels of same pools. For this reason, all (UVR and Pesos) TIPS issues have retained the highest credit rating for their senior (Class A) securities (Chart 39).

Chart 39. Greater than 120-day delinquency indicator
Source: TC



Note: this chart shows the >120-day delinquency indicator on the issue balance. Dotted lines correspond to the 97.5% percentile of the TIPS UVR-A-E-9 issue and to the maximum stress of TIPS A in same issue.

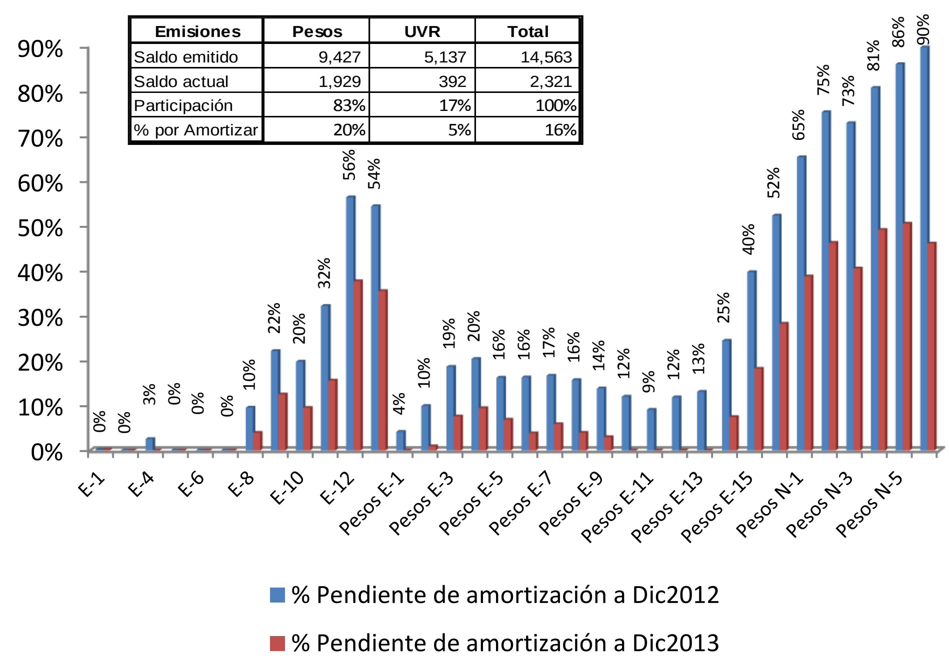
3. Assets Behavior

3.1 TIPS Issues Performance

Ending 2013, the company reached a COP 14.5 trillion total in issues of Class A Mortgage-Backed Securities, 65% of which was denominated in pesos and 35% in UVR currency. As of December 31, the balance of these Class A TIPS amounts to COP 2.32 trillion with total amortizations of 84% on the principal issued (Chart 40).

According to the expected scenario, an early liquidation event occurred and was formalized for the TIPS UVR E-4 and TIPS UVR E-7 issues, as provided in the respective prospectus and rules of issue. The criteria determined for each issue in February and May were met, the liquidation of those issues was carried out, and their cancellation with the Colombian Registry of Securities and Intermediaries was duly started.

Chart 40. Class A TIPS Balance and Outstanding Percentage (Figures in Billion Colombian pesos) Source: TC



Emisiones	Pesos	UVR	Total
Saldo emitido	9,427	5,137	14,563
Saldo actual	1,929	392	2,321
Participación	83%	17%	100%
% por Amortizar	20%	5%	16%

3.1.1 SECURITIZED PORTFOLIO

TIPS issues' mortgage loan balance as of the December 2013 closing was COP 4.13 trillion, a figure that decreased by COP 1.5 trillion as against the preceding year. It is explained by normal amortization of the mortgage loans, and particularly this year by the high prepayment levels caused by the downward trend of the interest rates in mortgage loans.

This mortgage loan balance is represented by 116,352 individual mortgage loans with a significant share of 87.2% in NO-VIS mortgage loans (Table 2).

Table 2. Portfolio Composition by Asset Type
Source: TC
Principal Balance as of December 31, 2013 (COP Million)

Emisión	Créditos Vis	Participación	Créditos NoVis	Participación	Total
E-1	1,282	36.9%	2,191	63.1%	3,473
E-5	11,543	70.4%	4,842	29.6%	16,385
E-8	33,997	28.8%	83,886	71.2%	117,883
E-9	43,129	46.9%	48,851	53.1%	91,980
E-10	17,938	32.2%	37,778	67.8%	55,716
E-11	32,537	48.8%	34,079	51.2%	66,616
E-12	144,830	72.3%	55,466	27.7%	200,296
E-13	91,497	48.3%	98,073	51.7%	189,570
PESOS E-1	-	0.0%	21,125	100.0%	21,125
PESOS E-2	-	0.0%	40,718	100.0%	40,718
PESOS E-3	2	0.0%	51,861	100.0%	51,863
PESOS E-4	-	0.0%	67,892	100.0%	67,892
PESOS E-5	5	0.0%	52,666	100.0%	52,672
PESOS E-6	-	0.0%	30,842	100.0%	30,842
PESOS E-7	-	0.0%	61,331	100.0%	61,331
PESOS E-8	25	0.0%	60,055	100.0%	60,080
PESOS E-9	-	0.0%	57,722	100.0%	57,722
PESOS E-10	37	0.0%	71,232	99.9%	71,270
PESOS E-11	26	0.0%	57,760	100.0%	57,786
PESOS E-12	551	0.0%	54,046	99.0%	54,597
PESOS E-13	345	0.0%	34,451	99.0%	34,796
PESOS E-14	-	0.0%	115,821	100.0%	115,821
PESOS E-15	-	0.0%	207,272	100.0%	207,272
PESOS E-16	153,368	0.0%	844,517	84.6%	997,884
PESOS N-2	-	0.0%	166,951	100.0%	166,951
PESOS N-1	-	0.0%	115,557	100.0%	115,557
PESOS N-3	-	0.0%	185,221	100.0%	185,221
PESOS N-4	43	0.0%	215,346	100.0%	215,389
PESOS N-5	47	0.0%	222,752	100.0%	222,799
PESOS N-6	-	0.0%	197,714	100.0%	197,714
PESOS N-7	-	0.0%	308,660	100.0%	308,660
Total	531,202	12.8%	3,606,680	87.2%	4,137,882

Collection of the mortgage loans securitized evidenced a good performance in 2013, thus allowing to honor the scheduled principal and interest payments of each issue as set out in the respective issue prospectuses.

The securitized portfolio includes FRECH mortgage loans, where FRECH (Fund of reserve and stabilization of mortgage loans) is a subsidy offered by the national government to cover a percentage of the remuneratory interest rate agreed for the mortgage loans, in abidance by the law. For 2013, 11 issues contain FRECH mortgage loans, i.e. 15% of the total balance of securitized mortgage loans. As of this date, these mortgage loans show a good performance in those issues.

In the risk profile identification for securitized mortgage loans, the loan to value ratio LTV allows to specify the potential borrower margin in case of an eventual deterioration of the real estate price or a default situation. The margin remains at very favorable levels, as observed in the LTV table. Year-end, 89% of the portfolio has less than 50% LTV, 10.8% a 50%-70% LTV, and only 0.2% a 70%-80% LTV (Table 3).

Table 3. Portfolio Balance by LTV
Source: TC

Principal Balance as of December 31, 2013 (COP Million)

LTV Range	Balance	%
>70%	6,592	0.2%
50%-70%	445,145	10.8%
0%-50%	3,686,145	89.1%
TOTAL PORTFOLIO	4,137,882	100.0%

3.1.2 Mortgage Loan Payments

Mortgage loans grant the borrower the opportunity to prepay the mortgage loan in full or in part without penalty, which constitutes a prepayment. Prepayment of securitized mortgage loans is measured by an indicator, which for issues denominated in pesos reached 28.3% in 2013, greater than that registered in 2012, which was 18.1% (Chart 41).

The prepayments resulted from the strong banks competition for customers by offering attractive interest rates and in turn, the need of the entities specialized in mortgage loans to develop retention strategies for their own mortgage loans and securitized mortgage loans serviced. Thereby, the assignment of securitized mortgage loans (banks' repurchase of securitized mortgage loans) grew up to 13% during 2013, 9% above the figure recorded in the immediately preceding year in this regard.

Regarding UVR mortgage loans, although 2013 average was greater than 2012 average, the competition impact in this sector was smaller. The prepayment index for 2013 was 13% as against 10.1% for 2012 (Chart 42).

Chart 41. Annualized prepayment index for PESOS Issues
Source TC

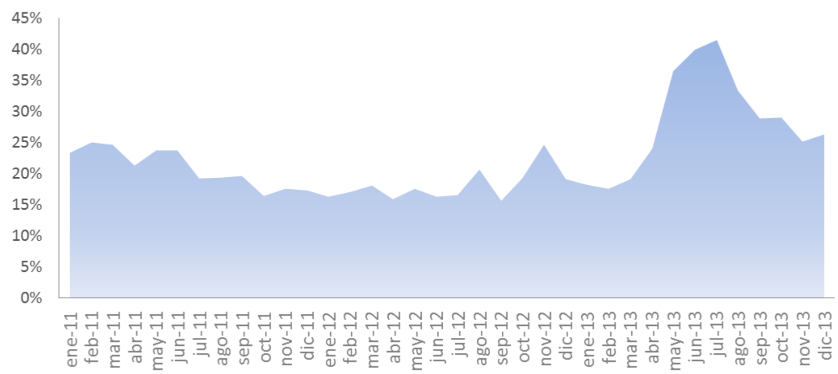
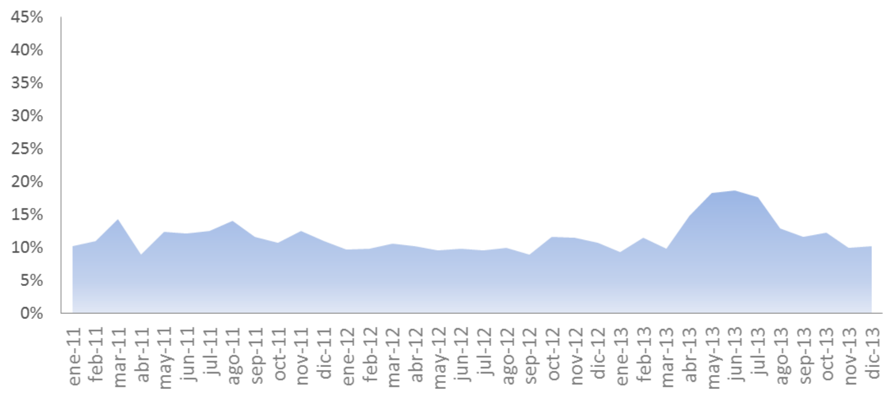


Chart 42. Annualized prepayment index for UVR Issues
Source: TC



3.2 Mortgage Loan Payments

Good payment habits of the borrowers of securitized mortgage loans year to date 2013, 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 TIPS to hold the highest credit rating.

The following charts reflect the >120-day delinquency with respect to projected levels in expected and stressed scenarios for each effective month of both UVR and Pesos issues, where the excellent performance of securitized mortgage loans stands out during 2013 (Charts 43 and 44).

Chart 43. Maximum Delinquency Scenario–PESOS Issues
Source: TC

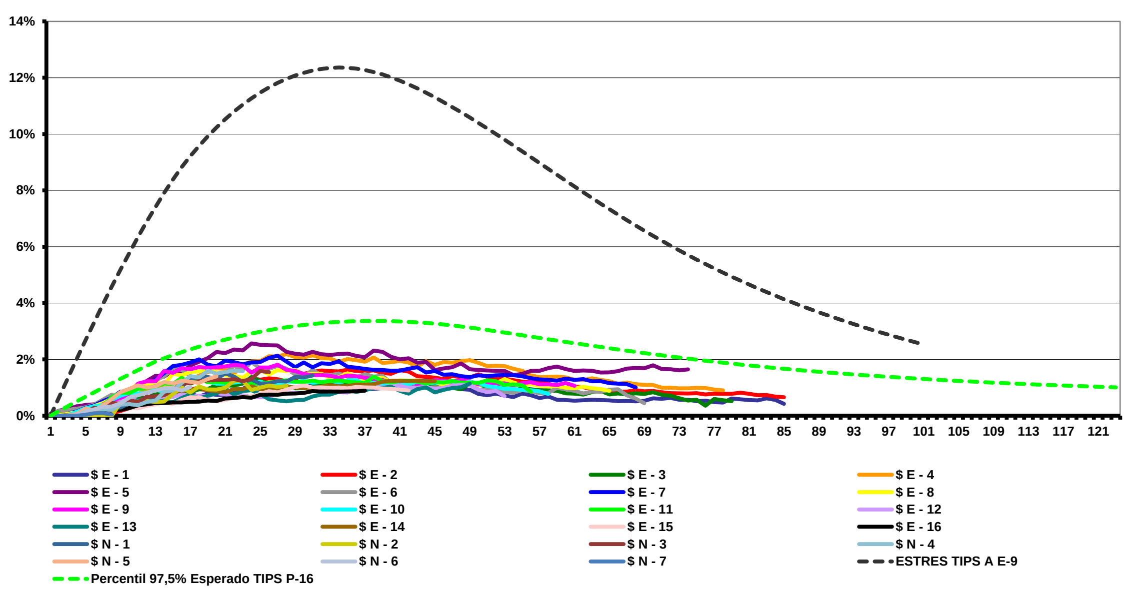
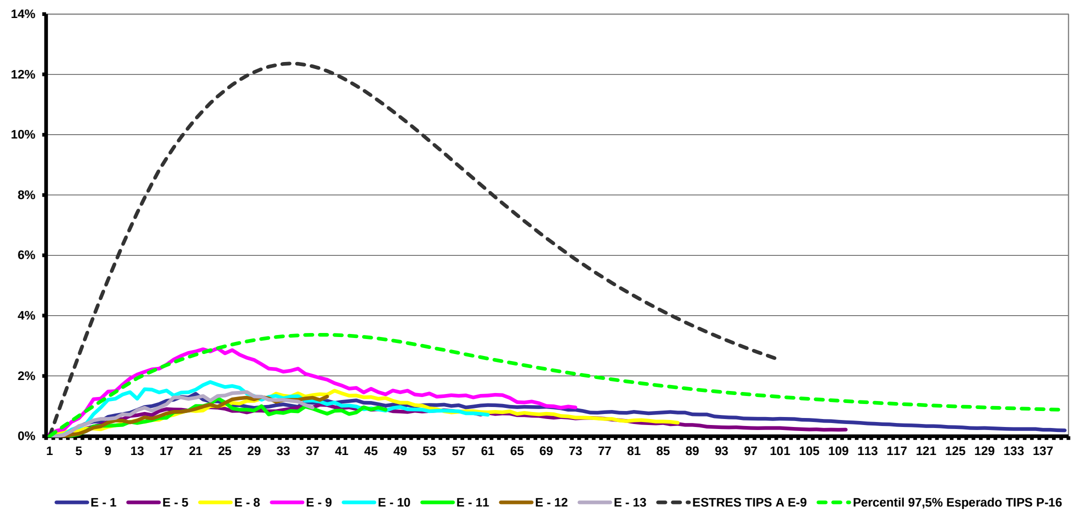


Chart 44. Maximum Delinquency Scenario–UVR Issues
Source: TC



3.3 Assets Received as Payment (REO)

Assets received as payment (REO: Real estate owned) result either when a borrower requests to repay a mortgage loan in full or in part (deed in lieu) or by award of an executory proceedings (foreclosure sales).

At 2012 closing, Titularizadora's inventory is twenty-eight (28) real properties with a market value of COP 3,721 million, broken down by Issue as follows (Table 4).

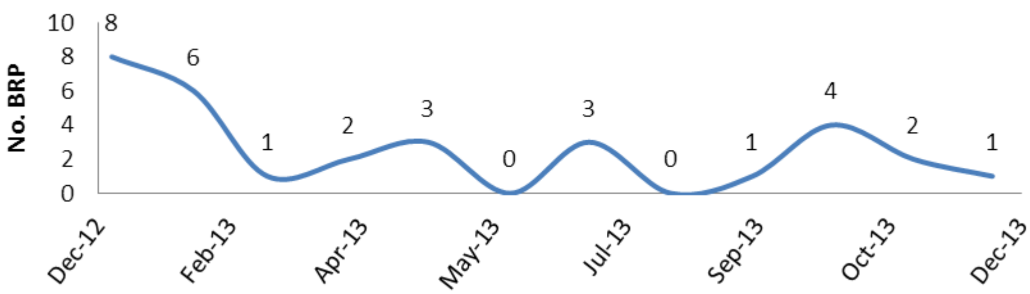
Table 4. REO by Issue
Source: TC
(COP million)

ISSUE	REO QTY	REAL PROPERTY COMMERCIAL VALUE
E-1	2	56
E-8	1	117
E-9	4	424
E-10	1	64
PESOS E-2	1	230
PESOS E-3	2	351
PESOS E-4	1	229

PESOS E-7	3	583
PESOS E-8	1	56
PESOS E-9	3	461
PESOS E-10	2	296
PESOS E-11	3	213
PESOS E-12	2	421
PESOS E-14	1	99
PESOS N-3	1	120
Total	**28**	**3,721**

Sales of these real properties showed good performance with the sale of 31 properties during the year (Chart 45).

Chart 45. REO Sales Performance
Source: TC



Real estate inventory by mortgage loan servicer shows the following composition (Table 5):

Table 5. REO Inventory
Source: TC

(COP million)

SERVICER	REO QTY	REAL PROPERTY COMMERCIAL VALUE
BANCOLOMBIA	20	2,877
BCS	3	252
DAVIVIENDA	5	591
Total	**28**	**3,721**

3.4 SECURITIZED MORTGAGE LOAN SERVICERS

Below is the mortgage loan distribution per Servicer for TIPS and TECH issues as of December 2013 (Table 6).

Table 6. Mortgage Loans by Servicer
Source: TC

Entidad	Emisiones TIPS		Emisiones TECH		Total Cartera		
	Cantidad	Saldo Capital ($MM)	Cantidad	Saldo Capital ($MM)	Cantidad	Saldo Capital ($MM)	%
BANCOLOMBIA	50,904	1,780,097.78	1,363.00	53,039.80	52,267	1,833,137.58	43.7%
BANCO DAVIVIENDA S.A	37,174	1,536,433.02			37,174	1,536,433.02	36.7%
BANCO BCSC	17,145	438,096.59			17,145	438,096.59	10.5%
BBVA COLOMBIA	3,474	159,717.67			3,474	159,717.67	3.8%
BANCO COLPATRIA S.A.	2,654	114,810.84			2,654	114,810.84	2.7%
BANCO AV VILLAS S.A.	2,873	67,371.81			2,873	67,371.81	1.6%
BANCO CORPBANCA COLOMBIA S.A	765	41,354.31			765	41,354.31	1.0%
TOTAL	114,989	4,137,882.02	1,363.00	53,039.80	116,352	4,190,921.82	100.0%

During this year, the activities of the servicing banks held excellent levels based on the resulting indicators defined for mortgage loan portfolio servicing processes and servicer recertification processes.

3.5 MASTER SERVICING INTERNAL PROCESSES

This past year the company kept its purpose of improving and integrating applications, thereby improving security, management, control and production of reports of the underlying assets and structured liabilities. In this context, there was progress in preparing and enhancing the basic application for our business (HITOS) for the servicing of new securitization products and integration with other applications.

In terms of operational efficiency, the award of quality certification of Issue Master Servicing processes was achieved for the third time, an activity oriented to controlling the mitigation of credit and operating risks in the underlying assets, managing cash flow of the *universalidades* and divulging information to investors about issues status in a timely and reliable manner, among other activities. Major achievements include the implementation of the internal management indicators, with clear and divulged goals, that allowed identifying matches between the different processes towards the efficiency of the operational business model. Additionally, the update and improvement policy for control procedures, manuals and activities remained in place.

During this period, the continuous enhancement of the Quality Management System implementation went on, thus facilitating the monitoring of the improvements identified in each of the comprising procedures permanently focused on process development, always in pursuance of excellence.

3.5.1 SUPPORT TO MORTGAGE SECTOR

In 2013, Titularizadora Colombiana kept the strategy to create add value for the mortgage sector in topics related to process standardization and best practice identification in the following topics:

(i) Legal Processes: The workshop on Insolvency Regime for non traders individuals was held. The regime applies to securitized mortgage loans and thereby generates initiatives, conclusions and principles to be considered by the Servicing Banks. It also provided feedback on the volume of cases and their management in practice, analysis of said law's implications on securitized mortgage loans, and good practices were identified with the Servicers' help.

The second workshop on Foreclosure was held. It addressed topics such as the General procedural code and the orality regime that is starting to govern judicial districts as the orality procedural model is implemented by the Judicature Council. Likewise, each bank presented their best practices regarding the Regime of insolvency for non-trader individuals and the operability of the judicial tariff implemented by Law 1653 of 2013.

(ii) Administrative Collection Process: The annual workshop of best practices in collection management was held, allowing to share Servicer Bank's experience and practices in obtaining outstanding results in default contention and securitized mortgage loan recovery. Topics related to the economic current situation, trends and variables that allow for the mortgage loans performance were addressed.

(iii) Custody processes: Regarding custody and guarantees processes, during the year best documentary processes were analyzed for guarantees in worktables comprised by servicers of securitized mortgage loans. Among others, the company worked in evaluation of the dematerialized promissory note, digitalized document management, data digitalization for optimizing mortgage origination processes and guarantee management. In the same context, the assignment procedures defined in the law and the application of Law 1555/2012 were reviewed for the use of the subsequent mortgage guarantee.

3.6 DIVULGATION AND MARKETING

Titularizadora's plan of communication to the market and general public was based on two guiding principles. First, to position the mortgage securitization as an essential tool for housing sector development in Colombia through sponsorship of and participation in specialized events. The second guiding principle, targeting the investor, seeks to position TIPS mortgage-backed securities as an alternative source of portfolio diversification safely and profitably, and has been divulged in countrywide circulation media and specialized conferences.

4. MANAGEMENT AND HUMAN RESOURCES

The outcomes obtained are the result of the work performed by our 65 highly qualified employees. During 2013 under our human resource strengthening strategy, we carried on technical training, skill strengthening and formal refresh at top class universities and in all the organization levels.
Up to December 31, 2013, 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.

5. LEGAL AND REGULATORY ISSUES

In 2013, the central government continued the implementation of Law 1314/2009 ordering the convergence towards international of greater acceptance worldwide for accounting, financial information divulgation, and information assurance, by issuing Decrees 1851, 3023, and 3024 of 2013. With the same purpose, the Colombian Superintendencia Financiera issued the briefs necessary for implementing said standards in Colombia and according to the standard application schedule, January 1, 2014 is the transition date set as the baseline for presentation of the comparative financial statements as of December 31, 2015.

In this period, Law 1653/2013 was issued, whereby the judicial tariff was regulated and other provisions were issued. That regulation repealed Law 1394/2010 and provided that the judicial tariff is a payroll tax destined to cover investment expenses of the administration of justice. The judicial tariff corresponds to one point five percent (1.5%) of the expectations and shall be paid by the plaintiff before starting judicial proceedings without exceeding 200 minimum monthly wages (COP 117,900,000 in 2013). At the end of the proceedings, the general rule is that the tariff be borne by the losing party. This regulatory change created a need to amend the collection policies for securitized mortgage loans.

By Law 1555/2012, the regulation of subsequent guarantees was introduced. It is a special regime for guarantees under mortgage loan securitization processes, which allows the originator to retain the preemptive right to the subsequent mortgage on the assigned mortgage guarantee as had the mortgage loan and its respective guarantee assigned for securitization. During this year, we have been collaborating with the Ministry of Justice on the regulatory decree of said law until a final version was prepared. Nevertheless, due to the change of Minister, its signature was delayed, but it is expected soon.

On other regulatory matters, note that the second semester of 2013, the Colombian Superintendencia Financiera started a survey aimed at updating the Basic Legal Circular. Titularizadora Colombiana has taken active part in this process through Asobancaria. It is equally convenient to take into account some regulations that we consider could impact the business. This set of regulations includes Law 1673 whereby the appraiser activity was regulated, Decree 1377 implementing Law 1581 about data protection in Colombia, Decree 2931 clarifying the conditions for beneficiaries of the Program of priority housing for savers, Decree 1957 whereby staff was defined for Special administrative unit, Regulatory projection unit, and Financial regulation studies—URF. For tax related matters, several regulations were issued to implement Law 1607 of 2012 (tax reform) including mainly the simplification in calculating and unifying the tax rate for withholding tax for financial yields from fixed income bonds provided in Decree 2418.

Finally, it is noteworthy that during the year, Deloitte LLP was engaged for reviewing the application of the International financial information rules (NIIF) to securitization with the purpose of clarifying whether participants are bound to consolidate and whether there is a true conveyance of the securitized mortgage loans by originating banks. For advisory purposes, the entity prepared a conceptual document on NIIF 9-10-compliant management of securitization that was subject to evaluation and discussion with Deloitte staff. Considering the overall structure of securitization processes carried out by the company, they concluded that initially banks are bound to consolidate only one universalidad insofar as they keep control of decisions made by the Bondholders' Meeting and as long as recording the true conveyance of securitized mortgage loans results feasible given that Titularizadora carries out the control. The final document will be released to banks and other investors interested.

5.1 Legal Contingencies

No contingency, legal proceedings, or lawsuit has been brought against Titularizadora as of December 31, 2013 save for the special requirement about income and complementary taxes return for taxable year 2009 submitted by DIAN, that it is completed and whose development is explained below.

As reported last year, on October 23, 2012 the recourse of request for reconsideration submitted by Titularizadora Colombiana was resolved adversely to the company's interests, thus confirming the official assessment conducted by DIAN. Later on February 20, 2013, Titularizadora filed an action for annulment and restoration of the right in the Contencioso-Administrativo Court (related to administrative litigation) of Cundinamarca. Titularizadora accepted the conciliation mechanism provided for in Law 1607/2012 §148 and for that purpose on August 26, 2013 filed the request of termination by mutual consent of the servicing process. On September 30, DIAN accepted the early termination formula proposed by Titularizadora and both parties signed a record of early termination by mutual consent of the servicing process. The process ended October 9, 2013 with the acceptance of the voluntary dismissal of the lawsuit by the Administrative Court of Cundinamarca.

5.2 Compliance with specific regulations

On the matter of the corporate governance rules applicable to the company, Titularizadora continued complying with the provisions of External Circulars 028 and 056 of 2007 and 007 of 2011 issued by the Superintendencia Financiera, which govern the Colombian Code of best corporate practices (*Codigo Pais*) (that elaborates on best practice disclosure under the principle of "fulfill or explain"). In 2013, Titularizadora Colombiana was awarded the "IR Recognition", a distinction that the Colombian Stock Exchange BVC grants to issuers that have adopted best practices for information disclosure and relationship to investors.

With regard to the Investors Committee, during 2013 meetings were held as per schedule, thereby ratifying the Committee as a privileged instance for properly and timely informing the investors of the company situation and the development, performance, and perspectives of its securitization processes.

6. Other

6.1 Management Report of Asset Laundering and Terrorism Financing Prevention and Control (SARLAFT) Activities

Pursuant to Chapter 11, Title I of the Basic Legal Circular (External Circular 007 of 1996) of the Superintendencia Financiera, during 2013 the company consistently and stringently complied by the applicable regulations on SARLAFT according to the road map set by the Compliance Officer. The company followed up the performance of the elements and phases that comprise the risk management system, assessed and updated the company risk level, and verified procedures and mechanisms defines for obtaining an effective, efficient, and timely knowledge of its clients.

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.

Moreover, due to the nature of the business, the operations related to primary underwriting of mortgage-backed securities under the securitization processes are carried out only through entities subject to the supervision of the Superintendencia Financiera and directly responsible for the prevention and control of asset laundering given their knowledge of their own clients.

In addition, mortgage loan portfolio servicing performed by credit institutions supervised by the Superintendencia Financiera includes performing the contractual provisions agreed with the servicers for the purpose of managing the prevention and control of asset laundering activities on clients of the securitized loans.

At another level, training programs targeting all the company officers allowed to reveal through tests the extent to which each officer has adopted the notion of accountability to SARLAFT management and operation.

Finally, the company complied with its reporting duty under the applicable regulations, highlighting that in the company no suspicious operation presented in the company and the opportunities of improvement resulting from evaluations of the statutory auditor and the internal control function were implemented within the established terms.

6.2 INTERNAL CONTROL SYSTEM

Titularizadora Colombiana's Internal Control System is designed according to the requirements and elements provided in External Circular 007/1996, Title I, Chapter 9, section 7, of the Superintendencia Financiera including without limitation, guidelines; responsibilities with respect to its performance, its elements and special areas; and the methodology for appropriate and sustainable performance.

The internal control system includes essential elements such as the application of self-control, self-management, and self-regulation principles and policies that govern the performance of each activity in each process and allow to strengthen operation effectiveness and efficiency, to prevent and mitigate frauds, to optimize risk management, and to guarantee the reasonableness of financial data generated by the company.

During 2013, each requirement and procedure comprising the elements of the internal control system adheres to the applicable policies thus allowing to perform among others:

(i) Control Environment: According to the agreed schedule, the process manuals and Governance Code were revised and updated. The performance of training and education plans continued with the main purpose of strengthening knowledge and skills required for proper performance of the company officers.

On another note, the activities related to ensuring availability and operability of the "Transparence channel" were performed, thereby constituting an essential tool for the officers to report potentially incorrect acts.

(ii) Risk Management: In 2013, each department and area of the company responsible for risk management systems carried out the plans and programs defined and periodic risk level monitoring, review of existing control measures, verification of compliance in improvement actions implementation, and periodic reporting to the Board of Directors and relevant committees.

Additionally, according to the fraud prevention program, particular attention was given to the performance of risks identified in that category, performance over time, and application of control measures for mitigation and keeping them in the levels specified by the company.

(iii) Control Activities: The existing controls on each process of the company, including IT related, general, physical, and function segregation controls, have been applied adequately and according to their design. Besides, controls included in the processes defined in the "**Master Servicing of the Issues**" go on applying the procedures required by the quality management system, which allowed the company be awarded the ISO 9001:2008 Recertification for the second consecutive year.

(iv) Information and Communication: The continuous update and improvement of systems and applications that support the company's process performance and enabled that the data generated and published to comply with the security, quality, and reliability criteria.

(v) Monitoring: According to the functions and responsibilities assigned by the internal control system to the directors, process owners, and vice presidents, throughout the year a timely monitoring of process performance and a periodic evaluation of the improvement plans implementations were carried out as identified in both self-assessment activities performed and those given by surveillance bodies.

The statutory auditor, the external auditor and the internal control function assessed the internal control system effectiveness. The internal control function checked the SCI components performance according to the 2013 roadmap, focusing on topics deemed relevant to the business processes and support processes that require special attention due to their nature.

The results of the evaluation process were satisfactory and no material or significant weakness was identified that could affect the company's internal control system. Those results confirmed the appropriateness of the control definition and environment; the performance of risk identification, measurement, and management process; the effectiveness and degree of execution of control measures; the policies and procedures defined and applied for data generation and supply; the documentation and formalization of communication channels; and the monitoring and assessment by VPs and executives on their own process performance.

The Audit Committee examined and assessed the internal control related comments that the statutory auditor, the external auditor and the internal auditor submitted, and company Management considered and implemented them within the terms agreed upon in the respective action plans.

The Audit Committee fulfilled its responsibility as to obtaining information of and supervising the company internal control system and then issued its opinion on the important aspects with the aim to strengthen the existing control measures, so that the designed procedures reasonably protect the assets both of the company and of the issues managed, and there are controls that allow the transactions to be checked for appropriate authorization and recording.

According to the foregoing, we may assert that the company has an adequate internal control system and a process of financial reporting that complies with the applicable laws and regulations.

6.2.1 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 evaluations carried out by the statutory auditor and the internal control function. These tests evidenced the comprehensiveness, reasonableness, and validity of the accounting data, thus concluding that the financial information and financial statements as of the 2013 closing are in line with the applicable regulations and the company's accounting policy.

According to the results from periodic reviews of the company's control measures in place, the conclusion is that such measures were correctly applied and provide a reasonable assurance that Titularizadora's financial information has been recorded, processed, and presented, and the financial statements and other reports disclosed to the public do not contain any defects, inconsistencies, or material errors that might prevent the knowledge about the actual situation of the equity or the operations transacted during 2013.

6.3 Operating Risk Management

In application of the roadmap outlined for operational risk management, during 2013 the company performed the activities and procedures necessary for periodically assessing and monitoring current and potential operational risks, identifying and qualifying control measures, recording of risk events and timely setting the appropriate corrective and improvement actions.

Following the SARO (Operating risk management system) committee's recommendations, the company carried on the activities aimed at integrating the qualified risks in the middle criticality level into the quality management system, an activity that will strengthen the management of this type of risks and will make easier the definition of integral improvement plans. Stringent monitoring was carried out on the fraud risk behavior and process owners performed periodic review and update of their risk matrices accompanied by the Operational Risk Officer.

As of the 2013 closing, the risks identified in 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 respect of the technological platform support of SARO activities and procedures, the event record module was updated, thereby allowing to include automatic notifications of each input of a new event and alerts on compliance with improvement plans.

In 2013, any risk events occurred were duly recorded according to the applicable laws and regulations and the corresponding internal procedures. Likewise, the SARO Committee assessed those risk events and the company took the actions necessary for improving current and preventing potential control measures. Any events occurred in 2013 did not result in significant losses that affected the company's P/L statement.

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

Regarding the Business Continuity Plan, tests conducted in 2013 allowed to probe the infrastructure set for contingencies and of the operation execution for business critical processes.

With the aim to keep on improving the current standard, the company is executing the roadmap resulting from the internal audit conducted by internal control and the advisory from the statutory auditor based on the new ISO 22301:2012 standard.

Evaluations conducted on the operational risk management system by the statutory auditor and the internal audit function reflect the compliance with the applicable regulations for SARO and the timely implementation of the improvement actions identified.

6.4 Risk Disclosure

Note 22 to the Financial Statements includes the disclosure of criteria, policies, and procedures used in the evaluation, management, measurement, and control of the risks associated with Titularizadora Colombiana's business.

6.5 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.

6.6 Gratuitous Transfer of Property and Assets Owned Abroad

During this year, no gratuitous transfer of property was effected.

6.7 Assets in Other Countries

As of the 2013 closing, the company does not have any investments or liabilities in foreign currency.

6.8 Investment in Other National or Foreign Companies

As of the 2013 closing, the company has investments on CIFIN S.A. for COP 12 million.

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

6.10 Status Report 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.

6.11 External Circular 052 of 2009

As of December 31, 2013 Titularizadora Colombiana, considering its business context, technological infrastructure, and IT assets, completed the implementation of the requirements and elements set out in External Circular 052/2009 and submitted the corresponding reports to Superintendencia Financiera by the established deadlines.

6.12 Implementation of the International Financial Information Rules (NIIF in Spanish)

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 is performing the ongoing activities set forth in the international financial information standards convergence and implementation project as approved by the Board of Directors. Periodic reports of project status, relevant matters, convergence actions taken, and required implementation controls were submitted to the Board of Directors and Management for approval.

6.13 Information Security

In the business context, during 2013 Titularizadora's management of technological infrastructure, information, and IT assets complied with the requirements set in the Basic Legal Circular Title I Chapter 12 issued by the Superintendencia Financiera regarding the minimum security and quality requirements for transacting business.

With the aim of strengthening security and quality procedures in particular, they developed enhancements to the Porfin, Hitos, and Apoteosys applications following the recommendations from the Ethical Hacking Test performed last year. Security tools for e-mail and e-browsing were upgraded to last versions.

7. Financial Statements as of the 2013 Closing

7.1 Balance Sheet

7.1.1 Assets

Ending December 2013, Titularizadora Colombiana's total assets amounted to COP 160,496 million with a 7% decrease with respect to the 2012 closing. The main variation in assets accounts lies on the 97% reduction of expenses paid in advance and 56% receivables. Cash account shows a 75% decrease, investments grew by 11%, and real estate appreciations in value show a 28% increase.

7.1.2 Liabilities

As of the fiscal year closing, the company's leverage is 11% corresponding to COP 18,681 million including a COP 9,060 million provision for income and complementary tax, the liability recognition for wealth tax, and the provisions for potential income tax claim.

7.1.3 Shareholders' equity

Titularizadora Colombiana Shareholders' equity decreased by 30% with respect to the preceding year, as a result of dividend distribution and a reduction of resulting profits. The company closed 2013 with a COP 141,814 million worth equity.

7.2 Profit and Loss Statement

Operational income corresponds to an 89% of total income and results from structuring, servicing, guarantee, and underwriting fees of the issues placed for COP 27,790 million and from financial income represented in investment yields for COP 14,164. Other income for COP 4,533 corresponds to income from lease and expense provision recovery.

Operational income shows that fees decreased by 43% with respect to 2012 and financial yields decreased by 7%.

The company's expenses amounted to COP 29,533 million. The items with the higher variations are financial and other expenses. Non-operational expenses with the greater reductions correspond to the item of provision for income tax claims.

Net profits were COP 17,542 million in 2013 i.e. COP 12,109 million less than 2012.

7.3 Financial and Operational Indicators

ROE before taxes correspond to 20% as of December 2013. In turn, ROE after taxes[2] changed from 27.2% in 2012 to 15.8% in December 2013.

Operational efficiency grew from 32.7% in 2012 to 55.6% in 2013. At another level, the operational expenses/servicing fees indicator increased from 56.5% in 2012 to 70.4% in 2013.

7.4 Certification of Financial Statements as of December 31, 2013

Pursuant to Law 964/2005 §46 Titularizadora Colombiana, in the preparation of financial statements and any other reports for the general public, 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 may prevent the knowledge of the actual position of the equity or operations of the company.

In like manner, pursuant to Decree 2649/1993 §57 and Law 222/1995 §37, any financial statements-related data and representations were verified and obtained from the mandatory accounting records and reports carried under the Colombian generally accepted accounting principles and standards, and the economic events were correctly classified, described, and disclosed.

[2] Not including market price valuation adjustments