Kingdom Of Morocco
Court of accounts

Management Audit

Caisse de Dépôt et de Gestion

Synthesis

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Introduction

1. The Caisse de Dépôt et de Gestion (CDG) is a state-owned company with legal personality and financial autonomy, created under Dahir No. 1-59-074 of February 10, 1959. It is responsible for centralizing and managing savings funds, which by their nature require special protection. It is the legal depository of the Caisse Nationale de Sécurité Sociale (CNSS), the Caisse d'Épargne Nationale (CEN) and other mandatory and optional deposits and flows.
2. In addition, CDG manages the régime Collectif d'Allocation de Retraite (RCAR) in conditions established by a decree. In turn, RCAR manages the Régime Collectif d'Allocation de Retraite (RCAR) under the provisions of the Dahir Law No. 1-77-216 of 4 October 1977 founding this regime as established by a decree.
3. CDG's resources, consisting of its own funds and those entrusted to it, are invested, directly or through its subsidiaries, notably in the form of financial assets (treasury bills, bonds, listed shares, unlisted equity investments, other negotiable debt securities, etc.), loans and advances or physical assets in land and real estate.
4. Since its creation, CDG has undergone profound changes. In terms of activity, until the 1990s, CDG focused mainly on the collection of savings and investment particularly in treasury bills and land. From the beginning of 2000s, it diversified its activity into areas of economic and social development. In terms of size, the number of consolidated entities has increased from 80 in 2007 to 143 in 2017.
5. The CDG's economic model is based on the collection and mobilization of a part of savings, protection and investment in several activities. By 2017, CDG's portfolio was organized around three strategic business areas namely "savings and provident", "banking, finance and insurance" and "territorial development".
6. During the period 2010 to 2017, CDG's main activity indicators evolved as follows:

Table n°1: CDG* main financial indicators (in billion MAD)

		2010	2011	2012	2013	2014	2015	2016	2017
Customer' deposits		56,7	62,93	70,01	79,6	90,9	96,9	105,7	111,9
including	CNSS	20,66	29,22	28,21	33,6	36,3	39,3	44,5	46,8
	CEN	12,36	18,42	13,03	20,20	22,2	24,2	25,6	27,7
Net banking income		1,46	1,93	1,11	0,78	1,09	2,24	1,68	2,14
Net profit		1,47	0,89	0,52	0,64	0,41	0,24	0,26	0,08
General operating expenses		0,34	0,36	0,36	0,38	0,39	0,42	0,44	0,42
ROA[1]		2,00%	1,00%	0,60%	0,60%	0,37%	0,21%	0,21%	0,06%
ROE[2]		12,00%	6,60%	4,20%	5,00%	3,00%	2,00%	2,07%	0,63%

*CDG- state-owned company

7. The purpose of this mission was to assess the institutional aspects and governance, strategic management, resources mobilization and investment, and the policy of subsidiarization.

[1] Return on assets (ROA) = net income / assets
[2] Return on equity (ROE) = net income / total equity- total amortization and provisions

I. Governance and strategy

8. CDG has undergone changes in several areas, such as the increase of the subsidiaries and holdings' number and the intervention areas' diversification and their extension to competitive activities. However, this development has gone beyond its legal framework. Except for a few amendments of the Dahir of its creation in 1960, this latest did not undergo any major changes.

1. Governance

9. The CDG's governance structure is defined by its founding text, which provided it with a supervisory commission, a general manager and a general cashier.

10. Being assimilated to a credit institution and since the enforcement of the banking law in 2006, CDG is subject to the Bank Al-Maghrib (BAM) directives. In addition, the Group's subsidiaries operating in the capital market and the insurance sector are subject to regulatory requirements issued by regulatory and supervisory bodies, in particular the "autorité marocaine du marché des capitaux (AMMC)" and the "autorité du contrôle des assurances et de la prévoyance sociale (ACAPS)".

11. Since 2010, the CDG's governance has been strengthened by the setting up of other bodies, in particular the coordination committee, the group management committee, the project management entity, the directorate in charge of the group governance, the investment and strategy committee, the group executive committee, the group strategy committee and the human resources group committee.

12. CDG does not yet have a duly established board of directors which serves as the true decision-making, administrative and control body of the group.

13. An analysis of the main governance bodies functioning, particularly the supervisory commission and the general management, revealed the following observations.

▪ Supervisory Commission

14. According to article 3 of the aforementioned Dahir of 10 February 1959, "it is established in CDG a supervisory commission consisting of two Supreme Court members appointed by the Justice Minister, the National Economy Minister or his representative, the finance Minister or his representative and the bank Al Maghrib Governor or his representative ".

15. The supervisory commission does not have decision-making powers. His role is mainly advisory. It has no prior right to review the strategies proposed by the CDG's General Manager or the decisions structuring the group activity.

16. Similarly, its composition has not been reviewed since 1959, despite the significant change in the group's scope of activities, the diversification of its activities and the proliferation of its subsidiaries.

17. Moreover, the founding text of CDG does not specify the capacity of the person to hold the presidency or the frequency of the meetings to be held. As at the end of 2017, it continues to operate in the absence of internal regulations that govern its functioning.

- **General Manager**

18. CDG's creation Dahir conferred broad managerial powers to the General Manager. He is in charge of the investment operations, recruitment and appointment in top management positions and even the structures' creation and deletion.

19. This extended power concentration in the hands of one person is not in line with universally accepted guidelines of good governance. It does not promote the establishment of risk control, essential to securing resources entrusted to the institution.

2. Strategic planning

20. Since 2004, CDG has launched a reorganization of its structures with the aim of achieving a better clarification of its missions and a better adapted governance system. It has gradually diversified her business portfolio. This has led to its business lines segmentation into three strategic business areas: (i) management of institutional and retirement funds, entrusted to CDG via its "pension" and "savings management" divisions, (ii) territorial development, mainly entrusted to CDG-Développement and finally (iii) banking, finance and insurance, an activity carried out by several subsidiaries including FIPAR, CIH, CDG Capital, Sofac, Morocco Leasing, SCR, etc.

21. The strategic vision of the CDG Group has changed over the years with the transition from a collector of savings and investors into treasury bills to an active trader investing in highly risky activities and in areas such as industry, offshoring, etc.

22. To implement its vision, CDG has developed several strategic plans (2007-2010, 2008-2012, 2011-2015 and 2018-2022). Except the 2018-2022 plan (not examined by the Court of Accounts) and considering the absence of a systematic definition, for all the activities, of the vision and the strategic objectives projected by the successive plans, into action plans, business plans or medium-term plans, it is difficult to assess the degree of the objectives achievement set by these plans.

23. The review of the strategic planning and the subsidiaries and equity interests steering system led to the following observations:

    - no assessment of the objectives achievement degree set by the strategic plans after their completion;
    - inadequate monitoring mechanisms;
    - strategic management reporting limited mainly to financial indicators;
    - absence of validation mechanisms, by the supervisory commission, of the subsidiaries' strategic choices that must be the declination of the group strategic orientations;
    - insufficient follow-up by the CDG's representatives in the subsidiaries;
    - insufficiency in management controls:
        - absence of a group budget management;
        - lack of the group budget data consolidation, forecasted and fulfilled;
        - dispersion of the management control function between several entities.

3. Internal control and risk management

24. As a public-owned company, CDG activity is mainly governed by the creation Dahir of 1959. However, the enforcement in 2006 of the law No. 34-03[3] has had consequences on the internal control and the CDG's risks management.

- **In terms of internal Audit and control**

25. The internal control system analysis has led to the following findings:

- consolidation failure of the internal control major weaknesses;
- the General inspection and audit structure interventions do not cover all of the businesses, subsidiaries and the risks associated with the group activity. They do not cover subsidiaries who face management challenges and for which alerts were issued by the Auditors, mainly those related to the operations' continuity risks;
- the carried-out audit missions did not deal with some important aspects and issues for the group such as the strategic diagnosis of the main subsidiaries, the affiliates management assessment, the use of the loans and advances granted, internal control system evaluation, risk management, and the subsidiaries' governance processes.

- **In terms of risk management**

26. The risk management system analysis has led to the following findings:

- lack of a group's risk management plan;
- absence of consolidated reporting on the Group's different types of risks in order to set up different levels of control and to define the responsibilities of the various stakeholders;
- inadequate management of operational risks at the CDG- public-owned company level;
- failure in risk mapping:
  - the achieved operational risks mapping does not cover all potential operational risk except for banking and market activities;
  - the permanent monitoring of the risks and activities is not exercised on the whole Group;
  - delays in the implementation of the operational risks mapping and their tracking plans to the level of the subsidiaries not governed by the banking law.
- lack of an overall assessment of the losses resulting from significant events at the level of the different structures of the Group;
- exceeding of the risk division coefficient;
- inadequate market risks management including the failure to update the procedures' manuals and the lack of the positions valuation formalized procedures.

[3] repealed by law No. 103.12 relative to the credit institutions and similar bodies of December 24, 2014.

II. Resources' investment

27. The CDG resources use review has led to some findings related to the decision-making process, the investment operations framing, as well as the management and performance conditions of the various portfolios.

28. Despite the peculiarity of its resources, CDG invests in different asset classes (listed and unlisted stocks, bonds, property and real estate assets, loans and advances to subsidiaries and equity investment, etc.), in the absence of an appropriate resources allocation optimizing the risk/return ratio. Therefore, its choices have led to an unbalanced structure of its assets in favor of the "shares" and "advances and loans", characterized by higher risks than those associated with the investment in "bonds". This policy brought CDG to consume its own economic funds intended to cover the risks it incurs permanently on an accelerated basis.

1. Direct equity investments

29. The subsidiaries and direct equity investments held by CDG are managed under a portfolio called the "portfolio of direct equity investments". At the end of 2017, this portfolio amounted to MAD 41.3 billion, consisting of 90% unlisted shares and 10% listed shares, that to say MAD 37.2 billion and MAD 4.1 billion respectively.

30. During the 2006 to 2017 period, this portfolio had an additional investment of MAD 29.77 billion, a significant increase of 259% largely attributed to the significant increase in investments in unlisted investments, or an additional investment of MAD 26.5 billion. On the other hand, the investment in listed holdings evolved by an additional amount of MAD 3.3 billion.

31. In terms of focus areas, at the end of 2017, CDG's scope of consolidation included 70 subsidiaries and direct equity investments, compared to 57 at the end of 2006, out of 143 subsidiaries and holdings in the CDG Group. It covers various business sectors: retail banking, financial investments held by holding companies, real estate and territorial development, tourism and insurance.

- **Equity investments and creation of non-systematically authorized subsidiaries**

32. The equity investment process review of a sample of subsidiaries and equity investment revealed CDG's failure to obtain the prior authorization of the Government Head as provided for by article 8 of law No. 39-89 modified and completed by law No. 34-98, authorizing the transfer of public-owned companies to the private sector. As an example, mention is made of CG Parking, Immolog, Med Resort and Arribat Center.

33. Similarly, it was noted that when subsidiaries were created, CDG had to recourse to inactive companies to carry out new activities or new projects. In fact, instead of following the authorization procedure provided for by the aforementioned law No. 39-89, for the creation of new subsidiaries, CDG used the former non-active subsidiaries through the modification of the corporate purpose, naming and share capital.

- **Absence of formal rules governing the portfolio "direct equity investment" management**

34. Despite the importance of the portfolio's balance in terms of the liquidity requirement of the different equity investment, it was noticed that there were no rules indicating, among other things, the appropriate proportion of listed securities to be permanently held in the portfolio.

35. Thus, in the absence of formalized rules specific to the portfolio management as a whole, it is clear that the current portfolio structure is only the result of operations initiated by CDG and is not a predefined global vision.

36. Similarly, the Court of accounts observed a lack of streamlining and diversification of CDG's portfolio taking into account its missions, its strategic orientations and the intervention areas reserved for the business subsidiaries.

37. Also, it should be noted that the portfolio "direct equity investment" is managed, at the level of CDG, in the absence of predefined rules framing management in terms of investments concentration, maximum limit exposure by sector and by investment and the level of risk / return ratio expected by target sector.

- **Concentration of the investment effort on a limited number of subsidiaries and equity investment**

38. At the end of 2017, the structure of the portfolio "subsidiaries and equity investments" was dominated by nine entities out of a total of 70. These alone account for 76% of the total outstandings expressed in book values. In addition, 90% of the additional investments, between 2006 and 2017, which is around MAD 26.8 billion, were concentrated on eight equity investment and subsidiaries whose outstanding amount went from MAD 6 billion to MAD 32.7 billion. It should be pointed out that at the end of 2017, the investments and subsidiaries make up 79% of the total equity portfolio, compared to 52% at the end of 2006.

- **Portfolio yield down**

39. The analysis of this aspect reveals a downward trend in equity investment yield since 2008. In fact, the rate of return has fallen from 6.6% in 2008 to 2.5% in 2014, and then to 5.6% in 2015, with the exception of the 2011 financial year, when CDG had recorded dividends of nearly MAD 1.6 billion, which allowed a return of 5.8%.

40. The performance of CDG's equity portfolio is impacted by a number of factors, mainly the difficult financial situation of certain major equity investments such as CMVT International, Acacia Participations[4] and others such as the former CIH hotels or BNDE

41. The return on the direct equity investment portfolio is also impacted by the weight of operational subsidiaries and others in the investment phase that do not yet generate dividends, particularly Foncière Chellah and some projects at the level of CDG-development such as the Anfa urbanization Agency (AUDA) and the Zenata Development Corporation (SAZ).

[4] company holding the shareholding in Médi 1 TV.

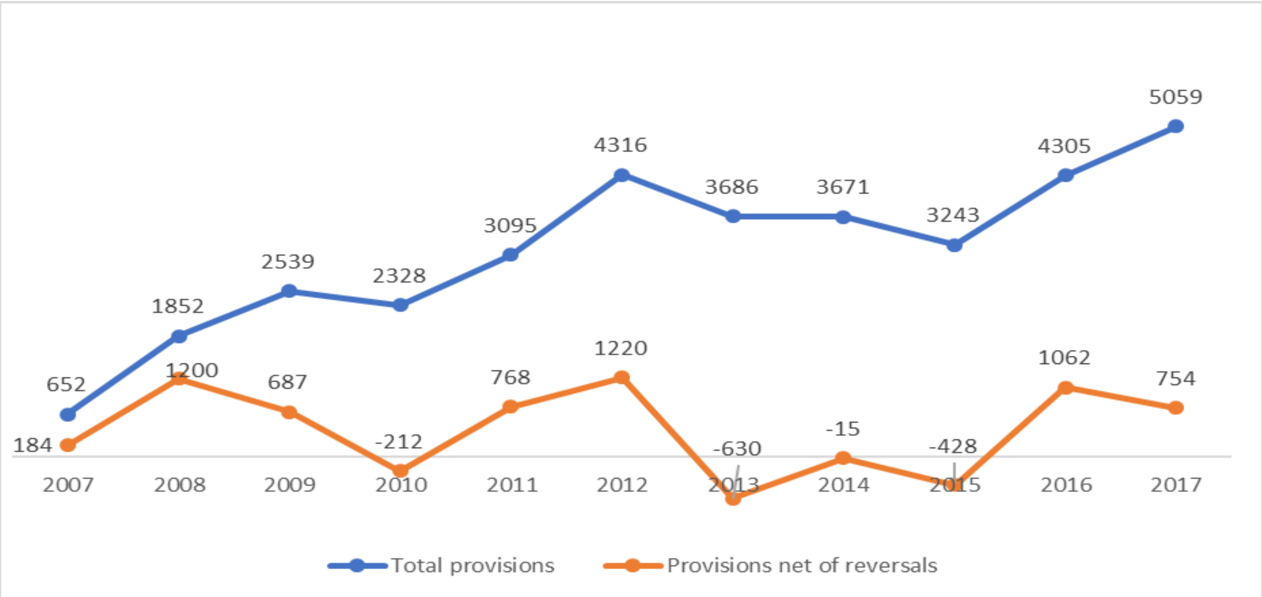
- **Deteriorated situation of some equity investments**

42. At the end of 2017, the CDG's direct equity investments portfolio was covered by provisions of MAD 5.1 billion for 32 subsidiaries and equity investments. This worsening represents 12% of the total portfolio outstanding.

43. Thus, 93% of these provisions, which correspond to MAD 4.7 billion, is related to 11 equity investments and subsidiaries, five of which account for 76% of the total provisions. On the one hand, the deterioration of the Madaef and Holdco funds and, on the other hand, the provisioning of some subsidiaries, namely CGI and CDG-Développement, weighed on the provisioning of the entire investments portfolio.

44. Also, 25% of the provisions recorded in 2015 were attributed to the deterioration of the listed equity investments following the fall in the value of certain securities such as BMCE, Holcim and Atlanta. In addition, at the end of 2017, seven equity investments with a total acquisition value of MAD 343.4 million are fully provisioned.

45. As shown in the chart below, the provisions for impairment of CDG's direct equity securities raised between 2007 and 2017 from MAD 652 million to MAD 5.059 million, or an increase of 776%. This is the result of successive deteriorations in the cost of risk which reached MAD 1.1 billion at the end of 2016, despite the efforts made since 2008 when it peaked at MAD 1.2 billion.



Source: CDG-reprocessed by the Court

2. International Investment

46. As part of the international investments, CDG has invested between June 2006 and December 2007, about MAD 6.4 billion in equities in Club Méditerranée, Vivendi and TUI AG. The international investments review led to the following findings:

- **Lack of a strategic vision**

47. The assets diversification's decision through the foreign investments acquisition does not result from a strategic vision that makes CDG's constraints prevail, particularly the securing of its funds. Indeed, the latter has not previously defined an appropriate model for intervention on the international market resulting from in-depth studies that take into account the overall allocation of its assets and prudent investment rules specifying in particular the target sectors, the requirements in terms of profitability and the level of risk, the investment horizon, the exit strategy and the exposure limits in terms of investment, asset class, country, currency and counterparties.

48. In exposing itself internationally, the choice of diversification was not in line with the group's investment policy. In fact, the review of the 2007-2010 strategic plan and the Supervisory Commission meetings minutes since 2002 up to the first abroad equity investment reveal the absence of orientations or suggestions providing for, directly or indirectly, a possible diversification of the portfolio through international equity investments. Furthermore, this orientation was not subject to prior review by the Supervisory Commission.

- **Significant exposure**

49. CDG has been internationally oriented although it lacked experience in investing in internationally listed securities. Moreover, it has committed significant resources without the necessary safeguards to rationalize investment and implement the principles of prudent management.

50. In spite of the importance and the multitude of the international exposure risks, this diversification has been deployed at a relatively accelerated pace and has been accompanied by a concentration of a significant investment volume on reduced number of securities.

51. Between June 2006 and December 2007, CDG incurred approximately MAD 6.5 billion of which MAD 2.8 billion in equity and MAD 3.7 billion in financing debt, which represents more than 62% of its equity in international equity investments (TUI AG, Club Med and Vivendi).

52. At the time of the equity investment, Club Med and TUI had risk factors that made the prospects for this investment uncertain in terms of dividends upside potential and sufficiently attractive to justify the use of these equity investments.

53. As a result, at the end of 2013, CDG's portfolio of international investments was valued at around MAD 3.25 billion and included unrealized losses of around MAD 0.75 billion, taking into account the realized value following the sale of the TUI AG "Collar".

54. It is noticed that in 2014, the TUI AG shares held by the TCM subsidiary were fully sold and the Club Med and Vivendi shares held by CMVT International were fully sold in 2015. The

balance of the sale of the three equity investments in the period 2006-2015, for a nine-year investment period, is as follows:

Table n°2: The sale balance of the international three equity investments (in MAD millions)

	+/- Realized value	Sale value of the equity investments (dividends mainly)	Balance
TUI AG	175	45	220
Club Med	-335	8	-327
Vivendi	-421	658	237

Source : CDG

▪ Low and no regular dividends lifts

55. The analysis of this aspect has shown that dividends raised by international equity investments have been low and non-regular.

56. Vivendi was the largest equity investment who raised dividends at a steady pace. Over this period, it raised a total of MAD 706 million, representing 93% of all dividends received and 100% of the dividends received by CMVT International from 2007 to the end of 2013.

57. As for the TUI equity investment, it raised MAD 36 million and MAD 17 million as dividends respectively in 2008 and 2014, representing a total of around 7% of the dividends. Finally, the equity investment Club Med has never raised dividends since its acquisition in June 2006.

▪ Abroad equity investments long-term depreciation

58. As of their acquisition by CDG, the values Club Med, TUI AG and Vivendi experienced significant deteriorations of their stock prices.

59. As a result, the CMVT International and TCM subsidiaries have had to recognize, from their inception, significant provisions whose level remained significant until the sale of their investments in 2014/2015. As a result, the equity investments provisioning rate has reached high levels. It exceeds ¾ of the acquisition value in the case of TUI AG's share held by TCM and is approximately 60% of the value of the CMVT International equity investments bearing the Club Med, Vivendi and TCM investments.

▪ Financial situation weighed down by the weight of interest charges

60. In addition to the significant provisions resulting from the three equity investments valuation deterioration, it should be noticed that the financial position of the CMVT International and TCM subsidiaries was increased by the interest charges on financing debts resulting from the massive use of indebtedness to fund these investments.

61. Thus, the total interest expense borne between 2007 and 2015 in connection with international investments reached MAD 970.03 million, divided into MAD 599 million and MAD 371.03 million for the CMVT International and Teck Capital subsidiaries respectively. This took place due to an average level of overall indebtedness exceeding MAD 2 billion for the two subsidiaries, ranging between MAD 1.47 billion recorded in September 2008 and MAD 2.93 billion recorded at the end of September 2011.

62. In order to reduce the interest expense burden on the results, a number of actions have been undertaken since 2008, largely based on the dividends received, the proceeds from the sale and the sale of the hedging product "Collar" in the case of TUI AG.

- **Net situation deteriorated following cumulative losses**

63. The review of the CMVT International and TCM subsidiaries' financial position between 2007 and the end of 2015 revealed significant losses suffered by both of them. The TCM subsidiary bearing TUI AG equity investment has recorded losses during the period 2007 to 2015 of a total amount of MAD 1.46 billion against profit results of MAD 1.29 billion, or a negative balance of MAD 170 million.

64. As for the subsidiary CMVT International, the total losses amounted to MAD 2.75 billion against profit results recorded in 2010 and from 2012 to 2015 for a total amount of MAD 1.825 million, or a negative balance of MAD 950 million.

65. The net position of the CMVT International and TCM subsidiaries has deteriorated sharply since their first year under the effect of accumulated losses. The latter exceeded, on several occasions, 3/4 of the share capital and consequently, the net position of the two subsidiaries was, for several years, less than 1/4 of the share capital thus incurring a significant risk compromising their continuity of operation.

- **Selling at a loss of some equity investments**

66. The accumulated loss results by CMVT International and TCM were partially offset by the reversal of provisions, a portion of which is due to the completion of certain securities transfer transactions, most of which resulted in losses. At the end of 2013, the total losses on the sale of international equity investments reached MAD 296.09 million against a capital gain realized in June 2010 of MAD 50.82 million.

III. Activities’ subsidiarization

67. With regard to the activities’ subsidiarization, the strategic choice initiated essentially since 2004 has allowed the CDG Group to evolve as a result of significant investments through its subsidiaries. Since 2006, a break has been observed materialized by investments increasingly important in the equity portfolio. Between 2006 and 2015, the outstanding amount of the equity portfolio in acquisition securities has increased twofold and a half, or from MAD 11.5 billion to MAD 29 billion.

68. This investments’ accelerated development has also resulted in a proliferation of subsidiaries and equity investments. The number of these has increased from 80 in 2007 to 143 in 2017.

69. At the end of 2017, the main contributors to the CDG Group's results are CDG-établissement public, Fipar and CIH. Other subsidiaries contributed negatively such as CGI and CDG-Développement.

The examination of this aspect has led to the following observations.

1. Activities’ diversification and subsidiarization not sufficiently mastered

70. Except for two studies carried out in 2004 and 2008, relating respectively to the transfer of the real estate activity and the engineering and distribution of activities between CDG-Développement and Fipar-Holding, it was noted the absence of a roadmap allowing to define particularly:

- the proper form of entry into a sector: new creation, alliance, equity investment, etc.;
- exit strategies preparation;
- various risks study related to the implementation of the roadmap as well as the needs in terms of organization, human resources, financing, information systems, procedures and the required information systems;
- the development of a multi-year financing plan providing the necessary and adequate resources to fund the investments growth launched subsequently to the activities’ subsidiarization.

71. The subsidiarization has resulted in the deletion of several CDG structures and the total or partial redistribution of its activities and part of its staff to new structures created for this particular case.

72. Furthermore, it should be noticed that the supervisory commission was not consulted on the principles and rules of governance that should underlie the relationship between CDG and its subsidiaries and the equity investments. In fact, although it has led to more autonomy for these entities, the subsidiarization has resulted in the exit of the activities transferred to the subsidiaries of the supervisory commission's control field.

73. Operated at a speedy pace, the subsidiarization was not accompanied by the establishment of adequate organizational, human and technical resources necessary for steering the subsidiary activities. In fact, the transfer of CDG's activities to its subsidiaries has not been governed by an appropriate control mechanism providing for the bodies able to control the operations carried out by CDG through its subsidiaries.

74. Finally, it can be seen that there is no clear definition and distinction between the activities considered to be of general interest and the competitive ones. Indeed, although the main

objective of the subsidiarization is to clarify the intervention rationale of CDG and the separation of these two types of scope of action, it is noted that the reorganization of the activities that followed did not make it possible to do this distinction. The exercise by the same structures of these two types of activities was mentioned several times by the supervisory commission.

75. In addition, the CDG's competitive activities make its competitors skeptical. Its status as a public-owned institution, manager of certain pension plans (RCAR and CNSS) and private savings (CEN), gives CDG a competitive advantage over its competitors in that it assists its subsidiaries through several measures in particular loans, the provision of land on favorable terms and the granting of guarantees.

76. Diversification of the CDG Group's portfolio and investment in several activities have not always generated positive results. Some subsidiaries face challenges in making their investments profitable, generating enough cash and adding value to the Group.

    The examination of the activities "banking, finance and insurance", "territorial development", and "tourism" results on these findings.

2. Bank, finance and insurance

77. CDG intervenes in these activities through several subsidiaries and equity investments operating in the "Banks and Financials" segment, consisting of retail banking, investment banking, consumers' loans, leasing, financial investments holdings, investment funds as well as other finance businesses and the segment "insurance" which includes reinsurance activities.

78. The table below shows, as of the end of 2017, the volume of investments and the number of subsidiaries and equity investments in the "banking and financial activities" segment.

Table n°3: Investment, subsidiaries and equity investments in the "banking and financial activities (BFA)"

Activités	Number of subsidiaries and equity investments	investment amount (in MAD million)	weight / total portfolio (in %)
Equity Investments portfolio	70	41 270,31	-
BFA portfolio	36	15 780,05	38%
Retail banking	6	7 775,71	19%
Financial Investments Holding	5	5 688,55	14%
Insurance and reinsurance	3	857,60	2%
Finance businesses	8	886,19	2%
investment funds	14	572,01	1%

Source: CDG - reprocessed by the Court

79. CDG's position in this activity is not the outcome of a proactive vision and a strategic ambition. In fact, CDG found itself operating certain activities, either due to its historical role in the financial sector during the various stages of development of the country, or as a result of its contribution to the recovery and the restructuring of some entities (CIH, SOFAC, Finéa, Morocco Leasing, and BNDE) in which it played a crucial role in their recovery through its involvement as a reference shareholder.

80. In consolidated terms, the contribution by business segment to the CDG Group's results for the period from 2008 to 2015 reveals a predominance of some areas in the "Banking and

Financial Activities" segments[5] and "insurance" with significant positive contributions over the entire period, against significant negative contributions in the "funds and investment companies" segment.

81. The scrutiny of CDG's involvement in the "Finance and Insurance Banking" activity raises the following observations:

    - **Involvement in the retail banking business**: at the end of 2017, CDG is actively involved in retail banking[6] through the subsidiary Massira Capital Management (MCM) holding 71% in the capital of the CIH and minority stakes of 8.46% and 10% respectively in the capital of BMCE Bank and Crédit Agricole du Maroc (CAM). These three equity investments represent 18% of the total portfolio of the equity investments held by CDG, which represent a total investment of MAD 7.42 billion. Although it has invested MAD 3.8 billion in BMCE Bank and CAM, CDG does not operate the retail banking business and is limited to its role as a financial investor.

    - **Intervention in business and investment banking**: CDG is involved in this activity through its subsidiary CDG-Capital. Overall, notwithstanding the decline in CDG-Capital's indicators from 2006 to 2017, its financial performance remains at satisfactory levels, with an average return on equity of 17% and an average profitability of assets of 3.5%. Overall, CDG-Capital is a growing subsidiary but remains dependent on the intra-Group business and the business of CDG's own customers that it entrusts to it. This is carried out under the assistance mandate (custody of securities, management of funds under mandate, asset and cash management). Some CDG-Capital subsidiaries lack openings on customers outside the Group's scope. It should be noted that some of them operate only in the service of CDG and its subsidiaries.

    - **Involvement in reinsurance**: CDG operates in this business through the Central Reinsurance Company (SCR) created in March 1960, pursuant to an agreement signed with the Government. The purpose of the SCR is to carry out legal, conceded or conventional reinsurance operations and benefits from the government balance guarantee. It ensures regulatory and security missions in the face of international turbulence by participating in the retention of premiums at the national level and the mobilization of savings that it places at the service of the Moroccan market.

      The SCR goes through a major turning point in its history marked by the end of the legal transfer[7] following the entry into force of the Free Trade Agreement with the United States in 2006 and the implementation of the legal transfer mechanism's progressive decommissioning decision.

      La convention du 9 mars 1960 entre l'Etat et la SCR concède à cette dernière, à titre exclusif, la cession légale et fait obligation aux sociétés d'assurances de céder à la SCR une part de leurs primes des affaires directes, qui ne doit pas dépasser 10%. Ainsi, la SCR absorbe une part non négligeable de la réassurance locale de près de 72% des primes cédées par le marché.

[5] funds and investment companies were distinguished from Banking and Financial Activities segment in order to better appreciate their CDG Group's performance contribution.
[6] BNDE excluded (in liquidation phase).
[7] The agreement of March 9, 1960 between the State and the SCR concedes to this last, on an exclusive basis, the legal assignment and legally oblige insurers to give the SCR a share of their premiums of direct business, which must not exceed 10%. Thus, the SCR absorbs a significant share of the local reinsurance by up to 72% premiums ceded by the market.

3. Territorial development and urban planning

82. The territorial development activity is mainly carried out by the CDG-Développement holding company. At the end of 2017, it consolidated 67 subsidiaries and equity investments, of which 47 were owned more than 50%. And, several subsidiaries of CDG-Développement are experiencing difficulties in creating value.

83. The urban development activity is entrusted in particular to four companies with major territorial projects, namely the Anfa urbanization and development agency (AUDA), the Zenata development company, Jnane Saïss development and the municipal planning national company (Sonadac). This activity contributed in a mixed way to the Group's result, since for ten years (from 2008 to 2017) it remained negative except for the years 2013, 2015, 2016 and 2017 when AUDA started to market its products.

The different sectors analysis of this activity led to the following findings:

▪ Wood sector

84. This activity includes wood production, forest asset management, pulp manufacturing and paper production by three companies owned by CDG-Développement namely Cellulose du Maroc (pulp production), Eucaforest (fund dedicated to the production and supply of industrial wood for Cellulose of Morocco) and Med Paper (paper industry).

85. This sector is structurally loss making and destroys value. The following table presents the share of this sector in the Group result of CDG-Développement during the period 2008 to 2017:

Table n°4: Share of wood sector in the group result of CDG-Développement (in MAD million)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Eucaforest	92,56	-1,59	2,49	6,33	30,04	-67,42	0,9	-62,66	-16,24	-14,21
Cellulose	-23,51	-60,43	113,12	-23,02	-56,4	-211	-75,33	-114,22	-33,67	-10,56
Med Paper (former Papelera)	-5,91	-40,31	-1,73	-1,46	-16,86	-4,1	-9,38	-5,26	-21,99	0,00
Total	**63,14**	**-102,33**	**113,88**	**-18,14**	**-43,21**	**-282,51**	**-83,81**	**-182,14**	**-71,91**	**-24,76**

Source : CDG

- **Cellulose du Maroc**: purchased by CDG in 2004, it is 90% owned by CDG-Développement. The analysis of the main financial indicators, in particular the operation and net results, led to note that these are in continuous worsening. In addition, the company incurs a serious risk of exploitation continuity concern because of accumulated losses. Equity represents only 13% of the share capital, instead of a minimum of 25%.

- **Eucaforest Fund**: 100% held by the Cellulose du Maroc Company. It is an investment vehicle dedicated to the forest concessions management, the production and supply of industrial wood, most of which production is made for Cellulose. The analysis of the main financial indicators such as the net result, the return on equity and the profitability of the invested capital, made it possible to note that those indicators continue to deteriorate over the years. Also, debts peaked at 2.8 times the equity.

- **Med Paper**: as a result of the Papelera and Safripac merger, this company specializes in the manufacture and processing of paper for printing, publishing, writing and packaging. CDG-Développement holds 36% of its capital. This company is experiencing firm competition especially for massive imports. The main financial indicators' analysis revealed that disregarding an improvement in the operating result, the outcome remained negative. In addition, the Company is in debt to the extent that its financial debts represent 2.6 times its own funds and the interest charges absorb more than 68% of the operating result before interest, taxes, depreciation and amortization (EBITDA). Starting in 2009, it recorded a negative return on equity and invested capital, as well as a negative cash position.

- **Aiglemer**: a CDG-Développement’s wholly-owned subsidiary since December 2008, it was taken over by the Group as part of the Pepelera of Tetouan and Safripac merger at a symbolic sum of one dirham. This company was acquired when out of business and is still in the process of legal and tax structuring.

86. In conclusion, and through the analysis above, it seems that this sector destroys value more than it produces. To provide solutions to this situation, the CDG strategic plans formulated guidelines to maintain forest management and exit the pulp and paper business. Also, following the strategic review of CDG-Développement's portfolio in 2010, it was recommended that the latter disinvest in this business sector.

▪ Local development corporations

87. CDG has created many local development companies in partnership with the cities of Casablanca, Marrakech and Témara in order to undertake projects in the service of the community and the taxpayers.

88. The performance review of this activity highlights that it destroys value due to the structurally negative contribution to consolidated result of CDG-development. The following table illustrates this observation:

Table n° 5: Local development corporations’ contribution in net profit (group share) of CDG-Développement (in MAD million)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Casa Développement	-1,1	-0,16	-0,36	0,03	0,45	-0,09	-0,51	-1,27	0,37	0,92
Rabat Parking	0	0	-0,9	-1,18	-0,14	-0,17	1,49	-0,1	-1,23	-1,47
Témara Développement	-0,8	-1,61	-1,45	-0,59	-0,8	-0,28	-0.01	-0,18	-0,68	-1,56
Avilmar	0	-0,07	-2,56	-1,51	-1,16	-3,34	0,29	0,28	-1,26	-0,86
CG Park	-4,57	-0,68	-3,66	-2,84	-2,56	-12,04	-10	-12,25	-10,67	-10,44
Total	**-6,47**	**-2,52**	**-8,93**	**-6,09**	**-4,2**	**-15,93**	**-8,74**	**-13,53**	**-13,47**	**-13,40**

Source : CDG

▪ Services activity

89. The "services" activity encompasses the engineering and services trades. Some companies working in this sector face operating difficulties such as Norea company and la société forestière de CDG (SF-CDG) whose activity is on standstill since the end of 2014. These companies run a risk of operating continuity as they have net situations less than 25% of their capital.

4. Tourism

90. The CDG involvement in the tourism sector aims to accompany the Government policy in order to achieve the objectives of the 2010 and 2020 visions. This includes creating and/or developing new emerging destinations (stations of the Azur plan, stations of Biladi, new tourist destinations plan) and invest in emerging regions.

91. This activity is driven both by CDG, certain subsidiaries of CDG-development and Madaef Company. As of the end of 2017, CDG has consolidated in its accounting 37 subsidiaries and equity investments in which 29 are held at more than 50%.

92. From 2008 to 2017, tourism activity recorded negative results and a structurally negative contribution in the CDG Group result.

The review of tourism activity's CDG involvement raises the following findings:

- **Tourism activity's performance**

93. In the absence of a clear vision in terms of strategy and governance of this activity, low profitability has been noted notwithstanding the significant investments made. The analysis of the financial statements of a sample of 10 entities[8] during the 2007-2012 period corroborates this observation. Several subsidiaries facing difficulties in creating value for the group, have been deemed to be a threat to the continuity of their operations.

94. Thus, several entities recorded net losses, and generated significant cumulative losses and negative cash flow, remarkably impacting equity. Similarly, the invested capital was not covered by constant resources representing an imbalanced financial situation.

95. In addition, the companies under analysis are over-indebted. The total debt accounts for an average of 90% of the total balance sheet, which may prevent them from resorting to bank credit financing and even less from paying dividends. Moreover, no dividend distributions were made by these companies during the period under scrutiny.

96. Furthermore, several entities have recorded a negative net cash showing that the need for global financing is increasingly important.

97. In the particular case of hotels purchased from the CIH bank, CDG has begun a remediation of their legal, fiscal, social, and land situation. However, it faces difficulties in making these hotels profitable, despite the recovery actions undertaken and the significant resources committed in the form of loans (19 loans granted for a total amount of MAD 211 million).

In addition, the analysis of these companies' business plans from 2013 to 2020 shows negative results. Thus, the total losses recorded amounts to MAD 70.2 million.

- **Investment strategy**

98. In order to implement its vision, significant investments have been made by CDG in the sector, representing 26% of the total investments planned over the period from 2011 to 2015, which is MAD 9.95 billion of which MAD 7.16 billion were made. Over the period covered by the 2018-2022 strategic plan, the investments scheduled are MAD 6.54 billion.

99. Of a total investment amount of MAD 14 billion, MAD 8.3 billion were reserved for the development projects of Saidia and Taghazout tourist resorts. The remaining, MAD 5.7 billion, is kept for the construction and renovation of 12 hotels (excluding stations) by 2022. By the end of 2017, 26 hotels are operating, of which 13 are managed by HRM.

100. The CDG Group's significant commitment in the tourism sector is not sufficiently regulated by rules relating in particular to minimum profitability, the level of maximum risk, the investment horizon, the exit strategy, exposure in terms of maximum investment and the risk

[8] Madaef, Hôtel Mamounia, SHRA, Norea, Resort CO, SAI M'diq, SIM, HRM, SHN, Hôtels Mahd Salam.

of replacing the private sector knowing that CDG performs throughout the value chain including hotel operations.

101. Additionally, it was found that the investment in the stations concerned by the Azur plan was dictated by the need to revive the activity of these stations, which had experienced significant delays in delivery, particularly Saidia and Taghazout.

102. Similarly, CDG's position in hotel development is inadequate because of the multiplicity of projects in non-mature destinations with low development potential.

103. It should be noted that the study carried out in 2011 by a consulting firm called for the gradual withdrawal of the management activity of some hotels, particularly during renovation operations.

▪ CDG Group positioning in tourism activities

104. CDG Group several entities operate throughout the entire tourism value chain individually and without coordination in terms of strategy, design and pooling of resources. Indeed, it was observed the performing of same entities on one or more value chain stages such as management of investments, funds, projects, assets and hotel management.

105. Hence, it has been observed that positioning on the value chain does not derive from a strategic vision shared by entities involved in the tourism sector. In fact, CDG did not define, beforehand, an appropriate intervention model specifying the target links, the asset classes, and the definition of the subsidiaries' scope and validation.

106. Also, the CDG group fragmented performing throughout the entire value chain and sometimes on the same component creates redundancy between different entities and decision-making bodies and does not make it possible to precisely quantify the Group's consolidated financial commitments in the sector and to decide on an optimal strategy for resources' allocation.

▪ Diversity of stakeholders

107. As part of the reorganization of its investment activities, CDG created CDG-Développement in 2004 and entrusted it with the management of the equity investment and subsidiaries specializing in the tourism business. Therefore, all the investments initially held by CDG were transferred, with the exception of those in the hotel company La Mamounia, the tourist investment fund Madaef, SIM and the following hotel assets: Jnan Fès, Moulay Yacoub, Sidi Harazem, Ouzoud and ZAT.

108. For the support of the public authorities in the tourism sector, CDG-Développement has made some equity investments in three coastal resorts (Saidia, Mazagan, Taghazout) and in the tourist project Oued Chbika.

109. In addition, in the area of integrated tourist areas development, Medz, a subsidiary of CDG-Développement, has acquired 34% in the capital of Cala Iris development and planning company in the province of Al-Hoceima (SAVCI). As part of the Oued Fez area development, it created in April 2009, its subsidiary "Oued Fez".

110. On the other hand, in 2011 CDG acquired seven hotels[9] belonging to CIH bank worth MAD 725 million. This acquisition is part of the restructuring of the CIH bank. It was intended to

[9] Omayades, Lido, Paradise, Wafahotel, Tichka, Sitzag and Iter.

allow him to release MAD 77 million of his additional own funds in order to improve his solvency and liquidity ratios.

111. CDG continued its development by investing in several tourism projects through the subsidiary Madaef. In 2010, through the company "New Marina Casablanca", in 2013 through the Hotel Company of Rabat and the equity investment in Club Med companies, the touristic residences development company (SDRT) and the sea real estate company (SIM).

112. In terms of organization, tourism activity is shared between several subsidiaries and sub-subsidiaries carrying tourism assets and projects. Thus, it was noticed that about 40 funds and investment vehicles and management intervene in the tourist activity with superimposed levels, in the absence of clear links.

113. This situation creates a high operational complexity, makes it difficult to outline this tourist activity and leads to a dilution of responsibilities between entities, in the absence of a structure in charge of coordinating and harmonizing intervention policies, capitalize on experiences, network support functions and pool cost centers.

114. In addition, a low level of integrability was noticed that does not favor operational performance and the exploitation of potential synergies. Hence, it was observed a lack of synergies on the one hand between hotels when it comes to managers' selection criteria elaboration, on the level of pooling of support functions, operational costs, the setting up of contracts as to financial, operational and / or technical frameworks. On the other hand, the lack of synergy is observed between the Group's entities in the pooling of expertise and qualified resources, mainly because of the small size of the entities.

- **Tourism activities' steering**

115. The CDG Group's tourism business has undergone a significant change in terms of created subsidiaries or invested funds. However, the management and monitoring and coordination tools have not support change, although some subsidiaries display business continuity risks raised repeatedly by the statutory auditors since 2008.

116. Therefore, it was perceived that there is no reference system to monitor the operating management and tourism assets portfolio development, quantify financial commitments, summarize and consolidate reporting, and report performance indicators particularly those relating to business (market share, price indicators, operational performance indicators, etc.), exposure risk, solvency risk and qualitative indicators (strategic priorities and flagship projects).

117. In the absence of an appropriate investments follow-up made by the tourism subsidiaries optimizing the return / risk ratio, it is difficult to anticipate the slippages with regard to the limitation of the Group's financial commitments to the forecasted investments and the coverage of the risks inherent in the development and operation of hotels and tourist units (construction risks, management risks, image risks, etc.).

118. Furthermore, in the absence of the tourism subsidiaries activity management indicators consolidation, it is difficult to capitalize on the expertise of the teams in terms of asset and project management and to develop synergies between different hotel and tourism assets. In this context, it is difficult to build a database to decide on an optimal strategy based on clear and quantified objectives, established as part of a consolidated vision of tourism activity.

5. Economic and social housing activity

119. CDG also invests in the housing sector through its subsidiary CGI. Indeed, the latter operates in the development and promotion of real estate, it takes part as well in the residential sector as in the tertiary sector. It is also active in the development of economic and social housing through its subsidiary Diyar Al Mansour (DAM). CDG is also involved in this area through a 50% stake in the capital of Immolog, created in October 2005 in partnership with a private real estate group.

120. The participation review of these two subsidiaries in the CDG Group result shows that DAM's participation is fluctuating. Its contribution became negative in 2016 and increased in 2017 with -209%. In the case of Immolog, its participation is positive and had improved in 2017, recording 34%. From 2007 to 2017, the dividends remitted by Immolog and DAM to CGI amounted to MAD 504 million. Since its creation, the investments made by DAM have had an average annual growth rate of 8% during the period from 2002 to 2017. They raised from MAD 46 million in 2002 to MAD 149 million in 2017.

121. Starting in 2009, DAM initiated a shift in its strategy by investing in other segments namely promotional and social housing. At the end of 2017, the latter took over around 48% of the investments made during this year. To finance its activity, from 2009 to 2017, DAM benefited from advances from CDG of MAD 714 million, of which MAD 424 million, or more than 59%, was converted into capital increase. From 2005 to 2017, it also used a loan from CDG-Capital for a total of MAD 564 million.

122. With regard to financial performance, starting in 2016, DAM is beginning to experience difficulties. Operating and net results, as well as return on capital employed, are negative.

Recommendations

In the light of the abovementioned observations, the Audit Court issues the following recommendations:

- **Regarding governance :**

It recommends:

- to the public authorities, to recast the legal and institutional framework governing CDG, so that it can comply with the best corporate governance practices;
- to CDG, to strengthen the internal control system and set up a risk management system for the entire Group.

- **Regarding strategy and steering :**

It recommends that CDG:

- match its strategic choices with operational plans that are achievable according to specific timelines and through evaluation and monitoring mechanisms;
- strengthen the steering mechanisms to ensure close monitoring of subsidiaries and equity investments.

- **Regarding the subsidiaries creation and equity investments:**

It recommends that CDG:

- put unauthorized subsidiaries and equity investments in accordance with the Law No. 39-89 and the Finance Minister's Decree of April 1, 1960 provisions;
- fill the deficit recorded in the follow-up of some subsidiaries and equity investments.

It recommends that the Economy and Finance Ministry, as the supervising authority of CDG, ensure that the latter respects the commitments and objectives on the basis of which the authorizations were issued.

- **Regarding the direct equity investments management**

It recommends that CDG:

- formalize rules governing the direct equity investments portfolio management in terms of investment concentration, exposure by sector and counterparty;
- revise the subsidiaries and equity investments' steering function in order to move towards a target organization allowing the reshuffling of responsibilities among the various stakeholders in order to be able to follow up effectively to avoid overlapping and diluting responsibilities;
- put in place a policy clearly defining the rules for remitting dividends by subsidiaries and equity investments and reviewing those that do not.

- **Regarding the financial investments steering:**

It recommends that CDG:

- monitor, on a regular basis, the adequacy between the amount of equity and the risks incurred in order to permanently ensure a level adapted to the risk profile;
- take the appropriate measures to rebalance the share of the various asset classes (equities, bonds, land and money) for an allocation that optimizes the risk / reward ratio and ensures regular monitoring and reporting;
- improve the quality of the assumptions, make the data retained for the calculation of economic capital more reliable and inform the Supervisory Commission thereof;
- make additional efforts to reduce CDG's exposure to interest rate and liquidity risk by properly managing the balance of resources and expenses.

- **And, as a whole :**

It recommends that CDG:

- refocus on its core business, including saving and managing savings funds;
- consider the opportunity to exit the wood business, the local development companies and the services to business companies;
- reorganize the tourism sector and address the issue of withdrawing from the hotel management;
- exit the business segment "economic and social housing".

CDG’s response

▪ In terms of governance

In the CDG group’s new strategic plan development, it became necessary to update the legislation governing its activity, the Dahir establishing CDG dating back to 1959 which was not substantially amended since then.

Indeed, the Dahir gave CDG many missions to secure and manage the funds entrusted to him as part of regulated deposits or administrative or judicial deposits. One article is devoted to investment rules and refers to finance Minister’s orders.

In its current form, the Dahir has certainly allowed agility and flexible management. However, in a context where the CDG’s activity was substantially expanded as part of the public policies support, where the national economic and financial environment has significantly evolved and where the private sector has much developed, it appears essential to equip CDG with a legislation that governs its activities, precise his governance mode and gives it the means necessary to its development and its sustainability.

In this context, the Dahir could be revisited at three levels:

- **CDG’s mission**: first, it would be necessary to complete the CDG’s mission by introducing:
    - the principle of investment in the service of the economic development and public and private actors funding while devoting the CDG heritage interest principle, essential corollary to its mission’s expansion.
    - the possibility of intervening in general interest’s projects at the request of the State insofar as these interventions are:
        - consistent with CDG’s business, strategy and financial capabilities;
        - and framed by agreements with the public authorities which would specify in particular the roles and responsibilities of the stakeholders and ensure the economic balance of the CDG intervention.
- **Prudential framework**: since 2006, CDG has been subject to the banking law, which imposes to it, as an organization comparable to a credit institution, to comply with certain prudential rules that are not adapted to the business model. It would be necessary that the legislative text governing CDG give the possibility for an internal prudential framework that capitalizes on the current one resulting from banking regulation.
- **Governance**: the Dahir provides that the supervisory commission has an essentially consultative role. Despite significant progress in recent years in terms of the governance quality (quarterly meetings, creation of an audit and risk committee and then an investment and strategy committee, etc.), it seems necessary to converge the prerogatives of the supervisory commission with those of a real governance body able to decide in particular on the CDG Group’s strategy, its organizational structure, its operations and strategic investments, ...

On this basis, the renovation of the legislative and regulatory framework applicable to CDG could include the following areas, among others:

- The framework alignment with the CDG's mission reality based on its standing as a trusted third party.
- Clarification of relations with public authorities in order to distinguishing the public

service mission from commercial activities.

- clear investment rules' introduction.
- establishment of prudential rules based on the aforementioned rules.
- Securing resources (CNSS, CEN, etc.).

Regarding the best governance practices' deployment:

- Draft rules of supervisory committee' procedure defining its tasks and functioning were prepared by CDG and sent to the Commission members (in March 2016) who proposed to defer its examination, until the CDG governing legal framework's refashioning.
- An appointment and salary policy has been formalized and validated.
- A management policy for investment portfolio and treasury has been deployed. This new system establishes governance, portfolio management rules and the risk management and control strategy.

▪ In terms of strategy

In 2017, CDG defined its new strategy for 2022. This exercise provided the opportunity for the portfolio review of current activities and potential intervention sectors, after which new strategic orientations of the CDG group have been planned. Then, CDG supports its new strategy on five pillars:

- Savings and provident;
- Tourism;
- Territorial development;
- Co-funder (contribute to the financing of local authorities and co-financing of SMEs);
- Investor (invest in partnership with industry sector players, agro-food, new information technologies, renewable energies and territorial public-private partnerships).

These five pillars will be deployed through an organization structured around four business lines:

- savings and providence management;
- tourism;
- territorial development;
- banking, finance and investment.

At present, the Group's strategic orientations for subsidiaries in action plans and business plans over five years have been implemented.

The definition of the new strategy of the CDG group was accompanied by the institution of a project management entity (project management office, strategic PMO), which will be the tool for steering the deployment of the strategic plan.

In addition, a new group management system is in the implementation phase, aimed at defining a coherent management architecture, adapted to the CDG profile, which is scalable and capable of supporting the group's strategy. Based on a strategic cycle and a budget cycle, it provides for the implementation of enhanced steering for territorial development activities and tourism activities in particular.

With regard to the CDG Group-wide internal control and risk management system, it should be noted that:

- On the one hand, the internal control environment was strengthened by updating the CDG structures' internal control manuals to cover all the activities supported by risk mapping, by instructions on compliance's dissemination and deployment, the introduction of the investment files' risk analysis before their presentation to decision-making bodies and the monitoring of structural risks.
- On the other hand, a comprehensive risk management policy has been developed and disseminated to the Group's subsidiaries in order to institutionalize the principles and rules for controlling risks.
- The implementation of the new prudential framework in approval phase by the Central Bank will be a powerful decision-making and management tool for the Group's major risks and will further strengthen the function and culture of risk management within the CDG Group. Its deployment will be effective from the year 2018.

- **In terms of subsidiaries creation and equity investments**

In 2018, the Group portfolio's legal framework remediation and the branches operationalization, CDG is underway to bring in conformity the subsidiaries and equity investments that are not allowed previously.

- **Regarding the direct equity investments' management**

Rules defining and regulating the direct equity investments' portfolio management in terms of investment concentration and exposure by sector and counterparty have been formalized.

A reinforcement of the least risky asset pockets, in particular interest rate assets, is planned in the 2018-2022 strategic trajectory. Investment management, particularly in terms of exposure concentration, will be governed by the new prudential framework (NCP).

As part of the new strategy 2018-2022, CDG has set up a new management system that takes into account the profile of the group as a public institution and diverse group operating in different sectors. Thus, the steering system clarified the group's business organization by defining four main areas of activity, namely:

- savings, retirement and provident;
- territorial development;
- tourism;
- banking, finance and investment.

The new steering system takes into account four steering positions that differentiate and reinforce the level of CDG intervention in the steering of its subsidiaries, and define, for each role, short medium and long-term steering cycles, as well as the processes organizing these cycles, their modus operandi, the responsibilities and interactions between the various stakeholders.

This integrated architecture gives more clarity to CDG's current business lines, provides sufficient rigor and agility and repositioning CDG more through its management and central departments, notably the "finance" division, which is responsible for controlling and managing its subsidiaries, it also promotes the functioning as an integrated, optimized group whose synergies and pooling constitute the levers. Thus, the new plan reorganizes the group's steering as follows:

- for the "banking, finance and investment" activities, a mature and regulated domain, it is managed in the so-called "strategic and financial architect" mode, where CDG intervenes in the definition of strategic orientations, policies and group benchmarks and operates a reinforced management focused mainly on strategic management, financial performance management, budget and major financial balances as well as risk management and steering.
- the activities of "territorial development" and "tourism" are directed in reinforced piloting mode called "operational controller", where CDG will be much more interventionist vis-à-vis its subsidiaries concerned, and intervenes in the definition of strategies, policies, standards and business standards and operates a management of financial performance, budget, major financial balances and risk management but also a business management, operational performance and stakeholder satisfaction with a permanent presence and close monitoring of projects and sites.

In order to be able to introduce this mode of management through expertise, proximity and rigor, the new system recommends distinguishing between territorial development professions (development of real estate, urban development, economic activity zones) and tourism (resorts, hotels, and golf courses) and to set up, for these two areas, a level of intermediate steering called branch type. Thus, CDG-Développement will play this role for Territorial Development and Madaef for Tourism. These two structures are transformed in the framework of the new edifice into true structures of animation and specialized management, made up of experts in their field. They guarantee the successful deployment of the management system on their respective perimeter, the implementation of CDG's strategy in these areas, the introduction of business standards, the close monitoring, as expert, of projects and guarantee achievement of objectives including operational, development, quality and stakeholder satisfaction objectives. The managers of these two structures operate under the authority of the CDG’s general Manager, sit on the subsidiaries’ boards of directors in their area and at the level of the Group's governance committees.

For its original activities, deposits, and provident, CDG will remain in its role of operator with a more optimized and better organized management also based on cycles and piloting processes like the other areas.

For minority shareholdings, CDG will continue to manage this area through the governing bodies of these equity investments.

Steering target architecture also introduces the concepts of business review, and strategic review, high-level managerial meetings, which come punctuate regularly all steering cycles and will be part of the CDG group’s governance.

- **In terms of investments’ financial steering**

In 2017, CDG has considered a rebalancing in the 2018-2022 strategy to lead ultimately to a reinforced allocation by rate instruments (bond and monetary...) to provide a recurrent compensation of liabilities and stronger capital consumption.

- **And, as a whole**

The new strategy deployment will be the CDG’s opportunity to refocusing on its core businesses. Indeed, the CDG Group’s new strategy will favor the intervention modes "expert", "co-funder" and "investor" compared to the "operator" mode adopted for a long time by the Group. These new modes make it possible to gain in response capacity while best managing the Group risks.

A portfolio restructuring work related to the wood sector was initiated, as well as the termination of SFCDG and cellulose du Maroc activity whose the production tool’s sale was initiated via a call for bids. Regarding an activity related to the wood industry, in 2017, CDG sold all of its stake in the paper-making company Med Paper.

The tourism business’ restructuring was initiated and continues through the grouping of assets within Madaef which will ensure the "owner" function, the gradual exit of the scope of non-strategic assets and refocusing on high-potential assets. As for future investments in hotel projects, they will be made in a minority and financial rationale. With regard to tourist resorts’ development, CDG's efforts will be concentrated on Saidia and Taghazout resorts.

A reshuffling of CGI was initiated, of which DAM is a subsidiary specializing in economic and social housing, to make it a successful real estate developer.