



مجموعة تداول السعودية
Saudi Tadawul Group

Annual Report 2020
Executive Summary

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Reporting period and boundary

This Report is focused on the reporting period 1 January 2020 to 31 December 2020, which is consistent with the annual reporting cycle followed for 2019. The Report covers the financial and operational aspects of the Saudi Tadawul Group, formerly known as the Saudi Stock Exchange (Tadawul) mainly, the Securities Depository Center Company (Edaa), the Securities Clearing Center Company (Maqassa) and the Tadawul Advanced Solutions Company (Wamid), while the financials are consolidated with those of Edaa and Muqassa. The Report has been issued in both Arabic and English and in the event of any discrepancy the Arabic version shall prevail.

Reporting channels

Our Annual Report 2020 is being released in multiple digital mediums and formats simultaneously for the second consecutive time to effectively meet the diverse interests of our different stakeholder groups.



PRINT/PDF VERSION

The PDF version of our Report comprises our statutory annual report, which may be downloaded from our website.



https://annualreport2020.saudiexchange.sa/download/pdf/tadawul_2020.pdf



HTML VERSION

The end-to-end interactive online HTML version of our Report is identical to the PDF version, while it includes features for ease of finding, recording, extracting and sharing information.



<https://annualreport2020.saudiexchange.sa/>



EXECUTIVE SUMMARY

The executive summary of the Report in both PDF and video formats is ideal for those who want a quick read while on the go and for sharing information through social media.

THE SAUDI EXCHANGE GROUP

The restructuring was accompanied by a rebranding of the entire Group which was formed, including the holding company and its subsidiaries as follows:



VISION

To be a world leading capital markets group and the gateway to the MENA region, fostering the development of a diverse Saudi capital market.

PURPOSE

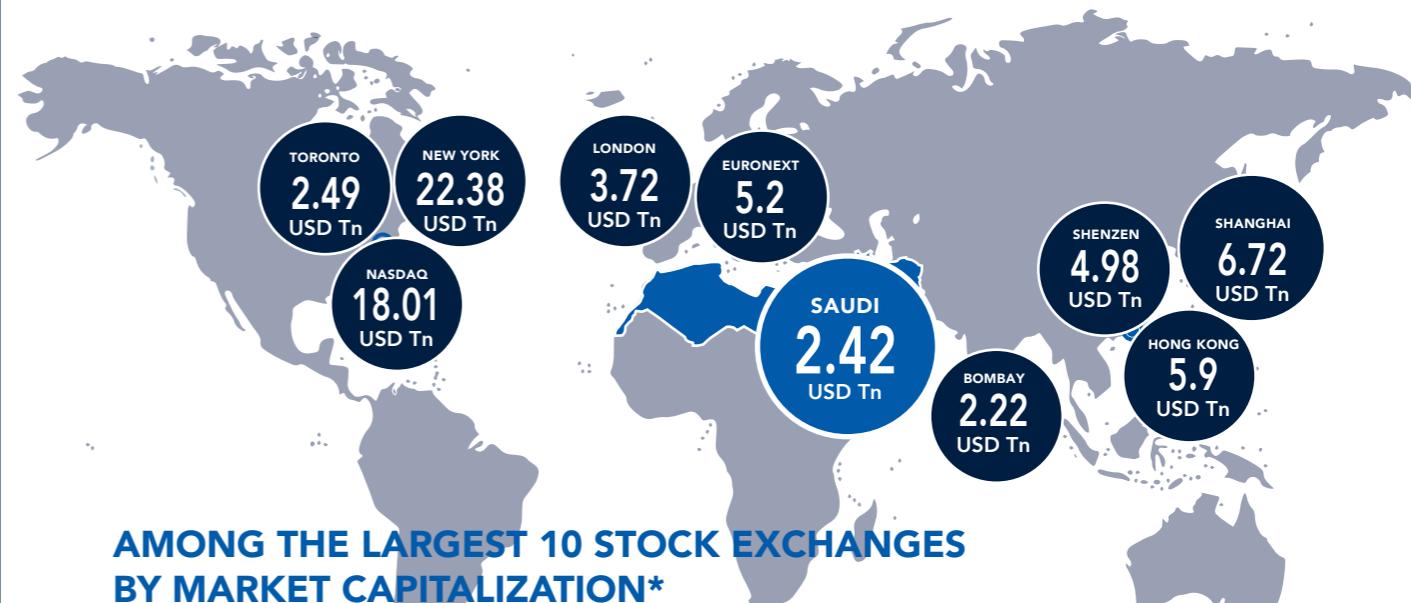
As part of its 2030 Vision, Tadawul is helping the Kingdom build a thriving economy with a technologically advanced and integrated capital market at its centre.

The Exchange is the only authorised body for the listing and trading of securities in the Kingdom of Saudi Arabia. A smoothly functioning and well regulated stock market is essential for the development of a modern market economy. The Exchange's Vision, Purpose and Objectives are closely aligned with the goals of the Kingdom's Vision 2030. Some of the shared goals include increasing the private sector's contribution to the economy, drawing in more foreign investment, and growing the SME sector.

OUR HISTORY



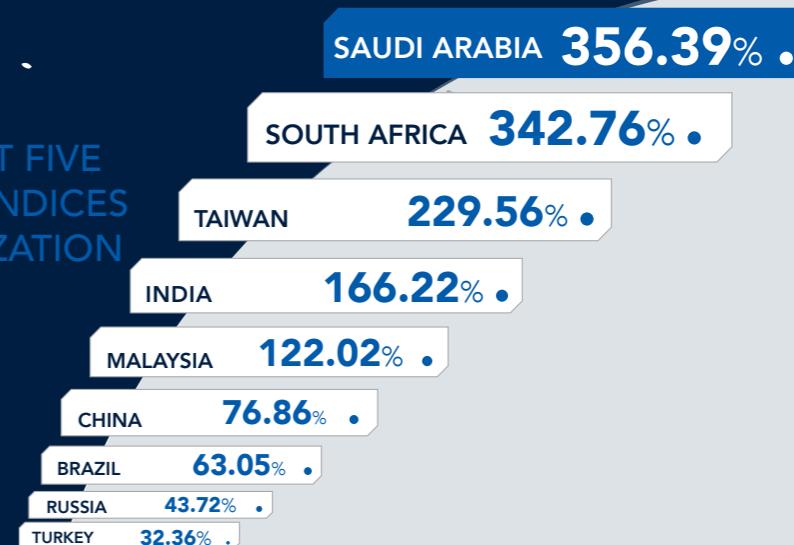
WHERE WE STAND



AMONG THE LARGEST 10 STOCK EXCHANGES BY MARKET CAPITALIZATION*

*Market capitalization represents the combined capitalization of the listed companies in the respective exchanges.

AMONG THE LARGEST FIVE EMERGING MARKET INDICES BY MARKET CAPITALIZATION AND MARKET CAP/ GDP RATIO



All statistics above are as of January 2021.
Source: World Federation of Exchanges

↗ CHAIRPERSON'S MESSAGE

The Exchange is evolving and pushing its boundaries, both geographically and functionally. To keep pace with these changes a new ownership structure has been formulated. A new company "Saudi Tadawul Group" has now become the holding Company of the Group, with Saudi Exchange (Tadawul), Edaa, Muqassa and Tadawul Advanced Solutions Company (Wamid) as its subsidiaries. Concurrently there has been a revamping of the Group's brand identity, Vision, Purpose and Manifesto.

The year 2020, was one where the Exchange was faced with unprecedented challenges. The COVID-19 pandemic plunged the Kingdom, the Region and the rest of the world into a grave economic and social crisis. Despite the economic recession and the restrictions on movement, Tadawul took all possible steps to maintain business continuity. At the end year the market has turned in a highly commendable performance with the average daily trading value recording an increase of nearly 150 percent over that of 2019.

Other than the performance in market trading, Tadawul was able to achieve major milestones in becoming a mature capital market. Inclusion in the FTSE Russel Emerging Markets Index was completed. The derivative market was initiated with the launching of an Index Futures derivative. Entry into the derivative market holds much promise for the future. Another major development was that the Securities Clearing Company, Muqassa became operational. This will help alleviate risk and reduce the transaction volume by netting.

Our technology function provided vital support in delivering planned initiatives while coping with unexpected requirements. The Exchange does not take a narrow market –focused or financial-focused approach but is giving increased attention to ESG factors. It hopes to leverage its position at the heart of the economy to promote ESG criteria. Our resilience at this time of adversity with the achievements of the last few years gives us every reason to look forward to a bright future for the Exchange.



Sarah Al-Suhaimi
Chairperson

↗ CHIEF EXECUTIVE OFFICER'S REVIEW

Tadawul which was the former holding company is the sole authorized entity which can act as a securities exchange in the Kingdom. The Exchange provides an infrastructure for listing and trading of securities. Its activities are complemented by those of the other Group companies.

I am reporting on a year where practically the entire world faced an economic and social crisis due to the COVID-19 pandemic. Several key industries virtually ground to a halt. Governments came under tremendous fiscal pressure with the need to provide relief and medical services were stretched to the maximum.

Despite all the constraints of the operating environment, Tadawul was able to achieve an extremely commendable performance both in the market and its own financials. Regarding the trading activity, several key indicators of market performance grew by over 100%, while the TASI index recorded a modest growth. Besides the market performance there were other significant developments. The process of inclusion in three leading emerging market indices was completed. The SF30 Futures Index was launched which heralded our entry into the derivatives market. It will serve as a trading and hedging Tool, which will help to reduce volatility in the market. The debt market was also enhanced with the introduction of two related indices which will be valuable to portfolio managers to assess portfolio value and risk.

The exchange also registered a strong performance in its own financials. Operating revenues nearly doubled driven by higher trading volumes. Coupled with operating costs being rigidly controlled, this resulted in an increase in gross profit of 203%. With general and administrative expenses declining we were able to achieve a near-quadrupling of the bottom line. Our human resources policies and the commitment and flexibility of our staff greatly helped to overcome the obstacle during the year. Our IT professionals provided all assistance to keep work and communications functioning smoothly. The year, while being a challenging one, has also proved to be a great learning experience. We can now look to the future confident that we can face any challenges that lie ahead.



Eng. Khalid Abdullah Al Hussan
Chief Executive Officer

CREATING VALUE

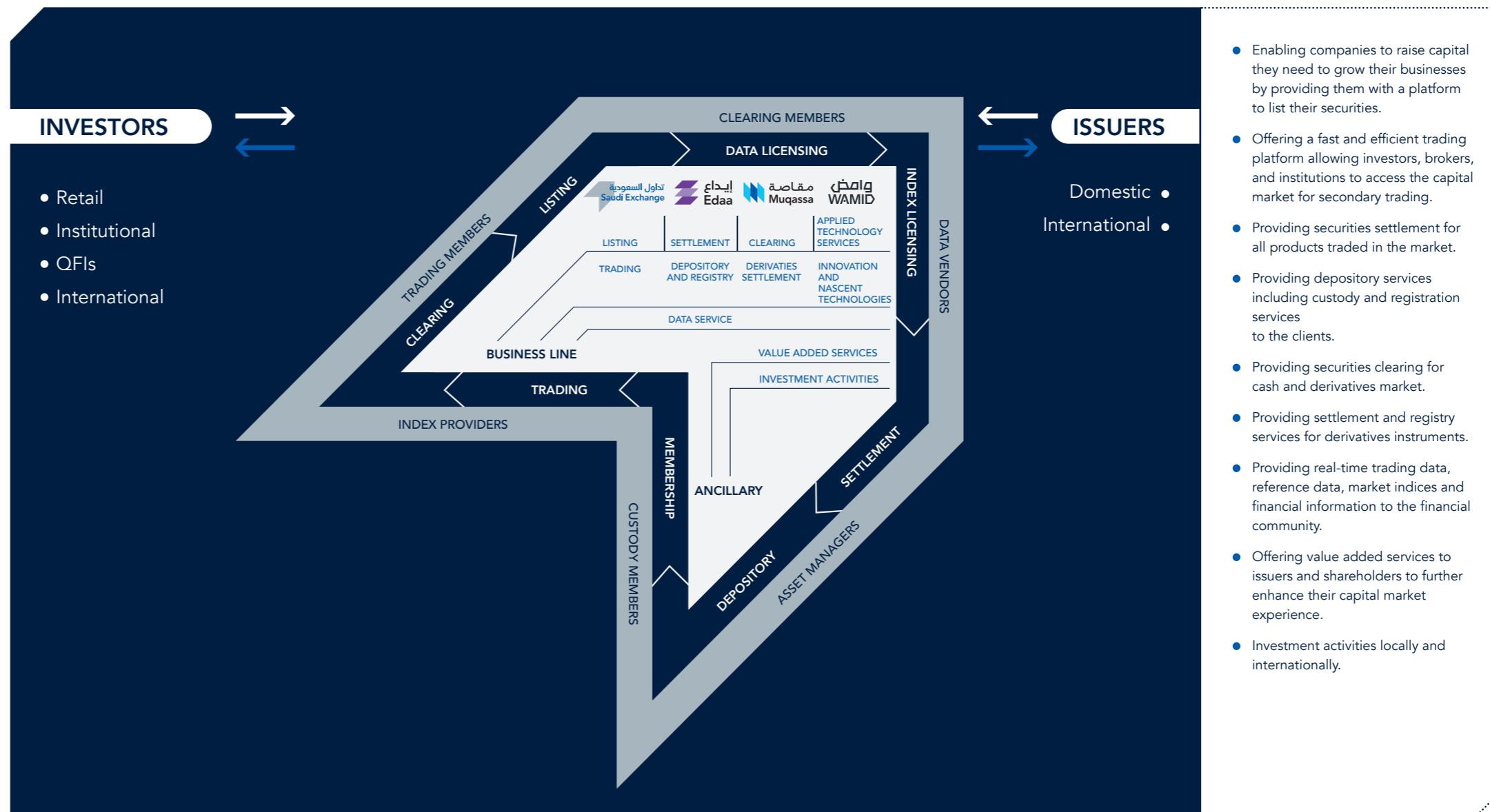
The COVID-19 pandemic has led to the worst recession the world has experienced since World War II. The contraction in the global economy was 3.5%; in the advanced economies 4.9%; in the emerging markets and developing economies 2.9%. Governments have had to step in with relief measures which have caused increases in public debt. A recovery to a 5.5% global growth in 2021 and 4.2% in 2022 is expected as the pandemic winds down with the availability of vaccines. While stock markets were generally drastically affected by the pandemic, there was a surprisingly strong recovery by the end of the year.

The GCC economies, including Saudi Arabia, all suffered a downturn not only due to the pandemic but also as a result of lower oil prices resulting from reduced global energy demand. A substantial recovery in oil prices is unlikely until 2023. The dampened oil prices will also constrain GCC Governments' ability to provide fiscal support.

BUSINESS MODEL

A stock exchange is an intermediary platform which facilitates issuing, buying and selling of securities. The securities include equities and a slew of others such as REITs, ETFs, CEFs, Sukuks, and bonds. The market needs to be efficient and transparent; transfer of cash and securities has to be effected smoothly and securely at minimum cost. An exchange needs to promote liquidity, so that buyers of securities can be assured of being able to divest them easily when they wish. Adequate and timely market information has to be available to enable market participants to make prudent decisions. This information may be provided by the exchange itself or by external service providers.

A stock exchange enables businesses to raise capital for expansion and thereby contributes to the growth of the economy. Tadawul is making a major contribution to the goals of Vision 2030 in this manner.



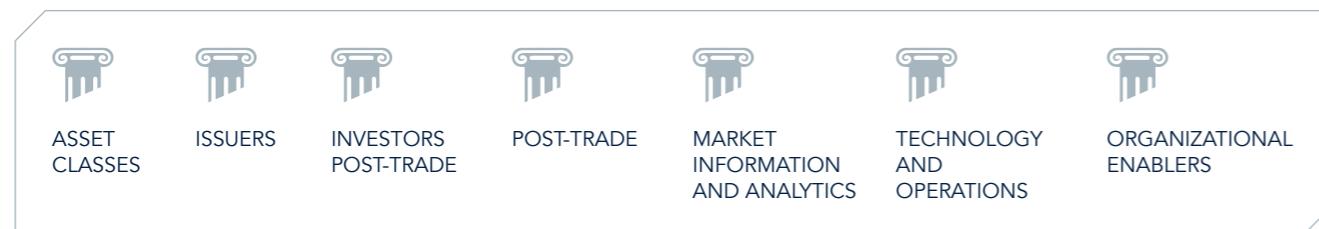
STRATEGY AND STAKEHOLDERS

During the year Tadawul continued with the strategic framework that has been drawn up for the period 2018-2022. The cornerstones of the strategy are the three value drivers, seven strategic pillars and the 29 strategic initiatives.

VALUE DRIVERS



PILLARS



Some of the major strategic initiatives launched in 2020 are:

- Permitting direct listing in parallel market, Nomu.
- Permitting foreigners to invest directly in debt instruments.
- Launching of new derivatives market.
- Securities Clearing Centre Company Muqassa becoming operational.
- Completion of inclusion in FTSE emerging markets index.

Tadawul's stakeholders are the individuals or entities who are influenced by the Exchange's operations or have the ability to influence its strategies, operations and results. Each category of stakeholders has its specific engagement channels. Some of the most important stakeholders are issuers, investors, members, employees, support service providers, and regulators.

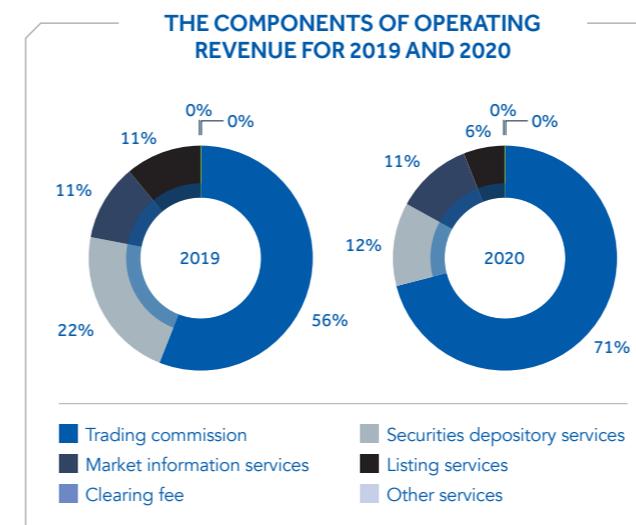
CHIEF FINANCIAL OFFICER'S REVIEW

Despite the challenges brought by the COVID-19 pandemic Tadawul ended the year with an extremely salutary financial performance. The key revenue and profit indicators all recorded substantial increases over those of 2019.

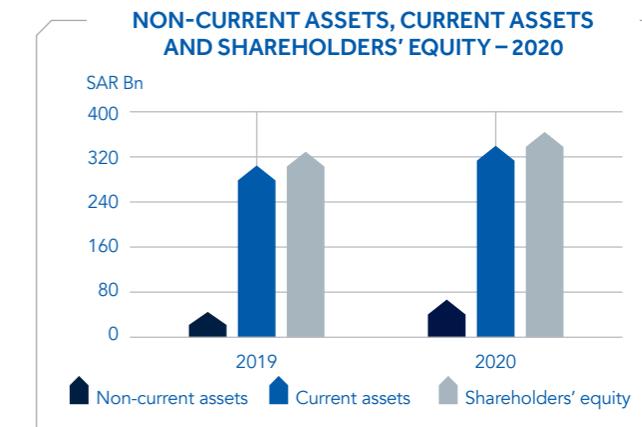
	2020	2019
Operating revenue	1,079,635,090	564,747,899
Gross profit	723,150,597	265,581,413
Operating profit	542,905,737	42,056,361
Profit for the year	584,080,144	153,293,786

While operating revenue has almost doubled, larger increases were recorded in other profit indicators as a result of costs being controlled.

The components of operating revenue show a significant increase in the contribution of trading commission over 2019.



Non-current assets, current assets and shareholders' equity also showed commendable increases in 2020.



A RESILIENT MARKET

In an extremely turbulent year, Tadawul was able to retain its position among the ten largest global exchanges and is also one of the three largest emerging market exchanges. There were also large increases recorded in trading volumes and values.

Tadawul All share Index (TASI) rose by	Market capitalization recorded a modest growth of	Daily average traded value of
3.58%	0.85%	136.27%
Total number of transactions increased by	Number of shares traded increased by	Market turnover ratio
170.06%	134.29%	23.03%

Market turnover ratio is the value of shares traded as a percentage of the average market capitalization over the year

QFIs continued to have a robust presence in the market despite the pandemic, and the number of QFIs increased from 1,826 to 2,333 over the year.

QFIS OWNERSHIP AND PERCENTAGE OF TOTAL MARKET DECEMBER 2019 TO DECEMBER 2020



The total number of listed Sukuks and bonds reached 72 with a total value of issuance of SAR 387 Bn. In recent years the market has also shown a diversification in terms of industry sectors, with a marked decline in the concentration of value traded in the three largest industry groups. Despite the adverse conditions the Exchange ensured business continuity. Although trading hours were curtailed, trading volumes and liquidity levels were maintained. The technology and infrastructure that had been put in place, even pre-pandemic facilitated this. Enhancements were made to trading procedures which improved the efficiency and maturity of the market such as changes to daily fluctuation limits. The minimum size for negotiated deals was changed from an across-the-board amount to more flexible system taking into account liquidity characteristics of securities.

Tadawul took a major step towards becoming a more matured exchange with the launch of the derivative market. The first

derivative product that was launched was the Saudi Futures 30 (SF30) based on the MT30 Index Futures. This was a major step towards introducing more sophisticated products and providing wider options for investors such as hedging and arbitraging. Institutional investors in particular, may wish to safeguard the value their portfolios by using derivatives as hedging instruments.

The MT30 Index is based on free-float market capitalisation of 25 to 35 stocks. The weightage that each stock has on the index is subject to a cap. It provides an effective benchmark for the investors, based on the largest and most liquid stocks. Several significant changes were also made in the parallel market, Nomu. As in the main market the minimum size for negotiated deals has been amended. The limit on daily fluctuation limits has also been increased. The Nomu Market Capped index, which imposes a limit to the weight of each issuer, has also been reviewed.

LEVERAGING TECHNOLOGY

Tadawul's technology strategy is closely interlinked with its business strategy. During 2020, despite unexpected demands brought by the COVID-19 pandemic all planned initiatives and milestones were kept on track. Among the major business projects completed were Derivatives market launch, Post-trade Programme and the new Data Centre. In addition several supporting technical initiatives had also to be executed. All these were achieved while keeping business continuity in routine market operations. In addition the IT Division had the challenge of addressing the new requirements for remote working that arose from the pandemic. The technical infrastructure had also to be upgraded to handle the additional load of the remote connections.

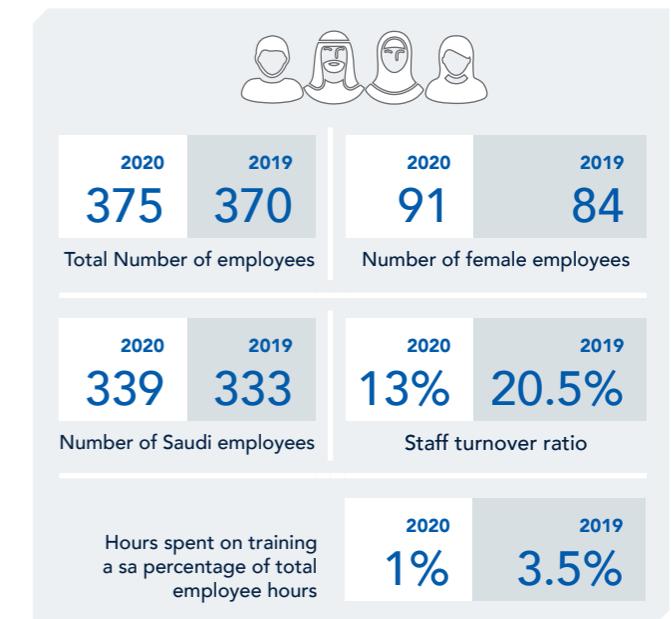
A number of new services were also introduced to improve market information and data analytics. These included catering to the needs of the debt market, REITs, and ETF market. Enhancements to the infrastructure, both hardware and software, have borne fruit by way of increased performance and reliability. Core systems achieved 100% reliability while non-core systems achieved 99.99%. IT security and governance have also seen major improvements.

There are many further projects and initiatives planned for the next few years. In addition, the Division will be open to opportunities that will arise to develop new products and services to keep up with the changing needs of the market.

THE PEOPLE FACTOR

While technology plays a key role, the talents, skills and commitment of our people are vital for our success. In 2020, most of the key strategic objectives were achieved, though a few had to be put on the back burner due to the constraints of the pandemic. Due to the inability of employees to work in their normal locations for a period, work methods had to be re-engineered, and necessary hardware and connectivity provided to work remotely. When physical meetings were not possible internal and external communications were conducted through conference calls. In an innovative step, two virtual town hall meetings were conducted with the entire staff.

The new working environment also spawned new training requirements. Training priorities were decided on depending on the exigencies of the situation. Priority was given to new business products, working and leading remotely, and soft skills. A survey conducted to gauge the response of the staff to the distanced working arrangements, drew an overwhelming positive response.



GROWING SUSTAINABLY

The COVID-19 pandemic has brought environmental, social and governance issues to the forefront as never before. Stock exchanges, owing to the role that they play, are well positioned to play facilitating and advocacy activities on ESG issues among market participants. Tadawul became a member of the United Nations Sustainable Stock Exchanges (SSE), which is a network of exchanges dedicated to furthering ESG goals. The SSE has identified several action areas through which exchanges can facilitate the building of financial systems that better support ESG goals.

SSE has identified five action areas where securities regulators can facilitate the building of financial systems that better support ESG goals. They are encouraging investment flows towards achieving SDGs through financial products; improving the quantity and quality of disclosure on environmental and social data; guiding investors on the integration of sustainability into their decisions; introducing board responsibilities related to environmental and social factors; and facilitating the training of market participants on sustainability topics.

Tadawul has identified six of the UN Sustainability Development Goals/targets round which to build its ESG programmes.



Target 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life.



Target 12.6: Encourage companies, especially large and trans-national companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.



Target 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.



Target 13.3: Improve education, awareness raising, human, and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.



Target 10.5: Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations.



Target 17.3: Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Economy

Invest wisely programme



An initiative to promote the financial literacy and investment awareness.



The programme takes participants of varying levels through simulation exercises which give a realistic experience.



Completed its fourth year during which several specialised workshops were conducted.



The total number of users at the year end was 627,666.

Nomu parallel market



Dedicated to the SME sector and has lighter listing requirements.



Helps SME companies overcome the barriers they face in raising finance and thereby fulfils a social responsibility.



There is also a path for SMEs to transition to the Main Market once they can meet the requirements.

Community



Gender equality is a key thrust of our community theme activities.



Women's Empowerment Principles was signed by the CEO, giving the Exchange the distinction of being the first Saudi Company to do so. The principles are directed towards strengthening the role of women in the capital market as well as in listed companies.



For the second consecutive year hosted the "Ring the Bell for Gender Equality" joining over 90 stock exchanges world-wide.



Nursing Allowance for female employees was introduced from the date of birth to age five, of SAR 15,000 per year per child with a maximum of SAR 30,000 per year.



28% female representation in the workforce and two women on the Board.



Sarah Al-Suhaimi, Chairperson was named a Leadership Champion for the Women Entrepreneurs Finance Initiative (We-Fi) for the period June 2020 – May 2022.



25% of the C-Level positions are occupied by women.

Education

Graduate Development Programme



Launched in 2019, with the objective of grooming future leaders



The trainees are prepared for a specific job role and given a specific job title once they complete their training



The programme exposes trainees to practical situations where they can apply their knowledge



In 2020, a total of 15,700 applications were received out of which 41 were selected

Environment



Recycling of paper and plastic waste initiative to reduce the impact on the environment



Steps to reduce consumption to lessen the minimize the impact



Conducting environmental- related advocacy through our membership in the Climate Change Advisory Group

SUBSIDIARY REVIEW



The Securities Depository Centre Company (Edaa), is wholly owned by Tadawul, and was established in 2016. Its Primary strategic objective is to develop supporting infrastructures and procedures to execute transactions in accordance with the highest standards. It thereby supports the first objective of the Financial Sector Development Plan (FSDP) which is the formation of an advanced capital market.

The principal activity of Edaa is to operate and maintain the Depository and Settlement System (DSS), used to record and maintain securities and to register the ownership of securities in electronic format. In addition to its core functions, Edaa has added several value added services such as management of General Meetings, e-Voting, reporting and notifications.

Several new functions had to be introduced during the year due to the COVID-19 pandemic. Physical General Meetings had to be suspended and voting had to be conducted electronically. As physical person-to-person contact had to be minimised, authorised person's signature and issuer stamp had also to be handled electronically.

An enhancement was also made to the voting facility, the introduction of spilt voting. When institutional investments are managed by several asset managers it permits the vote to be split among several individuals when voting for Directors. Edaa also made a contribution to the development of the debt market by introducing a new workflow for the offering process.



The Securities Depository Centre Company Muqassa, which was formed in 2018, became operational during the year. Muqassa's core functions are to reduce post-trade risks, eliminate counterparty risks, and develop clearing processes in accordance with international standards. Muqassa acts as an intermediary in the transaction process, by being a buyer to each seller and a seller to each buyer. The Company will also carry out netting of transactions on a multi-lateral basis which will reduce the number and value of payments and security transfers. Another major step implemented during the year was index futures clearing which launched the derivative market. This was also a contribution to the goals of FSDP. While the COVID-19 pandemic prevented Muqassa from achieving all its planned objectives for the year, in the circumstances the achievements were commendable.



A new subsidiary company Wamid was formed which was an innovative step. Its focus is to be a technology oriented business which will drive innovation and nascent technologies within the Saudi economy. It will add depth and diversity to the Saudi Tadawul Group and increase the Saudi market's attractiveness to the global investor community.

➤ A PEEK INTO THE FUTURE

Several major developments in the market are anticipated in the future. Some cross-listings are expected as a result of the MOUs signed with Abu Dhabi Exchange (ADX) and Bahrain Clear. Several new indexes are also in the offing, including the Sharia index which will be a performance measure of all Sharia-compliant companies in Tadawul. A Corporate Governance Index, which will give more weightage to Companies following the CMA Governance Rules will also be introduced. We can also look forward to many developments in derivatives, one of which is the launching of single-stock futures.

Further developments in technology will support the market initiatives. The Post-Trade Technology Programme is expected to continue for several years. All developments will be conducted with close interaction with other divisions. We can also look forward to the Exchange playing a greater role in ESG advocacy and education. An ESG Disclosure Guidelines Document is expected to be issued soon, mainly targeted at issuers. Our team rallied to the occasion and delivered outstanding performance in trying circumstances. We can count on their continued support and commitment to face whatever challenges that lie ahead.

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