

**Secretarial Compliance Report of Karnataka Financial Corporation
for the financial year ended March 31, 2023**

(Pursuant to Regulation 24A (2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015)

The Board of Directors,
Karnataka State Financial Corporation,
KSFC Bhavan, #1/1, Thimmaiah Road,
Near Cantonment Railway Station,
Bengaluru - 560052.

I, K. Narayana Swamy, Company Secretary in Practice, have conducted the review of the compliance of the applicable statutory provisions and the adherence to good corporate practices by **Karnataka State Financial Corporation** (hereinafter referred as 'KSFC' or 'the Listed Entity'), having its Registered Office at KSFC Bhavan, #1/1, Thimmaiah Road, Near Cantonment Railway Station, Bengaluru - 560052. The Secretarial Review was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and to provide my observations thereon.

Based on my verification of the listed entity's books, papers, minutes books, forms and returns filed and other records maintained by the listed entity and also the information provided by the listed entity, its officers, agents and authorized representatives during the conduct of Secretarial Review, I hereby report that the listed entity has, during the review period covering the financial year ended on March 31, 2023, complied with the statutory provisions listed hereunder in the manner and subject to the reporting made hereinafter :

I have examined:

- all the documents and records made available to me and explanation provided by **Karnataka State Financial Corporation** ("KSFC or the Listed Entity"),
- the filings/ submissions made by the listed entity to the stock exchange,
- website of the listed entity,
- any other document/ filing, as may be relevant, which has been relied upon to make this Report,

for the financial year ended March 31, 2023 in respect of compliance with the provisions of :

- the Securities and Exchange Board of India Act, 1992 ("SEBI Act") and the Regulations, circulars, guidelines issued thereunder; and
- the Securities Contracts (Regulation) Act, 1956 ("SCRA"), rules made thereunder and the Regulations, circulars, guidelines issued thereunder by the Securities and Exchange Board of India ("SEBI");

The specific Regulations, whose provisions and the circulars/ guidelines issued thereunder, have been examined, include:-

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K. Narayana Swamy & Co.
Company Secretaries



- (a) Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;
- (b) Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018; *(Not Applicable)*
- (c) Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; *(Not Applicable)*
- (d) Securities and Exchange Board of India (Buyback of Securities) Regulations, 2018; *(Not Applicable)*
- (e) Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021; *(Not Applicable)*
- (f) Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021;
- (g) Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;
- (h) The Depositories Act, 1996 to the extent applicable;
- (i) The Securities and Exchange Board of India (Registrar to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client to the extent of securities issued;
- (j) Securities and Exchange Board of India (Investor Protection and Education Fund) Regulations, 2009 to the extent applicable;
- (k) Securities and Exchange Board of India (Debenture Trustee) Regulations, 1993 (in relation to obligations of Issuer Company) to the extent applicable;
- (l) State Financial Corporations Act, 1951;
- (m) KSFC General Regulations, 2002;

and circulars/ guidelines issued thereunder.

Based on the above examination, I hereby report that, during the Review Period:

I. (a) The listed entity has complied with the provisions of the above Regulations and circulars/ guidelines issued thereunder, except in respect of matters specified below:

Sr. No.	Compliance Requirement (Regulations/ circulars/ guidelines including specific clause)	Regulation / Circular No.	Deviations	Action Taken by	Type of Action	Details of Violation	Fine Amount Rs.	Observations / Remarks of the Practicing Company Secretary	Management Response	Remarks
1	Appointment of Company Secretary as the Compliance Officer.	Regulation 6(1).	Non-compliance.	NSE	Fine	Delay in the appointment of Company Secretary.	6,44,280	Already complied.	A qualified Company Secretary has been appointed on 2 nd August, 2022.	Appeal made for waiver of fine and is pending.
2	Intimation of record date	Regulation 60(2)	Non-compliance.	NSE	Fine	Delay in intimation of record date.	11,800	It is being complied	The record dates are now being intimated in time as per new format.	Appeal made for waiver of fine and is pending.
3	Submission of Annual Report.	Regulation 52(2).	Non-compliance.	NSE	Fine	Delay in uploading Annual Report.	7,080	It is being complied.	Henceforth, action will be taken within stipulated time.	Appeal made for waiver of fine and is pending.



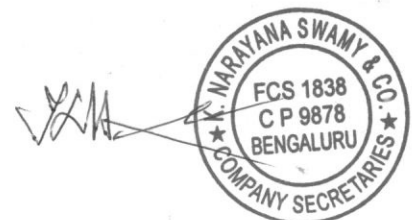
4	Intimation regarding the outcome of the Board Meeting.	Regulation 52(1)/52(2)/52(4).	Non-compliance.	NSE	Fine	Delay in intimation regarding the outcome of Board Meeting.	7,080	It is being complied.	KSFC was of the opinion that it had to intimate the outcome of Board Meeting within the prescribed timeline.	Appeal made for waiver of fine and is pending.
PLEASE SEE ANNEXURE II - FOR DETAILS										

(b) The listed entity has taken the following actions to comply with the observations made in previous reports:

Sr. No.	Compliance Requirement (Regulations/circulars/guide-lines including specific clause)	Regulation/ Circular No.	Deviations	Action Taken by	Type of Action	Details of Violation	Fine Amount	Observations/ Remarks of the Practicing Company Secretary	Management Response	Remarks
1	Disclosure of Corporate Governance by High Value Debt (HVD) listed entities – SEBI (LODR) (Fifth Amendment), Regulations, 2021, w.e.f. 7 th September, 2021.	Chapter IV (Corporate Governance) of SEBI (LODR) Regulations, 2015.	Not able to comply in view of multiple controls and compliances already existing / applicable under SFC Act, 1951 and KSFC General Regulations, 2002.	No action taken	Nil	No violation since the Listed Entity has time till 31.3.2024 to comply.	Nil	These provisions shall be applicable to a 'high value debt listed entity' on a 'comply or explain' basis until 31.3.2023 and on a mandatory basis thereafter. SEBI has further extended this date until 31.3.2024.	KSFC made representation to SEBI/BSE vide its letters dt. 12.4.2022; 2.2.2023; 20.2.2023 & 15.3.2023 seeking certain exemption / relaxation from complying with Reg.17(1C), Reg.17(4), Reg.17(10), Reg.17A, Reg.25 & Reg.26 of Chapter IV. Waiting for exemption/relaxation.	Matter pending before SEBI/NSE.



2	Dealing with interest/dividend/redemption amount, unclaimed non-convertible securities and benefits accrued thereon.	Reg. 61 A	Any amount remains unclaimed for seven years shall be transferred to the Investor Education and Protection Fund constituted in terms of section 125 of the Companies Act, 2013.	No action taken.	Nil	Amount unclaimed are yet to be transferred .	Nil	Amount unclaimed are yet to be transferred because of practical difficulties. Once the issue is sorted out by SEBI/NSE, KSFC will take action to transfer to amount.	At present only companies having valid CIN can transfer the unclaimed amounts to the fund. Since KSFC is not a company incorporated under the Companies Act and it does not have CIN. As such, the entities other than the companies cannot transfer the unclaimed amount to the fund. Hence, KSFC has opened an exclusive escrow account in Canara Bank for the purpose and deposited all such amount into this escrow account. The bondholders concerned can take interest earned on their interest also.		
3	Formulation of applicable Insider Trading Policy/Code.	The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015.	Insider Trading Policy/Code yet to be formulated.	No action taken.	Nil	Insider Trading Policy/Code yet to be formulated.	Nil	Formulation of applicable Insider Trading Policy/Code is still not complied with.	Insider Trading Policy/Code will be formulated soon.		
4	Appointment of qualified person as Company Secretary and Compliance Officer	Reg. 6(1).	Non-appointment of qualified Company Secretary.	Action taken by NSE.	Fine	Non-appointment of qualified Company Secretary.	Rs. 6,44,280	A qualified Company Secretary has been appointed on 22 nd August, 2022.	Complied	Matter closed.	



II. Compliances relating to resignation of statutory auditors from listed entities and their subsidiaries as per SEBI Circular CIR/CFD/CMD1/114/2019 dated 18th October, 2019:

Sr. No.	Particulars	Compliance Status (Yes / No / NA)	Observations/Remarks by PCS
1.	Compliances with the following conditions while appointing /re-appointing an auditor		
	<p>i. If the auditor has resigned within 45 days from the end of a quarter of a financial year, the auditor before such resignation, has issued the limited review/audit report for such quarter; or</p> <p>ii. if the auditor has resigned after 45 days from the end of a quarter of a financial year, the auditor before such resignation, has issued the limited review/audit report for such quarter as well as the next quarter; or</p> <p>iii if the auditor has signed the limited review/audit report for the first three quarters of a financial year, the auditor before such resignation, has issued the limited review/audit report for the last quarter of such financial year the auditor before such resignation, has issued the limited review /audit report for the last quarter of such financial year as well as the audit report for such financial year.</p>	<p>NA</p> <p>NA</p> <p>NA</p>	<p>No event occurred for resignation of the Auditor.</p>
2.	Other conditions relating to resignation of statutory auditor		
	<p>i. Reporting of concerns by Auditor with respect to the listed entity/its material subsidiary to the Audit Committee:</p> <p>a. In case of any concern with the management of the listed entity/material subsidiary such as non-availability of information / non-cooperation by the management which has hampered the audit process, the auditor has approached the Chairman of the Audit Committee of the listed entity and the Audit Committee shall receive such concern directly and immediately without specifically waiting for the quarterly Audit Committee meetings.</p> <p>b. In case the auditor proposes to resign, all concerns with respect to the proposed resignation, along with relevant documents has been brought to the notice of the Audit Committee. In cases where the proposed resignation is due to non-receipt of information / explanation from the company, the auditor has informed the Audit Committee the details of information/ explanation sought and not provided by the management, as applicable.</p>	<p>NA</p> <p>NA</p>	<p>No concern was raised by the existing Statutory Auditor to the Audit Committee of the listed entity.</p> <p>No event occurred for resignation of the Auditor.</p>



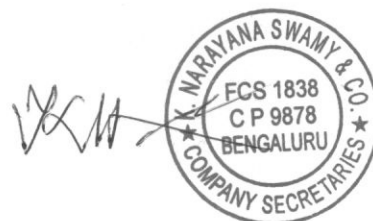
	<p>c. The Audit Committee / Board of Directors, as the case may be, deliberated on the matter on receipt of such information from the auditor relating to the proposal to resign as mentioned above and communicate its views to the management and the auditor.</p> <p>ii. Disclaimer in case of non-receipt of information:</p> <p>The auditor has provided an appropriate disclaimer in its audit report, which is in accordance with the Standards of Auditing as specified by ICAI / NFRA, in case where the listed entity/ its material subsidiary has not provided information as required by the auditor.</p>	<p>NA</p> <p>NA</p>	<p>No event for resignation of Auditor.</p> <p>No such event of non-receipt of information.</p>
3.	The listed entity / its material subsidiary has obtained information from the Auditor upon resignation, in the format as specified in Annexure-A in SEBI Circular CIR/CFD/CMD1/114/2019 Dated 18th October, 2019.	NA	No event for resignation of Auditor taken place during the period under review.

II. I hereby report that during the review period the compliance status of the listed entity is appended as below:

Sr. No.	Particulars	Compliance Status (Yes /No /NA)	Observations/Remarks by PCS
1.	<p>Secretarial Standards:</p> <p>The Compliances of the listed entity are in accordance with the applicable Secretarial Standards (SS) issued by the Institute of Company Secretaries of India (ICSI), as notified by the Central Government under section 118(10) of the Companies Act, 2013 and mandatorily applicable.</p>	Yes	
2.	<p>Adoption and timely updation of the Policies:</p> <ul style="list-style-type: none"> All applicable policies under SEBI Regulations are adopted with the approval of board of directors of the listed entities. All the policies are in conformity with SEBI Regulators and have been reviewed & updated on time, as per the regulations/circular/guidelines issued by SEBI. 	Yes	
3.	<p>Maintenance and disclosure on Website:</p> <ul style="list-style-type: none"> The Listed entity is maintaining a functional website Timely dissemination of the documents / information under a separate section on the website. Web-links provided in annual corporate governance reports under Regulation 27(2) are accurate and specific which re-directs to the relevant document(s)/section of the website. 	<p>Yes</p> <p>Yes</p> <p>Yes</p>	



4.	Disqualification of Director: None of the Director(s) of the company is/are disqualified under Section 164 of the Companies Act, 2013 as confirmed by the listed entity.	Yes	
5.	Details related to Subsidiaries of listed entities have been examined w.r.t.: (a) Identification of material subsidiary companies (b) Disclosure requirement of material as well as other subsidiaries	NA	There were no Material Subsidiary Companies during the period under review.
6.	Preservation of Documents: The listed entity is preserving and maintaining records as prescribed under SEBI Regulations and disposal of records as per Policy of Preservation of Documents and Archival policy prescribed under SEBI LODR Regulations, 2015.	Yes	
7.	Performance Evaluation: The listed entity has conducted performance evaluation of the Board, Independent Directors and the Committees at the start of every financial year/during the financial year as prescribed in SEBI Regulations.	No	KSFC has made Representation to SEBI/BSE for exemption / relaxation on the applicability of certain Regulations - SEBI (Listing Obligations and Disclosure Requirements) (Fifth Amendment), 2021 dt.7 th September, 2021. <u>Please see ANNEXURE - I for details.</u>
8.	Related Party Transactions: (a). The listed entity has obtained prior approval of Audit Committee for all related party transactions; or (b) The listed entity has provided detailed reasons along with confirmation whether the transactions were subsequently approved/ratified/rejected by the Audit Committee, in case no prior approval has been obtained.	NA	There were no Related Party Transactions during the period under review. Therefore, doesn't arise.
9.	Disclosure of events or information: The listed entity has provided all the required disclosure(s) under Regulation 30 along with Schedule III of SEBI LODR Regulations, 2015 within the time limits prescribed thereunder.	Yes	
10.	Prohibition of Insider Trading: The listed entity is in compliance with Regulation 3(5) & 3(6) SEBI (Prohibition of Insider Trading) Regulations, 2015.	No	KSFC has listed its non-convertible debt securities (Bonds) with BSE and has no "specified securities" (equity shares and convertible securities) listed in any Stock Exchange as defined under Sec.2(1)(zl) of SEBI (LODR) Regulations, 2015. However, the policy on PIT is being framed and the same will be approved by the Board and implemented soon.
11.	Actions taken by SEBI or Stock Exchange(s), if any: No action(s) has been taken against the listed entity / its promoters/directors/subsidiaries either by SEBI or by Stock Exchanges (including under the Standard Operating Procedures issued by SEBI through various circulars) under SEBI Regulations and circulars/guidelines issued thereunder except as provided under separate paragraph herein.	Yes	<u>Please see ANNEXURE - II.</u>



12.	Additional Non-Compliances, if any: No additional non-compliance observed for any SEBI regulation/circular/guidance note etc.	Yes	
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Assumptions & Limitation of scope and Review:

1. Compliance of the applicable laws and ensuring the authenticity of documents and information furnished, are the responsibilities of the management of the listed entity.
2. My responsibility is to certify based upon my examination of relevant documents and information. This is neither an audit nor an expression of opinion.
3. I have not verified the correctness and appropriateness of financial Records and Books of Accounts of the listed entity.
4. This Report is solely for the intended purpose of compliance in terms of Regulation 24A (2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and is neither an assurance as to the future viability of the listed entity nor of the efficacy or effectiveness with which the management has conducted the affairs of the listed entity.



(K. Narayana Swamy)
Company Secretary in Practice
FCS No. 1838 / CP No. 9878
Peer Review Cert. No.1744/2022

UDIN Number F001838E000427153

Place : Bengaluru

Date : 30th May, 2023



ANNEXURE – I

KSFC's Representation to SEBI/BSE for exemption / relaxation on the applicability of certain Regulations - SEBI (Listing Obligations and Disclosure Requirements) (Fifth Amendment), 2021 dt.7th September, 2021.

As per Regulation 15(1A) of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 (inserted by the SEBI (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2021 - w.e.f. 7.9.2021), the provisions of Regulations 15 to 27 of Chapter IV shall apply to a listed entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of Rupees Five Hundred Crores and above. Further, these provisions shall be applicable to a 'high value debt listed entity' on a 'comply or explain' basis until 31.3.2023 and on a mandatory basis thereafter. However, SEBI has extended this date until 31.3.2024.

Karnataka Financial Corporation (KSFC) has made representation to SEBI/BSE vide its letters dt. 12.4.2022; 2.2.2023; 20.2.2023 & 15.3.2023 seeking certain exemption / relaxation from complying with Reg.17(1C), Reg.17(4), Reg.17(10), Reg.17A, Reg.25 & Reg.26 of Chapter IV (Corporate Governance) of SEBI (LODR) Regulations, 2015, *as a Special Case*, in view of the unique situation in which the KSFC is placed. The salient features contained in the representation are enumerated below:

Karnataka State Financial Corporation (KSFC) is a State Financial Corporation incorporated under the provisions of the State Financial Corporation Act, 1951 (SFC Act) and **"not"** a Company incorporated under Companies Act, 1956 / Companies Act, 2013. Further, KSFC has only listed its non-convertible debt securities (Bonds) with NSE and has not listed any "specified securities" (equity shares and convertible securities) as defined under Sec. 2(1)(z) of SEBI (LODR) Regulations, 2015.

KSFC is governed by the "KSFC General Regulations, 2002" and these Regulations were made by the Board of Directors of KSFC after consultation with Small Industries Development Bank of India (SIDBI) and with previous sanction of Government of Karnataka (GoK), who is the major shareholder of KSFC holding 95.684% of the share capital. Chapter-V & VI of KSFC General Regulations, 2002 provides detailed procedures for election of Directors, removal of Directors, etc.

The incorporation of KSFC, its Capital and Management are governed under Chapter II of the SFC Act. In this regard, attention is drawn to Sec. 9 (Management), Sec.10 (Board of Directors), Sec.11 (Term of office and retirement of Directors), Sec.13 (Removal of Directors), Sec.15 (Chairman of Board), Sec.16 (Remuneration of Directors), Sec.17 (Managing Director). More importantly, in terms of Sec.11 of SFC Act, the nominate Directors shall hold office at the pleasure of the Authority nominating them. The Powers and Duties of the Board are governed under Chapter III of the SFC Act.

According to the Explanation given under Regulation 16(b) of SEBI (LODR), 2015 in case of a 'high value debt listed entity', which is a body corporate, mandated to constitute its board of directors in a specific manner in accordance with the law under which it is established, the Non-Executive Directors on its board shall be treated as Independent Directors.

KSFC has Eleven (11) Directors on the Board and out of which, Eight (8) Directors are nominee Directors, viz., Four (4) Directors are nominated by the GoK; Two (2) Directors are nominated by SIDBI and One (1) Director each is nominated by LIC & Canara Bank. Out of the remaining Three (3) Directors, Two (2) Directors are elected by the Shareholders and One (1) Director is co-opted by the Board of Directors. Except Dr. Ekroop Caur, IAS, Managing Director, all the remaining Ten (10) Directors are Non-Executive Directors and as such are treated as "Independent Directors" in terms of Explanation to Regulation 16(b) of SEBI (LODR), 2015.



ANNEXURE - II

Details of fine/penalty levied by NSE on KSFC (Listed Entity) and the Status thereof

1. A notice dated 27/09/2022 was received from NSE imposing a fine of Rs.6,44,280/- for non compliance of Regulation 6(1) for 546 days which pertains to appointment of qualified Company Secretary as the Compliance Officer. It may be noted that a qualified Company Secretary has been duly appointed as the Compliance Officer with effect from August 2022. An appeal was made by KSFC for waiver of the fine and the matter is pending.
2. A notice dated 27/09/2022 was received from NSE imposing a fine of Rs.11,800/- for non-compliance under Regulation 60(2). The matter pertains to intimation of record date to NSE. One round of discussion was held with NSE. The record dates are now being intimated in time as per new format. KSFC has filed an appeal for waiver of the fine and the matter is pending.
3. A fine of Rs.7,080/- was levied vide NSE notice dated 31/10/2022 under Regulation 52(2) which pertains to uploading of Annual Report for the FY 2021-22 on the NSE website. Henceforth, action will be taken to upload the Annual Report on the NSE website within the stipulated time and well before dispatch of the same to the members. An appeal for waiver of fine was made by KSFC and the matter is pending.
4. A fine of Rs.7080/- was levied by the NSE vide its letter dated 16/03/2023 under Regulations 52(1)/ 52(2) & 52(4). KSFC was of the opinion that the Listed Entity is required to intimate the outcome of the Board Meeting within the timeline. However, subsequently, action has been taken to strictly comply with these Regulations as per NSE's requirement. An appeal was made to NSE to withdraw the penalty and the matter is pending.

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