

T R Chadha & Co LLP

Chartered Accountants



STATEMENT OF SPECIAL TAX BENEFITS

STATEMENT OF POSSIBLE SPECIAL TAX BENEFITS AVAILABLE TO CAPITAL SMALL FINANCE BANK AND ITS SHAREHOLDERS UNDER THE APPLICABLE TAX LAWS IN INDIA

The Board of Directors,
Capital Small Finance Bank Limited
MIDAS Corporate Park
3rd Floor, 37, G.T. Road
Jalandhar 144 001
Punjab

Nuvama Wealth Management Limited
(Formerly known as Edelweiss Securities Limited)
801 - 804, Wing A, Building No 3,
Inspire BKC, G Block
Bandra Kurla Complex, Bandra East
Mumbai, Maharashtra – 400 051

DAM Capital Advisors Limited
One BKC, Tower C,
15th Floor, Unit No. 1511,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051
Maharashtra, India

Equirus Capital Private Limited
12th floor, C Wing, Marathon Futurex,
N.M. Joshi Marg, Lower Parel
Mumbai 400 013,
Maharashtra, India

CERTIFIED TRUE COPY
For Capital Small Finance Bank Ltd.

[Signature]
Authorised Signatory

(Nuvama Wealth Management Limited, DAM Capital Advisors Limited and Equirus Capital Private Limited are appointed in relation to the Offer and are collectively referred to as the “Book Running Lead Managers” or “BRLMs” in relation to the Offer)

Dear Sirs,

Statement of Possible Special Tax Benefits available to Capital Small Finance Bank and its Shareholders under the Indian tax laws

1. In connection with the proposed Offer, we have been requested by the Bank to verify the statement of possible special tax benefits (“Statement”) enclosed in Annexures 1 and 2 (together, the “Annexures”), prepared by Capital Small Finance Bank (the “Bank”), primarily available to the Bank and to the shareholders of the Bank as per the provisions of the Indian direct and indirect tax laws as stated in those Annexures, under:

- the Income-tax Act, 1961 (the “IT Act”) (read with Income Tax Rules, circulars, notifications) as amended by the Finance Act, 2023 relevant for the assessment year 2024-25, hereinafter referred to as the “Indian Income Tax Regulations”), presently in force in India and
- the Central Goods and Services Tax Act, 2017 and respective State/ Union Territory Goods and Services Tax Act, 2017 / the Integrated Goods and Services Tax Act, 2017 (“GST Act”), the Customs Act, 1962 (“Customs Act”) and the Customs Tariff Act, 1975 (“Tariff Act”) as amended by the Finance Act 2023, i.e., applicable for the Financial Year 2023-24, presently in force in India.



The Income tax Act, the GST Act, Customs Act and Tariff Act, as defined above, are collectively referred to as the "Relevant Acts" and shall be read with all the rules, regulations, circulars and notifications issued in connection with the Relevant Acts.

Management's Responsibility

2. The preparation of the Statement as of the date of our certificate which is to be included in the draft red herring prospectus for the Offer is the responsibility of the management of the Bank. The management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances. The management is also responsible for identifying and ensuring that the Bank complies with the laws and regulations applicable to its activities.

3. We have performed the following procedures in this regard:

We have reviewed the enclosed Annexures, prepared by the Bank, which provides the special tax benefits available to the Bank and to the shareholders of the Bank as stated in those Annexures, under the followings acts and regulation:

- The Income-tax Act, 1961 (the "IT Act") as amended by the Finance Act, 2023 applicable for the financial year 2023-24 relevant to the assessment year 2024-25, presently in force in India; and
- The central goods and services tax act, 2017, the integrated goods and services tax act, 2017 and the applicable state/union territory goods and services tax act, 2017 ("GST Acts") as amended from time to time, as amended by the Finance Act 2023 applicable for the financial year 2023-24, presently in force in India.

4. Ability of the Bank or its Shareholders to derive the tax benefits as mentioned in Annexure 1 is dependent upon fulfilling of such conditions by them as prescribed under the IT Act provisions, which, based on business imperatives the Bank faces in the future, the Bank or its shareholders may or may not choose to fulfil.

5. The benefits discussed in the enclosed Annexures are not exhaustive and the preparation of the contents stated in the Annexures is the responsibility of the Bank's management. We are informed that these Annexures are only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the proposed initial public offering of equity shares (the "Proposed IPO") by the Bank.

6. We do not express any opinion or provide any assurance as to whether:

- i. the Bank or its shareholders will continue to obtain these benefits in future;
- ii. the conditions prescribed for availing the benefits have been / would be met with; and
- iii. the revenue authorities/courts will concur with the views expressed herein.

7. Further, our views are based on the existing provisions of Indian Income Tax Regulations and its interpretation and GST Acts, which are subject to change from time to time. We do not assume responsibility to update the views consequent to such changes.

8. The contents of the enclosed Annexures are based on information, explanations and representations obtained from the Bank and on the basis of their understanding of the business activities and operations of the Bank.

9. We conducted our examination of the information given in this certificate (including the Annexures thereto) in accordance with the 'Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)' ("Guidance Note") issued by the Institute of Chartered Accountants of India ("ICAI"), as revised from time to time, to obtain a reasonable assurance that such details are in agreement with the books of accounts and other relevant records provided to us, in all material respects. The aforesaid Guidance Note requires that we comply with the ethical requirements of the 'Code of Ethics' issued by the ICAI, as revised from time to time.

10. Further, we have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, 'Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements', as revised from time to time.

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11. We hereby give our consent to include this report and the enclosed Annexures regarding the tax benefits available to the Bank and its shareholders in the red herring prospectus and the prospectus for the proposed initial public offer of equity shares which the Bank intends to submit to the Securities and Exchange Board of India, National Stock Exchange of India Limited, BSE Limited and the Registrar of Companies, Punjab and Chandigarh at Chandigarh (the "Stock Exchanges") where the equity shares of the Bank are proposed to be listed
12. Our report is made solely to the Bank's management and BRLMs for the purpose as set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties except specifically mentioned in this Certificate. This report relates only to the items specified above and does not extend to any financial statements of the Bank, taken as a whole. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our work, for this certification except specifically mentioned in this Certificate.

For T R Chadha & Co LLP

Chartered Accountants

ICAI Firm Registration Number: 006711N/ N500028

HITESH Digitally signed
by HITESH GARG
GARG Date: 2024.01.15
17:20:40 +05'30'

Hitesh Garg

Partner

Membership No. 502955

Place: Noida

Date: 15th January 2024

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Encl: Statement of Special Tax Benefits



ANNEXURE I

STATEMENT OF POSSIBLE SPECIAL TAX BENEFITS AVAILABLE TO THE BANK AND ITS SHAREHOLDERS UNDER THE APPLICABLE LAWS IN INDIA – INCOME-TAX ACT, 1961

The information provided below sets out the possible special tax benefits available to the Bank and to shareholders of the Bank in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the subscription, ownership and disposal of equity shares of the Bank, under the current tax laws presently in force in India. Several of these benefits are dependent on the shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence the ability of the shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which based on business imperatives it faces in the future, it may not choose to fulfil. We do not express any opinion or provide any assurance as to whether the Bank or its shareholders will continue to obtain these benefits in future. The following overview is not exhaustive or comprehensive and is not intended to be a substitute for professional advice.

Investors are advised to consult their own tax consultant with respect to the tax implications of an investment in the securities, particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail.

SPECIAL DIRECT TAX BENEFITS AVAILABLE TO THE BANK

The statement of direct tax benefits is enumerated below as per the Income-tax Act, 1961 (read with Income Tax Rules, circulars, notifications) as amended by the Finance Act, 2023 (the "IT Act")

Lower Corporate tax rate under section 115BAA of the IT Act

As per section 115BAA of the IT Act inserted by the Taxation Laws (Amendment) Act, 2019 ("the Amendment Act, 2019") w.e.f. April 1, 2020 i.e., AY 2020-21 an option is granted to the domestic companies to compute corporate tax at a reduced rate of 25.168% (22% plus surcharge of 10% and cess of 4%) on their total profits, provided the taxpayer shall not avail specified exemptions and deductions and complies with the other conditions as specified in section 115BAA of the IT Act.

The taxpayer availing the option will not be required to pay Minimum Alternate Tax under section 115JB of the IT Act and also cannot claim tax credit under section 115JAA of the IT Act, if any, which it is entitled to on account of MAT paid in earlier years.

Further, it shall not be allowed to claim a set-off of any brought forward depreciation for the assessment year in which the option has been availed along with future assessment years.

The bank has exercised the aforesaid option to be taxed at an effective rate of 25.168% (including surcharge and cess).

Deduction under section 80JJAA of the IT Act

As per Section 80JJAA of the IT Act, deduction is available to those assessee whose gross total income include income from business and subject to tax audit under section 44AB of the IT Act, then such assessee shall be entitled to claim a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, for three consecutive assessment years including the assessment year relevant to the previous year in which such additional employment is provided. The eligibility to claim the deduction is subject to fulfilment of prescribed conditions specified in sub-section (2) of section 80JJAA of the IT Act. The Bank is availing such deduction.

Deduction under Section 36(1)(viiia) of the IT Act

The Bank, being a scheduled bank, is entitled for accelerated deduction in respect of provision for bad and doubtful debts up to a specified limit under section 36(1)(viiia) of the IT Act in computing its income under the head "Profits and gains of business or profession". The said deduction, which represents a timing difference for tax purposes, is available to the extent of 8.5% of the total income (computed before making any deduction under this section and chapter VI-A) and 10% of the aggregate average advances made by rural branches of such bank, subject to satisfaction of prescribed conditions. However, subsequent claim of deduction of actual bad debts under section 36(1)(vii) of the IT Act shall be reduced to the extent of deduction already allowed under section 36(1)(viiia) of the IT Act.



Deduction under Section 36(1)(viii) of the IT Act

Further, being a banking company, the Bank is also eligible for a deduction of 20% of the profits derived from eligible business computed under the head "Profit and gains of business or profession" (before making any deduction under this clause) or an amount transferred to the special reserve whichever is lower. However, where the aggregate amounts transferred to such special reserve from time to time, exceeds twice the amount of hundred percent of the paid-up share capital and general reserves, the Bank shall not get a deduction for such excess amount.

Deduction under Section 43D of the IT Act

As per provisions of section 43D of the IT Act, in case of a scheduled bank, the income by way of interest in relation to such categories of bad or doubtful debts as may be prescribed in rule 6EA of the Income Tax Rules having regard to the guidelines issued by the Reserve Bank of India in relation to such debts shall be chargeable to tax in the previous year in which it is credited to its profit and loss account or, as the case may be, in the year in which it is actually received by that bank, whichever is earlier.

SPECIAL DIRECT TAX BENEFITS AVAILABLE TO THE SHAREHOLDERS

There are no special direct tax benefits available to the shareholders.

Notes:

1. This Annexure sets out only the possible special tax benefits available to the Bank and the shareholders under the Indian Income Tax Regulations presently in force in India.
2. This Annexure covers only certain relevant direct tax law benefits and does not cover any indirect tax law benefits or benefit under any other law.
3. This Annexure is as per the current direct tax laws relevant for the assessment year 2024-25. Several of these benefits are dependent on the Bank or its shareholders fulfilling the conditions prescribed under the relevant tax laws.
4. Though benefit of section 80JJAA as mentioned above is also available to assessee other than banking companies, however same has been covered in the Annexure as the Bank has claimed the same in earlier years.
5. This Annexure is intended only to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax arising out of their participation in the Proposed IPO
6. In respect of non-residents, the tax rates and consequent taxation mentioned above will be further subject to any benefits available under the relevant Double Tax Avoidance Agreement(s), if any, between India and the country in which the non-resident has fiscal domicile.
7. These comments are based upon the provisions of the specified direct tax laws, and judicial interpretation thereof prevailing in India, as on the date of this Annexure.
8. No assurance is provided that the revenue authorities/courts will concur with the views expressed herein. Our views are based on the existing provisions of law and its interpretation, which are subject to changes from time to time. We do not assume responsibility to update the views consequent to such changes.

**ANNEXURE 2****STATEMENT OF POSSIBLE SPECIAL TAX BENEFITS AVAILABLE TO THE BANK AND ITS SHAREHOLDERS UNDER THE APPLICABLE LAWS IN INDIA – OTHERS**

Outlined below are the possible special tax benefits available to the Bank and its Shareholders under the Central Goods and Services Tax Act, 2017 and respective State/ Union Territory Goods and Services Tax Act, 2017 / the Integrated Goods and Services Tax Act, 2017 (“GST Act”), the Customs Act, 1962 (“Customs Act”) and the Customs Tariff Act, 1975 (“Tariff Act”), as amended by the Finance Act 2023, i.e., applicable for the Financial Year 2023-24, presently in force in India read with the rules, regulations, circulars and notifications issued in connection with the Relevant Laws.

I. Possible Special tax benefits available to the Bank

No possible special indirect tax benefits available to the Bank.

II. Possible Special tax benefits available to the Shareholders of the Bank

There are no possible special indirect tax benefits available to the shareholders of the Bank.

Notes:

1. This Annexure sets out only the possible special tax benefits available to the Bank and its Shareholders under the Central Goods and Services Tax Act, 2017 and respective State/ Union Territory Goods and Services Tax Act, 2017 / the Integrated Goods and Services Tax Act, 2017 (“GST Act”), the Customs Act, 1962 (“Customs Act”) and the Customs Tariff Act, 1975 (“Tariff Act”), as amended by the Finance Act 2023, i.e., applicable for the Financial Year 2023-24, presently in force in India.
2. This Annexure is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences, the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the Proposed IPO.
3. Our comments are based on our understanding of the specific activities carried out by the Bank from April 1, 2020 till the date of this Annexure as per the information provided to us. Any variation in the understanding could require our comments to be suitably modified.
4. We have been given to understand that during the period from April 1, 2020 to the date of this Annexure, the Bank has:
 - i. not availed any exemption or benefits or incentives under indirect tax laws except the following:
 - a. Exemption pertaining to interest on deposits, loan or advances as per the Notification No. 12/2017-Central Tax (Rate) dated 28.06.2017;
 - b. Exemption for bank towards generation of E-invoices as per relevant provisions of GST Act read with GST Rules and relevant notifications issued under GST Law;
 - c. Option of availing 50% of the ITC in terms of Section 17(4) of the CGST Act, 2017;
 - ii. not exported any goods or services outside India;
 - iii. not imported any goods or services from outside India;
 - iv. not made any fresh investment in any State of the country and has not claimed any incentive under any State Incentive Policy.
5. This annexure covers only indirect tax laws benefits other than the specific compliance provisions prescribed in relevant laws for a bank.



6. This annexure does not cover any income tax law benefits or benefit under any other law.
7. These comments are based upon the provisions of the specified Indirect tax laws, and judicial interpretation thereof prevailing in the country, as on the date of this Annexure.
8. No assurance is given that the revenue authorities/courts will concur with the views expressed herein. Our views are based on the existing provisions of law and its interpretation, which are subject to changes from time to time. We do not assume responsibility to update the views consequent to such changes.

CERTIFIED TRUE COPY
For Capital Small Finance Bank Ltd.

Amit Sharma
Authorised Signatory

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