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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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IN RE:	: Chapter 11
	:
ARCAPITA BANK B.S.C.(c), et al.,	: Case No. 12-11076 (SHL)
	:
Debtors.	: Jointly Administered
	:
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**DEBTORS' APPLICATION PURSUANT TO SECTIONS 327(a) AND 328(a)
OF THE BANKRUPTCY CODE FOR AN ORDER
EXPANDING THE SCOPE OF THEIR RETENTION OF
ERNST & YOUNG AS AUDITOR NUNC PRO TUNC TO THE PETITION DATE**

Arcapita Bank B.S.C.(c) ("*Arcapita*") and certain of its subsidiaries and affiliates, as debtors and debtors in possession (collectively, the "*Debtors*" and each, a "*Debtor*") hereby submit this application (the "*Application*") for entry of an order, substantially in the form annexed hereto as *Exhibit A* (the "*Proposed Order*"), pursuant to sections 327(a) and 328(a) of title 11 of the United States Code (the "*Bankruptcy Code*"), Rule 2014 of the Federal Rules of Bankruptcy Procedure (the "*Bankruptcy Rules*"), and Rule 2014-1 of the Local Rules of Bankruptcy Practice and Procedure for the United States Bankruptcy Court for the Southern District of New York (the "*Local Rules*") expanding their retention and employment of Ernst & Young ("*EY Bahrain*") as auditor to the Debtors, *nunc pro tunc* to March 19, 2012 (the "*Petition*"),

Date”), the date of filing of the above-captioned chapter 11 cases (the “*Chapter 11 Cases*”). In support of the Application, the Debtors respectfully state as follows:

BACKGROUND

1. On the Petition Date, each of the Debtors commenced the Chapter 11 Cases other than Falcon Gas Storage Company, Inc. (“*Falcon*”). On April 30, 2012, Falcon commenced its Chapter 11 Case. The Debtors are operating their businesses and managing their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No request has been made for the appointment of a trustee or an examiner in the Chapter 11 Cases.

2. On April 5, 2012, the United States Trustee for the Southern District of New York appointed an Official Committee of Unsecured Creditors (the “*Creditors Committee*”) pursuant to section 1102 of the Bankruptcy Code.

3. Founded in 1996, Arcapita is a leading global manager of Shari’ah compliant alternative investments and operates as an investment bank. Arcapita is not a domestic bank licensed in the United States, nor does it have a branch or agency in the United States as defined in section 109(b)(3)(B) of the Bankruptcy Code. Arcapita is headquartered in Bahrain and is regulated under an Islamic wholesale banking license issued by the Central Bank of Bahrain (the “*CBB*”). In addition to its Bahrain headquarters, Arcapita, together with the other Debtors and their non-Debtor subsidiaries (the “*Arcapita Group*”), has offices in Atlanta, London, Hong Kong, and Singapore. The Arcapita Group’s principal activities include investing for its own accounts and providing investment opportunities to third-party investors in conformity with Islamic Shari’ah rules and principles. The Arcapita Group also derives revenue from managing assets for its third-party investors.

4. The Arcapita Group has approximately \$7 billion in assets currently under management. As of the Petition Date, on a consolidated basis, the Arcapita Group owned assets valued at approximately \$3.06 billion and had liabilities of approximately \$2.55 billion. Approximately \$1.1 billion of the Debtors' prepetition liabilities are comprised of that certain murabaha, Shari'ah-compliant syndicated facility, issued on March 28, 2007, which matured on March 28, 2012.

5. Additional information regarding the Debtors' business, capital structure, and the circumstances leading to the commencement of the Chapter 11 Cases is set forth in detail in the *Declaration of Henry A. Thompson in Support of the Debtors' Chapter 11 Petitions and First Day Motion and in Accordance with Local Rule 1007-2*, dated March 19, 2012 [Docket No. 6].

6. By Order dated July 11, 2012 [Docket No. 312] (the "***EY Bahrain Retention Order***"), this Court approved the Debtors' retention of EY Bahrain as auditor, to perform certain professional services that were described in the Debtors' June 12, 2012 application to retain EY Bahrain.

JURISDICTION AND VENUE

7. The Court has jurisdiction to consider this Application pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

RELIEF REQUESTED

8. By this Application, the Debtors seek entry of an order pursuant to sections 327(a) and 328 of the Bankruptcy Code, Bankruptcy Rule 2014, and Local Rule 2014-1 expanding their retention and employment of EY Bahrain as auditor, *nunc pro tunc* to the Petition Date, on the terms set forth herein and in the Engagement Letters (as defined below)

between Arcapita and EY Bahrain, annexed hereto as *Exhibit B*. In support of the Application, the Debtors submit the declaration of Essa Al-Jowder (the “*Al-Jowder Declaration*”) annexed hereto as *Exhibit C*.

EY BAHRAIN’S QUALIFICATIONS

9. EY Bahrain provides clients with a broad array of services relating to audit and risk, business community training, technology and IT security and transaction advisory services. EY Bahrain’s client base includes the Middle East’s leading conventional and Islamic banks and financial institution, major companies in the oil and manufacturing sectors, government departments and organizations, and leading hotels.

10. The Debtors have employed EY Bahrain as their auditor since the Debtors’ inception around November 1996. By virtue of its prior engagement, EY Bahrain is familiar with the Debtors and has developed relevant knowledge regarding the Debtors and their operations that will assist it in providing effective and efficient services during the Chapter 11 Cases. Accordingly, the Debtors submit that EY Bahrain is well-qualified and uniquely able to provide auditing services to the Debtors.

SERVICES TO BE PROVIDED

11. The Debtors hereby request entry of an order authorizing them to retain and employ EY Bahrain to provide additional services under the terms of the engagement letters entered into by the Debtors and EY Bahrain prior to the commencement of the Chapter 11 Cases (collectively, the “*Engagement Letters*”).¹ Subject to approval of the Court and consistent with

¹ Capitalized terms used but not defined in this section shall have the meanings ascribed to them in the Engagement Letters.

the terms of the Engagement Letters, EY Bahrain intends to provide auditing services as necessary and requested by the Debtors, including, without limitation, the following:²

- Annual audit and quarterly reviews of the Debtors' consolidated financial statements for the year ended June 30, 2012 and the quarters ended September 30, 2011, December 31, 2011 and March 31, 2012 (the "***Annual and Quarterly Audit Engagement***"), pursuant to an Engagement Letter dated September 19, 2011;
- Assisting the Debtors in complying with applicable guidelines and regulations with respect to Arcapita's quarterly consolidated prudential information report for Islamic Banks for the year ended June 30, 2012 to be submitted by Arcapita to the CBB (the "***PIRI Engagement***"), pursuant to an Engagement Letter dated September 22, 2011;
- Assisting the Debtors in complying with applicable anti-money laundering regulations issued by the CBB for the year ended June 30, 2012 (the "***AML Engagement***"), pursuant to an Engagement Letter dated May 2, 2012;
- Assisting the Debtors in complying with applicable public disclosure regulations issued by the CBB, for (a) the half-year ended December 31, 2011 and (b) the year ended June 30, 2012 (the "***Public Disclosure Engagements***"), pursuant to engagement letters dated January 25, 2012 and May 2, 2012, respectively; and
- Audits of special purpose financial statements of Cayman Islands special purpose vehicles established for the purpose of holding and funding specialized investment companies (the "***Holding SPV Engagement***"), pursuant to an engagement letter dated May 13, 2012.

12. Among other things, the services performed and to be performed by EY

Bahrain in connection with the Engagement Letters, as more fully set forth therein, relate to the Debtors' compliance with applicable guidelines and regulations issued by the CBB. The Debtors respectfully submit that the services of EY Bahrain are critical in ensuring that the Debtors remain in good standing with the CBB.

² The summary of the Engagement Letters included in this Application is provided for purposes of convenience only and is qualified in its entirety by reference to the Engagement Letters. The Engagement Letters themselves describe the services in greater detail, and the Debtors direct parties to the Engagement Letters for a more detailed description of the services provided thereunder. To the extent that this Application and the terms of the Engagement Letters are inconsistent, the terms of the Engagement Letters shall control.

13. The Debtors intend that the services of EY Bahrain will complement the services of any other professional retained in the Chapter 11 Cases. The Debtors and EY Bahrain intend that all of the services that EY Bahrain will provide to the Debtors will be appropriately directed by the Debtors so as to avoid duplicative efforts among the other professionals retained in the Chapter 11 Cases. EY Bahrain will use reasonable efforts to coordinate with the Debtors' other retained professionals to avoid the unnecessary duplication of services.

14. To the extent that the Debtors request that EY Bahrain perform additional services that are not covered by the EY Bahrain Retention Order or are not described above, the Debtors shall seek further application for an order of approval by the Court for any such additional services and such application shall set forth, in addition to the additional services to be performed, the additional fees sought to be paid.

COMPENSATION OF EY BAHRAIN

15. EY Bahrain's decision to advise and assist the Debtors in connection with the Chapter 11 Cases is conditioned upon its ability to be retained in accordance with EY Bahrain's customary terms and conditions of employment, including the compensation arrangement set forth in the Engagement Letters (the "*Compensation Arrangement*").

16. EY Bahrain's fees for services performed are charged on a fixed-rate basis, with fees determined on an engagement-by-engagement basis. A summary of the Compensation Arrangement is provided below, together with estimates of the fees to be charged by EY Bahrain:

- Annual and Quarterly Audit Engagement: BD 277,500 (approximately \$735,375),³ consisting of:
 - Annual audit: BD 240,000 (approximately \$636,000);
 - Three quarterly reviews at BD 12,500 (approximately \$33,125) per review; and
 - The above does not include the translation of the financial statement into Arabic. If such service is requested, it will be separately billed as an additional fee.
- PIRI Engagement: BD 10,000 (approximately \$26,500), which is equal to 4 quarters at BD 2,500 per quarter.
- AML Engagement: BD 6,250 (approximately \$16,563)
- Public Disclosure Engagements: BD 9,250 (approximately \$24,513), consisting of:
 - Compliance for half-year ended December 31, 2011: BD 2,750 (approximately \$7,288);
 - Compliance for one-year ended June 30, 2012: BD 6,500 (approximately \$17,225).
- Holding SPV Engagement: BD 9,000 (approximately \$23,850).

17. The estimated fees set forth above are based on representations made by the Debtors' personnel to EY Bahrain and on the assumptions that (a) EY Bahrain will receive a reasonable level of assistance from the Debtors' personnel, and (b) there would be no significant changes to the Debtors' business (*e.g.*, nature of their business or change in business entities). To the extent either of those assumptions is not realized, EY Bahrain's fees may require adjustment. Moreover, to the fees described above do not cover "out-of-scope" work that is not covered by the Engagement Letters.

18. In addition to the fees set forth above, the Debtors will reimburse EY Bahrain for expenses incurred in connection with EY Bahrain's performance of the services described in the Engagement Letters, including all applicable taxes, charges, customs, duties or

³ "**BD**" stands for Bahraini Dinars. The equivalent U.S. dollar amounts, converted from Bahraini Dinars at the rate of BD 1 = \$2.65, are set forth in this Application for illustrative purposes only.

tariffs incurred in connection with the delivery of the services described in the Engagement Letters (except for taxes imposed on EY Bahrain's income). EY Bahrain's expenses may include, but are not limited to, reasonable and customary out-of-pocket expenses for items such as travel, meals, accommodations and other expenses (including any fees or reasonable expenses of EY Bahrain's legal counsel relating to considering or responding to discovery requests or participating as a witness) specifically related to this engagement.

19. EY Bahrain intends to apply for compensation for professional services rendered and reimbursement of expenses incurred consistent with the terms of the Engagement Letters and in compliance with applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, guidelines established by the Office of the United States Trustee for the Southern District of New York (the "*U.S. Trustee Guidelines*") and any other applicable procedures and orders of the Court (as modified by the order authorizing EY Bahrain's retention). EY Bahrain has agreed to accept as compensation such sums as may be allowed by the Court. EY Bahrain understands that interim and final fee awards are subject to approval by this Court.

20. The Compensation Arrangement is consistent with the practices existing between EY Bahrain and the Debtors prior to the commencement of the Chapter 11 Cases. The Debtors are also informed that the Compensation Arrangement is consistent with, and typical of, compensation arrangements entered into by EY Bahrain in connection with rendering similar services to its other clients. The Debtors therefore believe that the Compensation Arrangement is reasonable, market-based and designed to fairly compensate EY Bahrain for its work.

21. The Debtors have been informed that it is not the general practice of EY Bahrain to keep detailed time records similar to those customarily kept by attorneys or to keep

time records on a “project category” basis. In light of the fact that EY Bahrain’s fees in this engagement will be charged on a fixed-rate basis, the Debtors request that EY Bahrain be required only to submit reasonably detailed summaries of the work performed and completed and the total fees requested for such work, in lieu of detailed time records. EY Bahrain will submit records of reimbursable expenses it incurs in the course of providing services.

Accordingly, to the extent necessary, based on the foregoing, the Debtors respectfully seek a waiver of the information requirements set forth in the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and any other applicable procedures and orders of the Court.

OTHER TERMS OF THE ENGAGEMENT LETTERS

22. As part of the overall consideration to EY Bahrain under the terms of the Engagement Letters, the Debtors have agreed to the following provisions in the Engagement Letters (as modified by the order approving this Application):

Governing Law. This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of Bahrain applicable to agreements made and fully to be performed therein by residents thereof.

Termination. This Agreement shall terminate on the completion of the Services. We may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.

Indemnity. To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, “*Claims*”), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

Limitation of Liability:

If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.

You shall make any claim relating to the Services or otherwise under this Agreement no later than within 36 months of the act or omission alleged to have caused the claim.

These limitations in Sections 6 and 8 will not apply to losses or damages caused by our fraud or willful misconduct or deceit to the extent such exclusions are prohibited by applicable law or professional regulations.

You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("**EY Persons**") to the extent that no direct contractual relationship exists between you and any of the EY Persons. You shall make any claim or bring proceedings only against us on the basis that we are the party with whom you have contracted. The limitations in these sections are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

23. Subject to the approval of the Court, the Debtors will indemnify EY Bahrain in accordance with the indemnification terms of the Engagement Letters, as modified by this Court's order approving this Application.

24. The terms of the Engagement Letters, including the foregoing provisions, were fully negotiated between the Debtors and EY Bahrain at arm's length. The Debtors believe these provisions are customary and reasonable for auditing service engagements, and constitute a part of the overall compensation that has induced EY Bahrain to provide the auditing services to

the Debtors. Therefore, the Debtors respectfully submit that the foregoing provisions are reasonable and in the best interests of the Debtors, their estates and creditors.

EY BAHRAIN'S DISINTERESTEDNESS

25. To the best of the Debtors' knowledge and except as disclosed in the declaration of Tariq Sadiq dated June 12, 2012: (a) EY Bahrain is a "disinterested person" as that term is defined in section 101(14) of the Bankruptcy Code, as modified by section 1107(b) of the Bankruptcy Code and as required by section 327(a) and referenced by section 328(a) of the Bankruptcy Code; and (b) EY Bahrain does not hold or represent an interest materially adverse to the Debtors and their estates, and otherwise meets the standards for employment under the Bankruptcy Code.

26. If EY Bahrain discovers additional information that requires disclosure during the pendency of the Chapter 11 Cases, EY Bahrain will file appropriate supplemental disclosures with this Court.

BASIS FOR RELIEF REQUESTED

27. Section 327(a) of the Bankruptcy Code provides that a debtor, subject to court approval:

[M]ay employ one or more attorneys, accountants, appraisers, auctioneers, or other professional persons, that do not hold or represent an interest adverse to the estate, and that are disinterested persons, to represent or assist the [debtor] in carrying out the [debtor]'s duties under this title.

11 U.S.C. § 327(a). Section 1107(b) of the Bankruptcy Code establishes that "a person is not disqualified for employment under section 327 of [the Bankruptcy Code] by a debtor in possession solely because of such person's employment by or representation of the debtor before the commencement of the case." 11 U.S.C. § 1107(b).

28. Bankruptcy Rule 2014 requires that an application for retention include:

[S]pecific facts showing the necessity for the employment, the name of the [firm] to be employed, the reasons for the selection, the professional services to be rendered, any proposed arrangement for compensation, and, to the best of the applicant's knowledge, all of the [firm's] connections with the debtor, creditors, any other party in interest, their respective attorneys and accountants, the United States trustee, or any person employed in the office of the United States trustee.

Fed. R. Bankr. P. 2014.

29. The Debtors seek approval of the Engagement Letters, including without limitation the fees, expenses and indemnification provisions contained therein, pursuant to section 328(a) of the Bankruptcy Code. As the United States Court of Appeals for the Fifth Circuit recognized in *Donaldson Lufkin & Jenrette Sec. Corp. v. Nat'l Gypsum (In re Nat'l Gypsum Co.)*:

Prior to 1978 the most able professionals were often unwilling to work for bankruptcy estates where their compensation would be subject to the uncertainties of what a judge thought the work was worth after it had been done. That uncertainty continues under the present § 330 of the Bankruptcy Code, which provides that the court award to professional consultants "reasonable compensation" based on relevant factors of time and comparable costs, etc. Under present § 328 the professional may avoid that uncertainty by obtaining court approval of compensation agreed to with the trustee (or debtor or committee).

123 F.3d 861, 862 (5th Cir. 1997) (internal citations and emphasis omitted).

30. Under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, certain modifications were made to section 328(a) of the Bankruptcy Code, which now provides as follows:

The trustee, or a committee appointed under section 1102 of this title, with the court's approval, may employ or authorize the employment of a professional person under section 327 or 1103 of this title, as the case may be, on any reasonable terms and conditions of employment, including on a retainer, on an hourly

basis, on a fixed or percentage fee basis, or on a contingent fee basis.

See 11 U.S.C. § 328(a) (emphasis added).

31. Thus, section 328(a) of the Bankruptcy Code, as amended, now makes clear that debtors may retain, subject to bankruptcy court approval, a professional on a fixed-fee basis that reflects the nature of the professional's services and market conditions, such as the Compensation Arrangement.

32. As set forth above, and notwithstanding approval of the Engagement Letters under section 328 of the Bankruptcy Code, EY Bahrain intends to apply for compensation for professional services rendered and reimbursement of expenses incurred in connection with the Chapter 11 Cases, subject to the Court's approval and in compliance with applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and any other applicable procedures and orders of the Court (except to the extent such compliance is waived).

33. Not granting the relief requested herein would deprive the Debtors of the assistance of a highly qualified auditing firm that has served them since 1996, to the detriment of the Debtors and all parties-in-interest. Any disruption of the auditing services provided by EY Bahrain would mean an immediate and significant disruption of the Debtors' efforts to ensure compliance with applicable guidelines and regulations issued by the CBB, thereby jeopardizing the Debtors' ability to continue to operate as an Islamic bank under the auspices of the CBB. Moreover, the Debtors would be forced to engage a new auditing firm lacking the same understanding of the Debtors' organizational structure, business and financial affairs. Engaging a new auditing firm would therefore require the Debtors to expend additional time and resources, which could otherwise be more productively directed, in order to familiarize the new auditing

firm to the Debtors' business and financial affairs. Accordingly, the Debtors respectfully submit that the services provided by EY Bahrain are critical to the success of the Chapter 11 Cases and request that the Court approve the engagement and employment of EY Bahrain.

34. In light of the foregoing, the Debtors believe that the terms and conditions of the Engagement Letters (including the Compensation Arrangement), and the application of the Indemnification Provisions (subject to the modifications as set forth in this Application), are fair, reasonable and market-based under the standards set forth in section 328(a) of the Bankruptcy Code.

REQUEST FOR NUNC PRO TUNC APPROVAL TO THE PETITION DATE

35. The Debtors respectfully request that the retention of EY Bahrain be made effective *nunc pro tunc* to the Petition Date so that EY Bahrain may be compensated for the services it has provided and will provide before this Application is heard by the Court. At the Debtors' request, EY Bahrain has provided services under the Engagement Letters since the Petition Date in anticipation that EY Bahrain's retention would be approved *nunc pro tunc* to the Petition Date. EY Bahrain has worked diligently to check and disclose its connections with the very substantial number of potential parties in interest in the Chapter 11 Cases. In that regard, it should be noted that because it is not a U.S.-based professional, EY Bahrain is not regularly retained as a professional in U.S. bankruptcy cases. Finally, the Debtors and EY Bahrain anticipated that EY Bahrain would be retained as an ordinary course professional in the Chapter 11 Cases. Upon learning that the United States Trustee would oppose EY Bahrain's retention as an ordinary course professional, the Debtors and EY Bahrain have worked diligently to prepare this Application and the Al-Jowder Declaration.

36. The Debtors submit that the foregoing circumstances are of a nature warranting retroactive approval of EY Bahrain's retention to the Petition Date. *See, e.g., In re AroChem Corp.*, 176 F.3d 610, 621 (2d Cir. 1999) (noting that bankruptcy courts have discretion to authorize *nunc pro tunc* approval of professional retentions); *In re Keren*, 189 F.3d 86, 87 (2d Cir. 1999) (explaining factors to consider in determining whether *nunc pro tunc* approval is appropriate).

NOTICE

37. No trustee or examiner has been appointed in the Chapter 11 Cases. The Debtors have provided notice of filing of the Application to the Master Service List in accordance with the Court's *Order (A) Waiving the Requirement that Each Debtor File a List of Creditors and Equity Security Holders and Authorizing Maintenance of Consolidated List of Creditors in Lieu of a Matrix; (B) Authorizing Filing of a Consolidated List of Top 50 Unsecured Creditors; and (C) Approving Case Management Procedures* [Docket No. 21]. Due to the nature of the relief requested herein, the Debtors submit that no other or further notice is required. A copy of the Application is also available on the website of the Debtors' notice and claims agent, The Garden City Group, Inc., at www.gcginc.com/cases/arcapita.

NO PRIOR REQUEST

38. No prior application for the relief requested herein has been made to this or any other court.

WHEREFORE, the Debtors respectfully request that the Court grant the relief requested herein and such other and further relief as the Court may deem just and proper.

Dated: New York, New York
July 18, 2012

/s/ Michael A. Rosenthal

Michael A. Rosenthal (MR-7006)

Janet M. Weiss (JW-5460)

Matthew K. Kelsey (MK-3137)

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Attorneys for the Debtors and Debtors in Possession

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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IN RE:	: Chapter 11
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ARCAPITA BANK B.S.C.(c), et al.,	: Case No. 12-11076 (SHL)
	:
Debtors.	: Jointly Administered
	:
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**NOTICE OF HEARING ON DEBTORS' APPLICATION PURSUANT TO SECTIONS
327(a) AND 328(a) OF THE BANKRUPTCY CODE FOR AN ORDER
EXPANDING THE SCOPE OF THEIR RETENTION OF
ERNST & YOUNG AS AUDITOR NUNC PRO TUNC TO THE PETITION DATE**

PLEASE TAKE NOTICE that on July 18, 2012, the above-captioned debtors and debtors in possession (the "**Debtors**") filed the annexed *Debtors' Application Pursuant to Sections 327(a) and 328(a) of the Bankruptcy Code for an Order Expanding the Scope of Their Retention of Ernst & Young as Auditor Nunc Pro Tunc to the Petition Date* (the "**Application**").

PLEASE TAKE FURTHER NOTICE that a hearing (the "**Hearing**") to consider the Application will take place before the Honorable Sean H. Lane, United States Bankruptcy Judge, in Room 701 of the United States Bankruptcy Court for the Southern District of New York (the "**Bankruptcy Court**"), One Bowling Green, New York, New York, 10004, on **August**

1, 2012 at 11:00 a.m. (prevailing U.S. Eastern Time), or as soon thereafter as counsel may be heard.

PLEASE TAKE FURTHER NOTICE that any and all objections to the Application (the “**Objections**”) shall be filed electronically with the Court on the docket of *In re Arcapita Bank B.S.C.(c), et al.*, Ch. 11 Case No. 12-11076 (SHL) (the “**Docket**”), pursuant to the Case Management Procedures approved by this Court and the Court's General Order M-399 (available at <http://nysb.uscourts.gov/orders/orders2.html>), by registered users of the Court's case filing system and by all other parties in interest on a 3.5 inch disk, preferably in portable document format, Microsoft Word, or any other Windows-based word processing format (with a hard copy delivered directly to Chambers), in accordance with the customary practices of the Bankruptcy Court and General Order M-399, to the extent applicable, and served in accordance with General Order M-399 on (i) counsel for the Debtors, Gibson, Dunn & Crutcher LLP, 200 Park Avenue, New York, New York 10166 (Attn: Michael A. Rosenthal, Esq., Janet M. Weiss, Esq. and Matthew K. Kelsey, Esq.); (ii) the Office of the United States Trustee for the Southern District of New York, 33 Whitehall Street, 21st Floor, New York, New York 10004 (Attn: Richard Morrissey, Esq.); (iii) counsel for the Official Committee of Unsecured Creditors of Arcapita Bank B.S.C.(c), *et al.*, Milbank, Tweed, Hadley & McCloy LLP, 1 Chase Manhattan Plaza, New York, New York 10005 (Attn: Dennis Dunne, Esq. and Evan R. Fleck, Esq.); and (iv) counsel to Ernst & Young, Latham & Watkins LLP, 885 Third Avenue, New York, New York 10022 (Attn: Michael J. Riela, Esq.), so as to be received no later than **July 25, 2012 at 12:00 p.m. (prevailing U.S. Eastern Time)** (the “**Objection Deadline**”).

PLEASE TAKE FURTHER NOTICE that if no Objections are timely filed and served with respect to the Application, the Debtors may, on or after the Objection Deadline,

submit to the Bankruptcy Court an order substantially in the form of the proposed order annexed to the Application, which order may be entered with no further notice or opportunity to be heard.

Dated: New York, New York
July 18, 2012

/s/ Michael A. Rosenthal

Michael A. Rosenthal (MR-7006)

Janet M. Weiss (JW-5460)

Matthew K. Kelsey (MK-3137)

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ATTORNEYS FOR THE DEBTORS
AND DEBTORS IN POSSESSION

EXHIBIT A
Proposed Order

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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 IN RE: : Chapter 11 Case
 :
 ARCAPITA BANK B.S.C.(c), *et al.*, : Case No. 12-11076 (SHL)
 :
 Debtors. : Jointly Administered
 :
 -----X

ORDER EXPANDING THE SCOPE OF THE DEBTORS’ RETENTION OF ERNST & YOUNG AS AUDITOR *NUNC PRO TUNC* TO THE PETITION DATE

Upon consideration of the application (the “*Application*”)¹ of the debtors in possession in the above-captioned case (collectively, the “*Debtors*” and each, a “*Debtor*”) for an order pursuant to sections 327(a) and 328 of title 11 of the United States Code (the “*Bankruptcy Code*”), Rule 2014 of the Federal Rules of Bankruptcy Procedure (the “*Bankruptcy Rules*”), and Rule 2014-1 of the Local Rules of Bankruptcy Practice and Procedure for the United States Bankruptcy Court for the Southern District of New York (the “*Local Rules*”) authorizing the expansion of the Debtors’ retention and employment of Ernst & Young (“*EY Bahrain*”) as auditor to the Debtors, *nunc pro tunc* to the Petition Date; and upon the Al-Jowder Declaration in support thereof; and the Court having found that it has jurisdiction to consider this Application pursuant to 28 U.S.C. §§ 157 and 1334; and the Court having found that venue of this proceeding and the Application in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and the Court having found that the relief requested in the Application is in the best interests of Debtors’ estates, their creditors, and other parties in interest; and notice of the Application and the opportunity for a hearing on the Application was appropriate under the particular circumstances;

1 Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Application.

and the Court having reviewed the Application and having considered the statements in support of the relief requested therein at a hearing before the Court (the “*Hearing*”); and the Court having determined that the legal and factual bases set forth in the Application and at the Hearing establish just cause for the relief granted herein; and upon all of the proceedings had before the Court; and after due deliberation and sufficient cause appearing therefor; and the Court being satisfied that EY Bahrain is a “disinterested person” as such term is defined under section 101(14) of the Bankruptcy Code; and it appearing that no other or further notice need be provided; and it appearing that the relief requested by this Application is in the best interests of the Debtors, their estates, their creditors, and other parties in interest; and after due deliberation and sufficient cause appearing therefor,

IT IS HEREBY ORDERED:

1. The Application is granted to the extent set forth herein.
2. In accordance with sections 327(a) and 328(a) of the Bankruptcy Code, Rule 2014 of the Bankruptcy Rules and Rule 2014-1 of the Local Rules, the Debtors shall be, and hereby are, authorized to employ and retain EY Bahrain in accordance with the terms and conditions set forth in the Engagement Letters, effective *nunc pro tunc* to the Petition Date, to perform services including but not limited to those listed below:
 - All services listed in paragraph 2 of the *Order Pursuant to Sections 327(a) and 328 of the Bankruptcy Code Authorizing Debtors to Retain and Employ Ernst & Young as Auditor to the Debtors Nunc Pro Tunc to the Petition Date*, dated July 11, 2012 [Docket No. 312];
 - Annual audit and quarterly reviews of the Debtors’ consolidated financial statements, for the year ended June 30, 2012 and the quarters ended September 30, 2011, December 31, 2011 and March 31, 2012;
 - Assisting the Debtors in complying with applicable guidelines and regulations with respect to Arcapita’s quarterly consolidated prudential

information report for Islamic Banks for the year ended June 30, 2012 to be submitted by Arcapita to the CBB;

- Assisting the Debtors in complying with applicable anti-money laundering regulations issued by the CBB for the year ended June 30, 2012;
- Assisting the Debtors in complying with applicable public disclosure regulations issued by the CBB, for (a) the half-year ended December 31, 2011 and (b) the year ended June 30, 2012; and
- Audits of special purpose financial statements of Cayman Islands special purpose vehicles established for the purpose of holding and funding specialized investment companies.

3. The terms of the Engagement Letters, including without limitation the fee, expense reimbursement, indemnification and limitation of liability provisions, are reasonable terms and conditions of employment and are hereby approved. Notwithstanding anything to the contrary in the Engagement Letters, the indemnification provisions are hereby modified as follows:

- (a) All requests of EY Bahrain for payment of indemnity pursuant to the Engagement Letters shall be made by means of an application (interim or final as the case may be) and shall be subject to review by the Court to ensure that payment of such indemnity conforms to the terms of the Engagement Letters and is reasonable based upon the circumstances of the litigation or settlement in respect of which indemnity is sought, provided, however, that in no event shall EY Bahrain be indemnified in the case of its own bad-faith, self-dealing, breach of fiduciary duty (if any), gross negligence or willful misconduct.
- (b) In the event that EY Bahrain seeks reimbursement from the Debtors for reasonable attorneys' fees in connection with a request by EY Bahrain for payment of indemnity pursuant to the Engagement Letter, as modified by this Order, the invoices and supporting time records from such attorneys shall be included in EY Bahrain's own application (interim or final as the case may be) and such invoices and time records shall be subject to the Fee Guidelines and the approval of the Court under the standards of sections 330 and 331 of the Bankruptcy Code without regard to whether such attorney has been retained under section 327 of the Bankruptcy Code and without regard to whether such attorneys' services satisfy section 330(a)(3)(C) of the Bankruptcy Code.

- (c) EY Bahrain shall not be entitled to reimbursement by the Debtors for any fees, disbursements and other charges of EY Bahrain's counsel other than those incurred in connection with a request of EY Bahrain for payment of indemnity or in connection with responding to objections to EY Bahrain's fee applications.

4. All compensation and reimbursement of expenses payable to EY Bahrain pursuant to the Engagement Letters (as modified hereby) shall be subject to review only pursuant to the standards set forth in section 328(a) of the Bankruptcy Code and shall not be subject to the standard of review set forth in section 330 of the Bankruptcy Code; *provided, however*, the U.S. Trustee shall retain all rights to respond or object to EY Bahrain's interim and final applications for compensation and reimbursement of expenses on all grounds, including, but not limited to, reasonableness pursuant to section 330 of the Bankruptcy Code (including any allegations that EY Bahrain and another professional retained by the Debtors and compensated by the estates provided unnecessarily and unreasonably duplicative services); *provided further*, that in the event the U.S. Trustee objects, the Court retains the right to review the interim and final applications of EY Bahrain pursuant to section 330 of the Bankruptcy Code.

5. The requirements of the Bankruptcy Code, the Bankruptcy Rules, Local Rule 2016-1, the United States Trustee Guidelines, General Order M-389 and any other compensation procedures adopted by this Court are each hereby modified such that in its applications for compensation, EY Bahrain shall be required only to submit summary time records in one-half hour increments and a calculation of the total fees requested for such work in accordance with the comments made on the record during the June 26, 2012 hearing regarding the Debtors' initial application to retain EY Bahrain with respect to the period preceding July 1, 2012. Without limiting the foregoing, EY Bahrain shall not be required to maintain detailed time

records, to provide or conform to a schedule of hourly rates for its professionals, or to maintain or submit time records on a “project category” basis.

6. During the pendency of the Chapter 11 Cases, the following limitation of liability provisions of the Engagement Letters shall be deemed stricken: (a) prohibition against recovery of consequential, incidental, indirect, punitive or special damages in connection with claims arising out of the Engagement Letters or otherwise relating to the services provided by EY Bahrain; and (b) limitation of liability to fees actually paid to EY Bahrain. Further, during the pendency of the Chapter 11 Cases, the deadline to bring claims against EY Bahrain relating to the services rendered under the Engagement Letters shall be increased from 12 months of the act or omission alleged to have caused the claim, to 36 months of the act or omission alleged to have caused the claim

7. If at any time the Debtors and EY Bahrain wish to enter into additional engagement letters, the Debtors shall file further application(s) for an order of approval by the Court for any such additional engagement letters and such application(s) shall set forth, in addition to a description of the additional services to be performed, the fees that may be paid under such additional engagement letters.

8. To the extent that the Debtors make a payment to EY Bahrain on account of fees and expenses incurred in the performance of services pursuant to the Engagement Letters and this Order for the benefit of AIHL or any subsidiary of AIHL, nothing herein shall be construed to affect any claims among the members of the Arcapita Group on account of such payments to EY Bahrain.

9. Notwithstanding anything in the Application or the Engagement Letters to the contrary, during the pendency of the Chapter 11 Cases, this Court retains exclusive

jurisdiction over all matters arising out of and/or pertaining to EY Bahrain's engagement by the Debtors and any matters, claims, rights, or disputes arising from or related to the implementation or interpretation of this Order.

10. While EY Bahrain is employed by the Debtors during the pendency of the Chapter 11 Cases, to the extent the express terms of this Order differ from the Engagement Letters or the Application, the express terms of this Order shall govern.

11. The terms and conditions of this Order shall be immediately effective and enforceable upon its entry.

12. The Debtors are authorized to take all actions necessary to effectuate the relief granted pursuant to this Order.

13. Notwithstanding anything to the contrary in the Engagement Letters, if EY Bahrain immediately terminates its engagement with the Debtors upon EY Bahrain's determination that it can no longer provide services in accordance with applicable law or professional obligations, then EY Bahrain will promptly file with this Court written notice of its termination.

Dated: _____, 2012
New York, New York

THE HONORABLE SEAN H. LANE
UNITED STATES BANKRUPTCY JUDGE

EXHIBIT B
Engagement Letters



P.O. Box 140
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Bahrain Commercial Complex
Manama, Kingdom of Bahrain
Tel: +973 1753 5455 Fax: +973 1753 5405
manama@bh.ey.com
www.ey.com/me
C.R. No. 6700

PRIVATE AND CONFIDENTIAL

19 September 2011

The Board of Directors
Arcapita Bank B.S.C. (c)
P O Box 1406
Manama
Kingdom of Bahrain

**Arcapita Bank B.S.C. ("the Bank") and its Subsidiaries ("the Group")
Audit and quarterly reviews for the year ending 30 June 2012**

Dear Sirs

1. This Engagement Letter, together with the attached General Terms and Conditions for Audit and Review Engagements, (collectively, this "Agreement"), confirms the terms and conditions upon which Ernst & Young, Bahrain ("we" or "EY") has been engaged to audit and report on the consolidated financial statements of Arcapita Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") for the year ending 30 June 2012 (hereafter referred to as the "Consolidated financial statements"). We have also been engaged to review the quarterly interim condensed consolidated financial statements of the Group, Arcapita Investment Holdings Limited (AIHL) and Arcapita LT Holdings Limited (LTHL) for the quarters ending 30 September 2011, 31 December 2011 and 31 March 2012. The services described in this paragraph may hereafter be referred to as either the "Audit Services" or the "Services."
2. Should conditions not now anticipated preclude us from completing our audit and issuing a report (the "Report") as contemplated by this Agreement, we will advise you and those charged with governance promptly and take such action as we deem appropriate.

Audit Responsibilities and Limitations

3. The objective of our audit is to express an opinion on whether:
 - a) the Consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Group in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), International Financial Reporting Standards and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank; and
 - b) the financial statements of the Subsidiaries, present fairly, in all material respects, the financial position of the subsidiaries at the balance sheet date, results of its operations and changes in its cash flows for the year then ending in accordance with International Financial Reporting Standards.

The financial reporting frameworks mentioned in (a) and (b) above, for respective financial statements will hereinafter be referred to as "the applicable financial reporting framework".

Audit Responsibilities and Limitations (continued)

4. We will conduct the audit of:

- a) Consolidated financial statements in accordance with both International Standards on Auditing (the "ISAs") and Auditing Standards for Islamic Financial Institutions.
- b) Financial statements of the subsidiaries in accordance with International Standards on Auditing (the "ISAs").

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the Consolidated financial statements are free of material misstatement, whether due to fraud or error. There are inherent limitations in the audit process, including, for example, the use of judgment and selective testing of data and the possibility that collusion or forgery may preclude the detection of material error, fraud, or illegal acts. Accordingly, there is some risk that a material misstatement of the Consolidated financial statements may remain undetected. Also, an audit is not designed to detect fraud or error that is immaterial to the Consolidated financial statements.

5. As part of our audit, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the Group's internal control over financial reporting. This consideration will not be sufficient to enable us to express an opinion on the effectiveness of internal control or to identify all significant deficiencies.
6. In accordance with ISAs, we will communicate certain matters related to the conduct and results of the audit to those charged with governance. Such matters include:
 - our responsibility under the ISAs for forming and expressing an opinion on the Consolidated financial statements that have been prepared by the Board of Directors ("BoD") and that such an audit does not relieve BoD and management of their responsibilities;
 - an overview of the planned scope and timing of the audit;
 - significant findings from the audit. Significant findings from the audit include: (1) our views about the significant qualitative aspects of the Group's accounting practices, including accounting policies, accounting estimates, and consolidated financial statement disclosures; (2) significant difficulties, if any, encountered during the audit; (3) uncorrected misstatements, other than those we believe are trivial; (4) disagreements with management, if any, whether or not satisfactorily resolved; and (5) other matters, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process, including significant matters in connection with the Group's related parties; and
 - written representations requested from management and significant matters, if any, arising from the audit that were discussed, or the subject of correspondence, with management.





Audit Responsibilities and Limitations (continued)

7. In addition, we will communicate all relationships and other matters between EY, other member firms of the global Ernst & Young organization ("network firms") and the Group that, in our professional judgment, may reasonably be thought to bear on independence (including total fees charged during the period covered by the Consolidated financial statements for audit and non-audit services provided by us and network firms to the Group and other companies controlled by the Group) and the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. Further, we will confirm that the engagement team and others in EY as appropriate, EY and, when applicable, network firms have complied with relevant ethical requirements regarding independence.
8. If we determine that there is evidence that fraud or possible non-compliance with laws and regulations may have occurred, we will bring such matters to the attention of the appropriate level of management. If we become aware of fraud involving management or fraud involving employees who have significant roles in internal control or others where the fraud results in a material misstatement of the Consolidated financial statements, we will report this matter directly to those charged with governance. We will communicate with those charged with governance matters involving non-compliance with laws and regulations that come to our attention unless they are clearly inconsequential.
9. We will communicate in writing significant deficiencies in internal control identified during the audit of the Group's Consolidated financial statements.
10. We also may communicate our observations as to the potential for economies in, or improved controls over, the Group's operations.

Review of Unaudited Interim Financial Information

11. Our review of the Group's unaudited interim financial information will be performed in accordance with the International Standard for Review Engagements (ISRE) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity.
12. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we will not express an audit opinion on the interim financial information.

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Review of Unaudited Interim Financial Information (continued)

13. A review includes obtaining a sufficient understanding of the Group's business and its internal control as it relates to the preparation of the interim financial information to: identify the types of potential misstatements in the interim financial information and consider the likelihood of their occurrence; and select the inquiries, analytical and other review procedures that will provide us with a basis for reporting whether anything has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with guidance given by International Accounting Standard 34, Interim Financial Reporting.
14. You agree that where any document containing interim financial information indicates that the interim financial information has been reviewed by us, the review report will also be included in the document.

Board of Directors' Responsibilities and Representations

15. Our audit will be conducted on the basis that BoD, acknowledge and understand that they have responsibility:
 - a) For the preparation and fair presentation of the Consolidated financial statements and unaudited interim financial information in accordance with the applicable financial reporting framework;
 - b) For such internal control as BoD determines is necessary to enable the preparation of the Consolidated financial statements and unaudited interim financial information that are free from material misstatement, whether due to fraud or error; and
 - c) To provide us with: 1) access, on a timely basis, to all information of which management is aware that is relevant to the preparation of the Consolidated financial statements and unaudited interim financial information such as records, documentation and other matters; 2) additional information that we may request from directors and management for the purpose of the audit; and 3) unrestricted access to persons within the Group from whom we determine it necessary to obtain audit evidence.

BoD's failure to provide us with the information referred to above or access to persons within the Group may cause us to delay our report, modify our procedures, or even terminate our engagement.

16. BoD is also responsible for adjusting the Consolidated financial statements and unaudited interim financial information to correct misstatements identified by us and for affirming to us in its representation letter that they believe the effects of unrecorded misstatements are immaterial, individually and in aggregate, to the consolidated financial statements and unaudited interim financial information as a whole.

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Board of Directors' Responsibilities and Representations (continued)

17. BoD is responsible for apprising us of all allegations involving financial improprieties received by BoD (regardless of the source or form and including, without limitation, allegations by "whistle-blowers," employees, former employees, analysts, regulators or others), and providing us full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading EY, or other allegations of illegal acts or fraud that could result in a misstatement of the Consolidated financial statements or otherwise affect the financial reporting of the Group. If the Group limits the information otherwise available to us under this paragraph (based on the Group's claims of attorney/client privilege, work product doctrine, or otherwise), the Group will immediately inform us of the fact that certain information is being withheld from us. Any such withholding of information could be considered a restriction on the scope of the audit and may prevent us from opining on the Group's Consolidated financial statements; alter the form of report we may issue on such financial statements; or otherwise affect our ability to continue as the Group's independent auditors. We will disclose any such withholding of information to those charged with governance.

18. We will make specific inquiries of directors and management about the representations contained in the Consolidated financial statements and unaudited interim financial information. At the conclusion of the engagement, we will also obtain written representations from BoD about these matters, and that management: (1) has fulfilled its responsibility for the preparation and fair presentation of the Consolidated financial statements and unaudited interim financial information in accordance with the applicable financial reporting framework and that all transactions have been recorded and are reflected in the Consolidated financial statements and unaudited interim financial information; and (2) has provided us with all relevant information and access as contemplated in this Agreement. The responses to those inquiries, the written representations, and the results of our procedures comprise evidence on which we will rely in forming an opinion on the Consolidated financial statements and expressing a conclusion on the unaudited interim financial information.

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Fees and Billings

19. For the year ending 30 June 2012 we have divided the services into the following two areas as discussed below:

a) Audit

For the year ending 30 June 2012, we have estimated the audit fee to be BD 240,000. However, our actual fees may exceed based on changes to the business (e.g., nature of the business or change in business entities) or out-of-scope work.

Out of pocket expenses will be added to this fee. It is our practice to request an advance payment at the commencement of our work and one or more payments on account during the course of our work.

We intend to undertake visits to investee companies, if required and as appropriate, in order to directly meet with management of the investee companies and assess reasonableness of the presentation and disclosure of such investments in the Group's financial statements. Time costs and disbursements such as airfares, visa, and hotel expenses relating to our travel would be agreed with the management of the Group and billed separately.

The translation of the financial statement into Arabic, if requested, will be billed at BD 1,000.

b) Quarterly reviews

Our fees are charged on the basis of time occupied and expenses incurred having regard to the degree of responsibility involved and the experience and skill required. Our fees for the review of financial statements are as follows:

Entities	Fees
Arcapita Bank B.S.C. (c)	BD 10,000
Arcapita Investment Holdings Limited (AIHL)	BD 1,250
Arcapita LT Holdings Limited (LTHL)	BD 1,250

This estimate assumes we will receive appropriate assistance from your staff in preparation of schedules and other matters, and that this assistance is on a timely basis.

It is our practice to request a 50% advance payment at the commencement of our work and one or more payments on account during the course of our engagement.

20. All deliverables prepared by us will be presented in English. If you require us to translate deliverables into Arabic, a separate fee will be agreed for this service.



Fees and Billings (continued)

21. Our estimated pricing and schedule of performance are based upon, among other things, our preliminary review of the Group's records and the representations Group personnel have made to us and are dependent upon the Group's personnel providing a reasonable level of assistance. Should our assumptions with respect to these matters be incorrect or should the condition of records, degree of cooperation, results of our audit procedures, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimates are based, we may adjust our fees and planned completion dates. Fees for any special audit-related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the fees referred to above and will be the subject of other written agreements.

Other Matters

22. The Group shall provide us with copies of the printer's proofs of its annual report prior to publication for our review. BoD is primarily responsible to ensure that the annual report contains no misrepresentations. We will review the document for consistency between the Consolidated financial statements and other information contained in the document, and to determine if the Consolidated financial statements and our report thereon have been accurately reproduced. If we identify any errors or inconsistencies that may affect the Consolidated financial statements, we will advise management and those charged with governance, as appropriate.

We appreciate the opportunity to be of assistance to the Group. If this Agreement accurately reflects the terms and conditions on which the Group has agreed to engage us, please sign below on behalf of the Group and return it to us.

Yours faithfully

Manama, Kingdom of Bahrain

Attachment: Appendix 1 - Ernst & Young Terms of Business
Appendix 2 - Dispute Resolution Procedure
Appendix 3 - List of subsidiaries

FS:mah
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We hereby confirm our agreement to the terms of the above letter and the enclosed terms of business:

For and on behalf of Arcapita Bank B.S.C. (c)

Date:

Appendix 3 to our letter dated 19 September 2011

**Arcapita Bank B.S.C. (c)
List of subsidiaries to be audited
(to be read in conjunction with our engagement letter dated 19 September 2011)**

Name of Subsidiary	Country of incorporation	Type of Service
Arcapita Investment Management Limited (AIML)	Cayman Islands	Audit
Arcapita Investment Holdings Limited (AIHL)	Cayman Islands	Audit/ Review
Arcapita LT Holdings Limited (LTHL)	Cayman Islands	Audit / Review
Arcapita Structured Finance Limited (ASFL)	Cayman Islands	Audit
Arcapita Investment Funding Limited (AIFL)	Cayman Islands	Audit

GENERAL TERMS AND CONDITIONS

Appendix 1 to our letter dated 19 September 2011

Our Relationship with You

- 1 We are a member of the global network of Ernst & Young firms ("EY Firms"), each of which is a separate legal entity.
- 2 We may subcontract portions of the Services to other EY Firms, who may deal with you directly. Nevertheless, we alone will be responsible to you for the Report(s), the performance of the Services, and our other obligations under this Agreement.

Your Responsibilities

- 3 You shall be responsible for your personnel's compliance with your obligations under this Agreement.

Our Reports

- 4 You may not rely on any draft Report.

Limitations

- 5 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, any amount with respect to loss of profit, data or goodwill, or any other consequential, incidental, indirect, punitive or special damages in connection with claims arising out of this Agreement or otherwise relating to the Services, whether or not the likelihood of such loss or damage was contemplated.
- 6 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, aggregate damages in excess of the fees actually paid for the Services that directly caused the loss in connection with claims arising out of this Agreement or otherwise relating to the Services.
- 7 If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.
- 8 You shall make any claim relating to the Services or otherwise under this Agreement no later than within 12 months of the act or omission alleged to have caused the claim.
- 9 The limitations in Sections 6 and 8 will not apply to losses or damages caused by our fraud or wilful misconduct or deceit to the extent such exclusions are prohibited by applicable law or professional regulations.
- 10 You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("EY Persons") to the extent that no direct contractual relationship exists between you and any of the EY Persons. You shall make any claim or bring proceedings only against us on the basis that we are the party with whom you have contracted. The limitations in [Sections 5 through 8 and] this Section 10 are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

Indemnity

- 11 To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, "Claims"), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

Confidentiality

- 12 We follow professional standards of confidentiality and will treat information related to you disclosed to us by you or on your behalf ("Client Information") as set forth in the IFAC Code of Ethics Section 140.
- 13 Either of us may use electronic media to correspond or transmit information and such use will not in itself constitute a breach of any confidentiality obligations under this Agreement.
- 14 Unless prohibited by applicable law, we may disclose Client Information to other EY Firms and EY Persons to facilitate performance of the Services, to comply with regulatory requirements, to check conflicts, or for quality, risk management or financial accounting purposes.
- 15 You agree that, if a regulatory or governmental authority responsible for auditor oversight asks or orders us to produce information or documents in our files relating to your affairs, including our working papers or other work product, we may provide these materials to it. Except where prohibited by law, we will advise you of the request or order.
- 16 You shall cause all of your foreign subsidiaries and affiliates included in your consolidated financial statements to provide any authorization, to the fullest extent permissible under applicable law, to permit compliance with requests from regulatory or governmental authorities for production of documents or information in a foreign public accounting firm's, associated person's or our possession, custody and control that was obtained in the conduct of the Services by such firm or person.

Data Protection

- 17 We may collect, use, transfer, store or otherwise process (collectively, "Process") Client Information that can be linked to specific individuals ("Personal Data"). We may Process Personal Data in various jurisdictions in which we and the other EY Firms operate (which are listed at www.ey.com). We will Process the Personal Data in accordance with applicable law and professional regulations. We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements.
- 18 You warrant that you have the authority to provide the Personal Data to us in connection with the performance of the Services and that the Personal Data provided to us has been processed in accordance with applicable law.

Solicitation and hiring of EY personnel

- 19 Our auditor independence may be impaired if you solicit or hire certain EY personnel. This may either delay the provision of the Services or cause us to resign from the engagement. You shall not, during the term of this Agreement and for 6 months following its termination, for any reason, without our prior written consent, solicit to employ or nominate for a position on your Board of Directors or a financial reporting oversight role, or hire or appoint to your Board of Directors or a financial reporting oversight role, any professional employee of EY or of any other EY Entity who is or has been involved directly or indirectly with the performance of the Services for the current or prior financial year. A person in a financial reporting oversight role exercises, or is in a position to exercise, influence over the financial statements and anyone who prepares the financial statements.

Fees and Expenses Generally

- 20 You shall pay our professional fees and specific expenses in connection with the Services as detailed in the Engagement Letter. You shall also reimburse us for other reasonable expenses incurred in performing the Services. Our fees are exclusive of taxes or similar charges, as well as customs, duties or tariffs imposed in respect of the Services, all of which you shall pay other than taxes imposed on our income generally.
- 21 If we are required by applicable law, legal process or government action to produce information or personnel as witnesses with respect to the Services or this Agreement, you shall reimburse us for any professional time and expenses (including reasonable external and internal legal costs) incurred to respond to the request, unless we are a party to the proceeding or the subject of the investigation.

Force Majeure

- 22 Neither you nor we shall be liable for breach of this Agreement (other than payment obligations) caused by circumstances beyond your or our reasonable control.

Term and Termination

- 23 This Agreement applies to all Services performed at any time (including before the date of this Agreement).
- 24 This Agreement shall terminate on the completion of the Services. We may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.
- 25 You shall pay us for all work-in-progress, Services already performed, and expenses incurred by us up to and including the effective date of the termination of this Agreement. Payment is due within 30 days following receipt of our invoice for these amounts.

Governing Law and Dispute Resolution

- 26 This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of Bahrain applicable to agreements made and fully to be performed therein by residents thereof.
- 27 Any dispute relating to this Agreement or the Services shall be resolved [as set forth in Appendix 2] [subject to the exclusive jurisdiction of the Bahrain courts, to which each of us agrees to submit for these purposes].

Miscellaneous

- 28 This Agreement constitutes the entire agreement between us as to the Services and the other matters it covers, and supersedes all prior agreements, understandings and representations with respect thereto, including any confidentiality agreements previously delivered.
- 29 Both of us may execute this Agreement (and modifications to it) and each of us may sign a different copy of the same document. Both of us must agree in writing to modify this Agreement.
- 30 You represent that the person signing this Agreement on your behalf is expressly authorized to execute it and to bind you and any of your affiliates or others for whom Services are performed to its terms.
- 31 We retain ownership in the working papers compiled in connection with the Services.
- 32 Neither of us may assign any of our rights, obligations or claims under this Agreement.
- 33 If any provision of this Agreement (in whole or part) is held to be illegal, invalid or otherwise unenforceable, the other provisions shall remain in full force and effect.
- 34 If there is any inconsistency between provisions in different parts of this Agreement, those parts shall have precedence as follows (unless expressly agreed otherwise):
- (a) the Engagement Letter,
 - (b) these General Terms and Conditions for agreed-upon procedure Engagements, and
 - (c) other annexes to this Agreement.
- 35 We may use your name publically to identify you as a client, but we may refer to you in connection with the Services only if it is a matter of public knowledge that we are providing them (or have provided them).

Appendix 2 to our letter dated 19 September 2011
Dispute Resolution Procedure

In the event of any controversy or claim arising out of or relating to this Agreement or an Engagement Letter, or a breach thereof, the parties shall consult and negotiate with each other and, recognising their mutual interests, attempt to reach a solution satisfactory to the parties. If the parties fail to settle the controversy or claim at the expiration of thirty (30) days, then, upon notice by any party to the other(s), any unresolved controversy or claim shall be settled by arbitration administered by the International Centre for Dispute Resolution Bahrain ("Dispute Resolution Centre") (www.icdr.org) in accordance with the provisions of its [International Arbitration Rules / Procedures for Cases under the UNCITRAL Arbitration Rules]. The Parties agree that:

- (a) the arbitration shall be heard before one (1) arbitrator appointed in accordance with the procedures of the Dispute Resolution Centre.
- (b) all arbitration proceedings are to take place in Manama, Kingdom of Bahrain;
- (c) except as may be required by law, neither a party nor its representatives may disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties.
- (d) the language of the arbitration shall be English;
- (e) it is the intent of the parties that, barring extraordinary circumstances, arbitration proceedings will be concluded within 120 days from the date the arbitrator is appointed. The arbitral tribunal may extend this time limit in the interests of justice. Failure to adhere to this time limit shall not constitute a basis for challenging the award.
- (f) the decision of such arbitration shall be final and binding upon the parties hereto without appeal to any court or other party(s);
- (g) pending the decision or award, the parties shall continue to perform their obligations pursuant to the Agreement or Statement of Work; and
- (h) this clause shall continue in force notwithstanding the termination of this Agreement.



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PRIVATE AND CONFIDENTIAL

22 September 2011

Mr Essa Zainal
Executive Director
Arcapita Bank B.S.C.(c)
P O Box 1406
Manama
Kingdom of Bahrain

**Arcapita Bank B.S.C. (c) (the "Bank")
Agreed-upon procedures relating to Quarterly Prudential Information Report
for Islamic Banks [PIRI] submitted to the Central Bank of Bahrain [the
"CBB"] for the year ending 30 June 2012**

Dear Sir

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements 4400, and we will indicate so in our report. The general terms of business, which are enclosed in Appendix 1 and Appendix 2, provide further details of our respective responsibilities and, together with this engagement letter, constitute the entire agreement between us with respect to our engagement. In the event of any inconsistency, the terms of this engagement letter will prevail.

Our Scope

We have agreed to perform the procedures enumerated below with respect to the Bank's quarterly consolidated prudential information report for Islamic Banks ("Form PIRI") to be submitted to the CBB and report to you the factual findings resulting from our work.

The procedures that we will perform are solely to assist you in establishing that the Form PIRI is completed in accordance with the guidelines, including the supplementary sheets for the completion of the Form PIRI, the Capital Adequacy Module ("CA Module") applicable for Islamic banks and the directives issued by CBB from time to time in this regard and are summarised as follows:

1. We will compare the information reported in the Form PIRI to the Bank's accounting records, supplementary schedules attached to the guidelines or with the Bank's own system;
2. We will read the information reported in the Form PIRI to ensure that it is grouped, categorised and disclosed in accordance with the guidelines including the supplementary schedules for the completion of the Form PIRI, the CA Module and prudential consolidation and deductions module applicable to Islamic banks and the directives issued by the CBB from time to time and the instructions for completion contained at the end of each page. On a sample basis we will check the composition of various balances and classifications to the underlying records;

Our Scope (continued)

3. We will read the information reported in the Form PIRI to determine whether it is consistent with the information reported elsewhere in the Form PIRI;
4. We will check on a sample basis that assets and off balance sheet exposures are risk weighted and computed in line with the guidelines and the capital adequacy rules;
5. We will check whether the risk capital charges for market and operational risk have been computed in line with the guidelines and the capital adequacy rules;
6. We will check whether the calculation of the capital adequacy ratio is in line with the guidelines and the capital adequacy rules;
7. We will compare the opening balances reported in the Form PIRI to the closing balances for the previous period as reported to the CBB to determine whether they match;
8. We will check the arithmetical accuracy of the Form PIRI on a test basis;
9. We will read the Form PIRI to identify any material omitted items;
10. We will enquire from the staff responsible for completion of the Form PIRI of the nature of errors or inconsistencies, if any, in the previously reported Form PIRI and the steps taken by the Bank to rectify them;
11. In the case of investment in other entities, we will check whether the Bank's risk weighting or consolidation or aggregation or deduction of such investments (and any associated risk assets and capital charges in the case of consolidation or aggregation) is in line with the guidelines and rules and Prudential Consolidation and Deductions Module [Module PCD];
12. We will inquire that an adequate internal control system is implemented for the preparation of the PIRI and that the PIRI is reviewed by appropriate independent personnel; and
13. We will inquire with the staff responsible for the preparation of the Form PIRI for the basis of classification / grouping / omission of items in the Form PIRI, which in their view were not specifically addressed by the guidelines for completion of Form PIRI and the CA Module.

The working papers prepared in conjunction with our work are the property of Ernst & Young, constitute confidential and proprietary information and will be retained by us in accordance with our policies and procedures.

The procedures we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing and International Standards on Review Engagements respectively, consequently no assurance will be expressed.

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentations and other information requested in connection with our engagement.



Fees and Other Services

Our fees are charged on the basis of time occupied and expenses incurred having regard to the degree of responsibility involved and the experience and skill required. We estimate our fees to be BD 2,500 per return. This estimate assumes we will receive appropriate assistance from your staff.

Out of pocket expenses will be added to this fee. It is our practice to request an advance payment at the commencement of our work and one or more payments on account during the course of our work.

Limitation of liability

We would draw your attention to sections 5 to 10 of the terms of business, which refer to the limitation of the firm's liability.

Term

The term of this agreement should commence on the date of this engagement letter and will be effective for future years unless we agree with you to amend the terms of our engagement in writing.

This letter reflects the entire agreement between the Bank and Ernst & Young, relating to the services described herein and supersedes any previous proposals, correspondence and understandings, whether written or oral. The agreements contained herein shall survive the completion or termination of the engagement which is the subject of this letter.

We should be grateful if you would confirm your agreement to the terms of our engagement by countersigning the enclosed copy of this letter and returning it to us.

Yours faithfully

Attachment: Appendix 1 - General Terms and Conditions
Appendix 2 - Dispute Resolution Procedure

FL: mah
5218

We hereby confirm our agreement to the terms of the above letter and the enclosed terms of business:

For and on behalf of Arcapita Bank B.S.C. (c)

Date:

GENERAL TERMS AND CONDITIONS

Appendix 1 to our letter dated 22 September 2011

Our Relationship with You

- 1 We are a member of the global network of Ernst & Young firms ("EY Firms"), each of which is a separate legal entity.
- 2 We may subcontract portions of the Services to other EY Firms, who may deal with you directly. Nevertheless, we alone will be responsible to you for the Report(s), the performance of the Services, and our other obligations under this Agreement.

Your Responsibilities

- 3 You shall be responsible for your personnel's compliance with your obligations under this Agreement.

Our Reports

- 4 You may not rely on any draft Report.

Limitations

- 5 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, any amount with respect to loss of profit, data or goodwill, or any other consequential, incidental, indirect, punitive or special damages in connection with claims arising out of this Agreement or otherwise relating to the Services, whether or not the likelihood of such loss or damage was contemplated.
- 6 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, aggregate damages in excess of the fees actually paid for the Services that directly caused the loss in connection with claims arising out of this Agreement or otherwise relating to the Services.
- 7 If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.
- 8 You shall make any claim relating to the Services or otherwise under this Agreement no later than within 12 months of the act or omission alleged to have caused the claim.
- 9 The limitations in Sections 6 and 8 will not apply to losses or damages caused by our fraud or wilful misconduct or deceit to the extent such exclusions are prohibited by applicable law or professional regulations.
- 10 You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("EY Persons") to the extent that no direct contractual relationship exists between you and any of the EY Persons. You shall make any claim or bring proceedings only against us on the basis that we are the party with whom you have contracted. The limitations in [Sections 5 through 8 and] this Section 10 are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

Indemnity

- 11 To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, "Claims"), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

Confidentiality

- 12 We follow professional standards of confidentiality and will treat information related to you disclosed to us by you or on your behalf ("Client Information") as set forth in the IFAC Code of Ethics Section 140.
- 13 Either of us may use electronic media to correspond or transmit information and such use will not in itself constitute a breach of any confidentiality obligations under this Agreement.
- 14 Unless prohibited by applicable law, we may disclose Client Information to other EY Firms and EY Persons to facilitate performance of the Services, to comply with regulatory requirements, to check conflicts, or for quality, risk management or financial accounting purposes.
- 15 You agree that, if a regulatory or governmental authority responsible for auditor oversight asks or orders us to produce information or documents in our files relating to your affairs, including our working papers or other work product, we may provide these materials to it. Except where prohibited by law, we will advise you of the request or order.
- 16 You shall cause all of your foreign subsidiaries and affiliates included in your consolidated financial statements to provide any authorization, to the fullest extent permissible under applicable law, to permit compliance with requests from regulatory or governmental authorities for production of documents or information in a foreign public accounting firm's, associated person's or our possession, custody and control that was obtained in the conduct of the Services by such firm or person.

Data Protection

- 17 We may collect, use, transfer, store or otherwise process (collectively, "Process") Client Information that can be linked to specific individuals ("Personal Data"). We may Process Personal Data in various jurisdictions in which we and the other EY Firms operate (which are listed at www.ey.com). We will Process the Personal Data in accordance with applicable law and professional regulations. We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements.
- 18 You warrant that you have the authority to provide the Personal Data to us in connection with the performance of the Services and that the Personal Data provided to us has been processed in accordance with applicable law.

Solicitation and hiring of EY personnel

- 19 Our auditor independence may be impaired if you solicit or hire certain EY personnel. This may either delay the provision of the Services or cause us to resign from the engagement. You shall not, during the term of this Agreement and for 6 months following its termination, for any reason, without our prior written consent, solicit to employ or nominate for a position on your Board of Directors or a financial reporting oversight role, or hire or appoint to your Board of Directors or a financial reporting oversight role, any professional employee of EY or of any other EY Entity who is or has been involved directly or indirectly with the performance of the Services for the current or prior financial year. A person in a financial reporting oversight role exercises, or is in a position to exercise, influence over the financial statements and anyone who prepares the financial statements.

Fees and Expenses Generally

- 20 You shall pay our professional fees and specific expenses in connection with the Services as detailed in the Engagement Letter. You shall also reimburse us for other reasonable expenses incurred in performing the Services. Our fees are exclusive of taxes or similar charges, as well as customs, duties or tariffs imposed in respect of the Services, all of which you shall pay other than taxes imposed on our income generally.
- 21 If we are required by applicable law, legal process or government action to produce information or personnel as witnesses with respect to the Services or this Agreement, you shall reimburse us for any professional time and expenses (including reasonable external and internal legal costs) incurred to respond to the request, unless we are a party to the proceeding or the subject of the investigation.

Force Majeure

- 22 Neither you nor we shall be liable for breach of this Agreement (other than payment obligations) caused by circumstances beyond your or our reasonable control.

Term and Termination

- 23 This Agreement applies to all Services performed at any time (including before the date of this Agreement).
- 24 This Agreement shall terminate on the completion of the Services. We may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.
- 25 You shall pay us for all work-in-progress, Services already performed, and expenses incurred by us up to and including the effective date of the termination of this Agreement. Payment is due within 30 days following receipt of our invoice for these amounts.

Governing Law and Dispute Resolution

- 26 This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of Bahrain applicable to agreements made and fully to be performed therein by residents thereof.
- 27 Any dispute relating to this Agreement or the Services shall be resolved [as set forth in Appendix 2] [subject to the exclusive jurisdiction of the Bahrain courts, to which each of us agrees to submit for these purposes].

Miscellaneous

- 28 This Agreement constitutes the entire agreement between us as to the Services and the other matters it covers, and supersedes all prior agreements, understandings and representations with respect thereto, including any confidentiality agreements previously delivered.
- 29 Both of us may execute this Agreement (and modifications to it) and each of us may sign a different copy of the same document. Both of us must agree in writing to modify this Agreement.
- 30 You represent that the person signing this Agreement on your behalf is expressly authorized to execute it and to bind you and any of your affiliates or others for whom Services are performed to its terms.
- 31 We retain ownership in the working papers compiled in connection with the Services.
- 32 Neither of us may assign any of our rights, obligations or claims under this Agreement.
- 33 If any provision of this Agreement (in whole or part) is held to be illegal, invalid or otherwise unenforceable, the other provisions shall remain in full force and effect.
- 34 If there is any inconsistency between provisions in different parts of this Agreement, those parts shall have precedence as follows (unless expressly agreed otherwise):
- (a) the Engagement Letter,
 - (b) these General Terms and Conditions for agreed-upon procedure Engagements, and
 - (c) other annexes to this Agreement.
- 35 We may use your name publically to identify you as a client, but we may refer to you in connection with the Services only if it is a matter of public knowledge that we are providing them (or have provided them).

Dispute Resolution Procedure

Appendix 2

In the event of any controversy or claim arising out of or relating to this Agreement or an Engagement Letter, or a breach thereof, the parties shall consult and negotiate with each other and, recognising their mutual interests, attempt to reach a solution satisfactory to the parties. If the parties fail to settle the controversy or claim at the expiration of thirty (30) days, then, upon notice by any party to the other(s), any unresolved controversy or claim shall be settled by arbitration administered by the International Centre for Dispute Resolution Bahrain ("Dispute Resolution Centre") (www.icdr.org) in accordance with the provisions of its [International Arbitration Rules / Procedures for Cases under the UNCITRAL Arbitration Rules]. The Parties agree that:

- (a) the arbitration shall be heard before one (1) arbitrator appointed in accordance with the procedures of the Dispute Resolution Centre.
- (b) all arbitration proceedings are to take place in Manama, Kingdom of Bahrain;
- (c) except as may be required by law, neither a party nor its representatives may disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties.
- (d) the language of the arbitration shall be English;
- (e) it is the intent of the parties that, barring extraordinary circumstances, arbitration proceedings will be concluded within 120 days from the date the arbitrator is appointed. The arbitral tribunal may extend this time limit in the interests of justice. Failure to adhere to this time limit shall not constitute a basis for challenging the award.
- (f) the decision of such arbitration shall be final and binding upon the parties hereto without appeal to any court or other party(s);
- (g) pending the decision or award, the parties shall continue to perform their obligations pursuant to the Agreement or Statement of Work; and
- (h) this clause shall continue in force notwithstanding the termination of this Agreement.



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PRIVATE AND CONFIDENTIAL

2 May 2012

Mr Essa Zainal
Executive Director
Arcapita Bank B.S.C.(c)
P O Box 1406
Manama
Kingdom of Bahrain

**Arcapita Bank B.S.C. (c)
Agreed-Upon Procedures Relating To The Compliance with Anti-Money
Laundering Regulations Issued by the Central Bank of Bahrain**

Dear Sir

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements and we will indicate so in our report. The terms of business, which are enclosed as Appendix 2 and 3, provide further details of our respective responsibilities and, together with this engagement letter, constitute the entire agreement between us with respect to our engagement. In the event of any inconsistency, the terms of this engagement letter will prevail.

The procedures we will perform have been agreed with the Central Bank of Bahrain ("CBB") are enumerated in the attached Appendix 1 with respect to compliance by Arcapita Bank B.S.C. (c) (the "Bank") with the Module FC of the October 2005 (as updated in January 2012) Central Bank of Bahrain Rule Book ("Module FC") for the year ending 30 June 2012 and report to you the factual findings resulting from our work.

In accordance with Section FC - B.2.1 of the Module FC of Central Bank of Bahrain Rule Book, our procedures will cover the Kingdom of Bahrain.

The procedures that we will perform are solely to assist you in assessing whether the Bank is in compliance with the Module FC. Our report is not to be used for any other purpose and is solely for your information.

The procedures that we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements and, consequently, no assurance will be expressed.

The working papers prepared in conjunction with our work are the property of Ernst & Young constitute confidential and proprietary information and will be retained by us in accordance with our policies and procedures.



2 May 2012

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We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our engagement.

Our fees are charged on the basis of time occupied and expenses incurred having regard to the degree of responsibility involved and the experience and skill required. We estimate our fees to be BD 6,250. This estimate assumes that we will receive appropriate assistance from your staff.

Out of pocket expenses will be added to this fee. It is our practice to request an advance payment at the commencement of our work and one or more payments on account during the course of our work.

Unless otherwise agreed in writing, all deliverables prepared by us will be presented in English. If you require us to translate deliverables into Arabic, a separate fee will be agreed for this service.

We would draw your attention to sections 5 to 10 of the terms of business (Appendix 2), which refer to the limitation of the firm's liability.

This letter reflects the entire agreement between the Bank and Ernst & Young relating to the services described herein and supersedes any previous proposals, correspondence and understandings, whether written or oral. The agreements contained herein shall survive the completion or termination of the engagement which is the subject of this letter.

We should be grateful if you would confirm your agreement to the terms of our engagement by countersigning the enclosed copy of this letter and returning it to us.

Yours faithfully

Attachments: Appendices

IMI: mah
5218

We hereby confirm our agreement to the terms of the above letter and the enclosed terms of business:

For and on behalf of Arcapita Bank B.S.C. (c)

Date:

Arcapita Bank B.S.C. (c)

AGREED-UPON PROCEDURES RELATING TO THE REVIEW OF COMPLIANCE WITH ANTI-MONEY LAUNDERING REGULATIONS ISSUED BY THE CENTRAL BANK OF BAHRAIN

	A Policies and Procedures
1	<p>We will read a copy of the Arcapita Bank B.S.C. (c) (the "Bank") anti-money laundering policy and procedures manual and comment on whether it is consistent with the requirements of Module FC of the October 2005 (as updated in January 2012) Central Bank of Bahrain Rule Book ("Module FC").</p> <p>We will read a copy of the documented systems and controls and associated policies and procedures to ensure compliance with the requirements of the FC Module and to limit their vulnerability to financial crime (FC 2.1.1).</p> <p>We will make inquiries to ensure with the Bank MLRO that these documented systems and controls are approved and reviewed annually by the Board. (FC 2.1.1). We will also note the date of last review and approval.</p> <p>We will also read the Bank's policies and procedures to find out whether it establishes standards for customer acceptance, on-going monitoring of high risk accounts, staff training and adequate screening procedures to ensure high standards while hiring employees. (FC 2.1.2).</p>
	B Customer Due Diligence
	B.1 General Requirements - Verification of Identity and Source of Funds (FC 1.1)
2	<p>We will make inquiries of the Bank MLRO whether the Bank has effective systematic internal procedures, in writing, and approved by the BoD, in place for establishing and verifying the identity of its customers and the source of their funds. (FC - 1.1.1)</p>
	B.1.1 General Requirements - Verification of Third Parties and Anonymous and Nominee Accounts
3	<p>We will make inquiries with the Bank MLRO about the procedures for establishing the identity of the beneficiary and for ascertaining the identity of any additional beneficiaries. (FC 1.1.5 - FC 1.1.9)</p> <p>We will also make inquiries of Bank MLRO as to whether:</p> <ul style="list-style-type: none"> ▪ the Bank obtains a signed statement from new customers to confirm whether the customer is acting on their own behalf or not; ▪ the Bank obtains a signed statement from the third party, confirming that they have given authority to the customer to act on their behalf, where the customer is acting on behalf of a third party; ▪ the Bank keeps anonymous accounts or accounts in fictitious names; ▪ the Bank maintains nominee accounts controlled by or held for the benefit of another person whose identity has not been disclosed to the Bank; and ▪ normal identification procedures as required in FC 1.2 are followed for minors or other persons lacking full legal capacity, as well as of the parents or legal guardian or any party operating on behalf of such minors or other persons lacking full legal capacity.

Arcapita Bank B.S.C. (c)

AGREED-UPON PROCEDURES RELATING TO THE REVIEW OF COMPLIANCE WITH ANTI-MONEY
LAUNDERING REGULATIONS ISSUED BY THE CENTRAL BANK OF BAHRAIN

	B.1.2 - Timing of Verification (FC 1.1.10)
4	We will read the Bank's policies and procedures to determine the timing of the verification procedures and ensure that it complies with the requirements of FC 1.1.10, if verification is allowed to be completed after receipt of funds or account opening.
	B.1.3 - Incomplete Customer Due Diligence (FC 1.1.11)
5	We will make inquiries of the Bank MLRO as to whether the following procedures are followed if it is unable to comply with requirements specified in Chapters 1, 2 and 3 of Module FC of the October 2005 (as updated in January 2012) Central Bank of Bahrain Rule Book: <ul style="list-style-type: none"> ▪ the Bank must either consider termination of relationship; or ▪ the Bank must not proceed with the transaction; and ▪ additionally, consider whether it should file a suspicious transaction report.
	B.1.4 - Face-to-Face Business (FC 1.2)
6	We will select a representative sample of customers covering existing and new customers (individuals, corporate, trusts, etc.) and sight the documents obtained/sighted by the Bank's staff in order to meet the requirements of FC 1.2 on customer due diligence measures.
7	We will read the Bank's policies and procedures and select a representative sample to determine whether the following information is obtained on account opening forms (FC 1.2.1): <ul style="list-style-type: none"> ▪ full legal name and any other names used; ▪ full permanent address; ▪ date and place of birth; ▪ nationality; ▪ passport number ▪ CPR or Iqama number (where applicable); ▪ telephone/fax number and email address; ▪ occupation or public position held; ▪ employer's name and address; ▪ type of account, and nature of volume of anticipated business dealing with the conventional bank licensee; ▪ signature of the customer; and ▪ source of funds.
8	For a representative sample of customers where the customer is a legal entity or a legal arrangement such as a trust, we will select a sample of such customers and inspect evidence of customer due diligence procedures being carried out (FC 1.2.7).
9	We will read the Bank's policies and procedures to determine the certification procedures for original documents (FC 1.2.4 / FC 1.2.5). We will interview a sample of Bank staff MLRO responsible for reviewing original documents to determine whether the procedures followed are in line with the Regulations issued by the CBB.

Arcapita Bank B.S.C. (c)

AGREED-UPON PROCEDURES RELATING TO THE REVIEW OF COMPLIANCE WITH ANTI-MONEY
LAUNDERING REGULATIONS ISSUED BY THE CENTRAL BANK OF BAHRAIN

	B.1.5 - Enhanced Customer Due Diligence: General Requirements (FC 1.3)
10	We will read the Bank's policies and procedures to determine its procedures in identifying any customers as to having a higher risk profile and for a representative sample of such customers check the additional due diligence procedures carried out by the Bank (FC 1.3).
	B.1.6 Enhanced Customer Due Diligence: Non face-to-face business and New Technologies (FC 1.4)
11	<p>We will read the Bank's policies and procedures to determine the procedures performed in respect of non face-to-face business (telephone banking and e-banking) and, for a sample of customer transactions entered into via telephone or via the internet; we will sight documentary evidence, of use of the recommended methods in the Module FC, for checking authenticity to support the acceptance of the customer/transaction. (FC 1.4-1.4.4).</p> <p>We will also inquire with the Bank MLRO as to how they comply with e-commerce laws and /or CBB regulations issued from time to time.</p>
	B.1.7 Enhanced Customer Due Diligence: Politically Exposed Persons (FC 1.5)
12	<p>We will make inquiries of the Bank MLRO as to what systems or lists are used by the Bank to determine whether a customer is a Politically Exposed Person (PEP).</p> <p>We will check the Bank's risk management systems for determining whether a customer is a PEP at the time of opening the account relationship and thereafter.</p> <p>In addition, we will also make inquiries of the Bank MLRO as to whether the following procedures are followed, where an existing customer is a PEP or subsequently becomes a PEP:</p> <ul style="list-style-type: none"> ▪ analysis of complex financial structures, including trusts, foundations or international business operations; ▪ a written record in the customer file to establish that reasonable measures have been taken to establish both the source of wealth and the source of funds; ▪ development of a profile of anticipated customer activity, to be used in on-going monitoring; ▪ approval of senior management for allowing the customer relationship to continue; and ▪ ongoing account monitoring of the PEP's account by senior management (such as the Bank MLRO).

Arcapita Bank B.S.C. (c)

AGREED-UPON PROCEDURES RELATING TO THE REVIEW OF COMPLIANCE WITH ANTI-MONEY LAUNDERING REGULATIONS ISSUED BY THE CENTRAL BANK OF BAHRAIN

	B.1.8 Enhanced Due Diligence: Charities, Clubs and other Societies (FC 1.6)
13	<p>We will select a representative sample of customers who are charitable funds and religious, sporting, social, cooperative and professional societies and check the customer file to verify:</p> <ul style="list-style-type: none"> ▪ whether the Bank has obtained identities of such customers from the relevant Ministry confirming the identities of those purporting to act on their behalf; and ▪ for clubs and societies registered with the General Organisation for Youth and Sports ("GOYS"), whether the bank has contacted GOYS to clarify whether the account may be opened in accordance with the rules of GOYS. <p>In addition, we will enquire whether the procedures performed by the Bank in relation to such customers are in compliance with the FC Module.</p> <p>We will specifically inquire whether the Bank has reported all payments and transfers of BD 3,000 (or equivalent in foreign currencies) and above, for accounts held by charities registered in Bahrain.</p>
	B.1.9 Enhanced Due Diligence: "Pooled Funds" (FC 1.7)
14	<p>We will make inquiries of the Bank MLRO whether the Bank received "Pooled Funds" in order to carry out the following procedures on the related supporting documentation produced for customer verification (FC 1.7):</p> <ul style="list-style-type: none"> ▪ where the pooled funds are not co-mingled, we will sight documentation to check whether the appropriate officer or department had identified all beneficial owners of the funds and their identity has been verified; and ▪ where the pooled funds are co-mingled, we will sight documentation to check if there is evidence that the Bank had made a "reasonable effort to look beyond the intermediary and determine the identity of the beneficial owners or underlying clients", and in cases where the intermediary is not subject to the same regulatory and money laundering Regulations and procedures as the Bank, we will sight the documentation to check that there is evidence that the Bank has established the identities of all beneficiaries or has received specific written permission from the CBB.
15	<p>We will make inquiries of the Bank MLRO as to the procedures followed for any pooled funds held on behalf of customer from foreign jurisdictions (FC 1.7.4).</p> <p>In addition, if applicable we will make inquiries and test a sample of transactions, to confirm that a confirmation from the intermediary is received stating that the customer due diligence has been performed.</p>

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	B.1.10 Enhanced Due Diligence for Correspondent Banking Relationships (FC 1.8)
16	<p>We will select a representative sample of respondent banks, if any and make inquires of management personnel and where we consider it appropriate, inspect documentation to evidence that a due diligence was carried out by Bank personnel as required in Module FC (FC 1.8.1). The list of specific requirements under FC 1.8.1, which needs to be covered individually in relation to the above is as follows:</p> <ul style="list-style-type: none"> ▪ information about the respondent bank's ownership structure and management; ▪ major business activities of the respondent and its location as well as the location of its parent; ▪ where the customers of the respondent bank are located; ▪ the respondents AML/Combating the Financing of terrorism control (CFT); ▪ the purpose for which the account will be opened; ▪ confirmation that the respondent bank has verified the identity of any third parties which will have direct access to the correspondent banking services without reference to the respondent bank; ▪ the extent to which the respondent bank performs ongoing due diligence on customers with direct access to the account, and the condition of bank regulation and supervision in the respondent's country; ▪ confirmation that the respondent bank is able to provide relevant customer identification data on request to the correspondent bank; and ▪ whether the respondent bank has been subject to money laundering or terrorist financing investigation.
17	<p>In our representative sample of respondent banks, which we will select for procedure 16 above, we will note all instances whether that Bank had implemented the following additional measures, prior to opening a correspondent banking relationship: (FC 1.8.2)</p> <ul style="list-style-type: none"> ▪ complete a signed statement that outlines the respective responsibilities of each institution in relation to money laundering detection and monitoring responsibilities; and ▪ ensure that if the correspondent banking relationship has the approval of senior management.
18	<p>In our representative sample of respondent banks, which we will select for procedure 16 above, we will note all instances where there is evidence that the Bank had established whether its respondent bank:</p> <ol style="list-style-type: none"> i. is incorporated in a jurisdiction in which it does not have a physical presence, and is unaffiliated with a regulated financial group (i.e., is a "shell" bank); and ii. located in a jurisdiction that has "poor" "Know Your Customer ("KYC") standards" or has been identified by the FATF as being non-cooperative in the fight against money laundering. <p>In the case of (i) above, we will make inquiries as to whether the Bank has discontinued its relationship with the respondent bank and in the case of (ii) above, we will inquire if the Bank has employed "enhanced" due diligence procedures.</p>

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	B.1.11 Introduced Business from Professional Intermediaries (FC1.9)
19	<p>We will make inquiries with Bank MLRO about the procedures undertaken by the Bank, where it has delegated part of the customer due diligence measures to another financial institution or intermediary and for a representative sample of such customers (where the Bank has accepted introductions from third parties), whether the Bank has complied with regulations as in Module FC 1.9. The conditions under FC 1.9.2, in relation to the above, which need to be satisfied are as follows:</p> <ul style="list-style-type: none"> ▪ the customer due diligence applied by the introducer are consistent with those required by FATF 40 + 9 Recommendations; ▪ a formal agreement is in place defining the respective role of the licensee and the introducer in relation to customer due diligence measures. The agreement must specify that the customer due diligence measures of the introducer comply with FAFT 40 + 9 Recommendations; ▪ the introducer is able to provide all relevant data pertaining to the customer's identity, the identity of the customer and beneficial owner of the funds and, where applicable, the party/parties on whose behalf the customer is acting; also, the introducer has confirmed that the licensee will be allowed to verify the customer due diligence measures undertaken by the introducer at any stage; and ▪ written confirmation is provided by the introducer confirming that all customer due diligence measures required by the FAFT 40 + 9 Recommendations have been followed and the customer's identity established and verified. In addition, the confirmation must state that any identification documents or any other due diligence material can be accessed by the conventional bank licensee and that these documents will be kept for at least five years after the business relationship has ended.
	B.1.12 Shell Banks (FC 1.10)
20	<p>We will make inquiries of Bank MLRO as to whether</p> <ul style="list-style-type: none"> ▪ the Bank did not establish any business relations with shell banks or with any banks that have relations with shell banks (FC 1.10.1); and ▪ the Bank made a suspicious transaction report to the Anti-Money Laundering Unit and Compliance Unit if they are approached by a shell bank or an institution they suspect of being a shell bank (FC 1.10.2).
	B.1.13 Enhanced Due Diligence : Cross Border Cash Transactions (FC - 1.10A)
21	<p>We will check, through inquiries of bank MLRO, that minimum documentation for all cross border transactions, as stated in FC 1.10A.2 to FC 1.10A.5, have been observed and the same has been declared to CBB.</p>

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	B.1.14 Simplified Customer Due Diligence (FC 1.11)
22	We will make inquiries of Bank MLRO that only for the criteria stated in FC 1.11.1 (a) to (g), the Bank applies simplified customer due diligence measures.
23	We will check, through inquiries of the Bank MLRO, that the minimum documentation requirements are observed for customers satisfying the criteria in FC 1.11.1 (a) to (g) and a Bank official (Bank MLRO or designated anti-money laundering officer) ensures that there is documentary evidence in place to support simplified customer due diligence.
	C. AML/ CFT Systems and Controls
	C.1. Ongoing Customer Due Diligence and Transaction Monitoring - Risk Based Monitoring, Automated Transaction Monitoring and Unusual transactions or Customer Behaviour (FC 2.2)
24	We will inquire from the Bank's MLRO as to the existence of risk-based monitoring systems (systems) to recognise significant or abnormal transactions or patterns of activity outside the expected or regular pattern of a customer's account activity and review customer due diligence procedures by the Bank for such transactions. (FC 2.2.1- 2.2.2) We will also inquire of the Bank's MLRO as to whether the Bank has automated transaction monitoring as part of their risk-based monitoring systems or what other measures are in place to monitor "significant" transactions. (FC 2.2.3)
25	We will inquire of the Bank's MLRO as to whether <ul style="list-style-type: none"> ▪ the Bank's risk-based monitoring systems identify significant or abnormal transactions (as defined in FC 2.2.2 and FC 2.2.3); ▪ the Bank MLRO verify the source of funds for those transactions, particularly above the occasional transactions threshold of BD 6,000 (FC 2.2.5); ▪ the Bank MLRO examine the background and purpose to those transactions and document their findings (FC 2.2.5); and ▪ the Bank maintains the documents relating to these findings for five years from the date when the transaction was completed (FC 2.2.6).
26	We will inquire of the Bank's MLRO as to the procedures in place where there is a significant, unexpected or unexplained change in customer activity FC 2.2.7.
27	We will inquire of the Bank's MLRO as to the procedures in place when an existing customer closes one account and opens another - FC 2.2.8. For a representative sample we will verify the documentary evidence to identify whether the procedures followed by the Bank are in compliance with FC 2.2.8.
	C.1.1 Ongoing Customer Due Diligence and Transaction Monitoring -Maintaining Documentation (FC 2.2)
28	We will inquire with the Bank MLRO the procedures undertaken by the Bank to ensure that they maintain up-to-date copies of the identification documents specified in Chapter FC-1. We will select a representative sample of existing customers to check that they maintain up-to-date copies of the identification documents specified in Chapter FC-1. We will also check whether there is evidence of review of the customer due diligence information and updation of the same by the Bank at least every three years (FC 2.2.10 to FC 2.2.11).

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	D Money transfers and alternative remittances
	D.1 Electronic Transfers (FC 3.1)
29	We will select a representative sample of outward wire transfers and note if Originator Information has been included with all electronic transfers of funds they make on behalf of including name, address and account number of the payer (FC 3.1.1- 3.1.2).
30	<p>We will select a representative sample of inward wire transfers and ensure whether:</p> <ul style="list-style-type: none"> ▪ the Bank maintains records (in accordance with FC 7) of all Originator Information received with an inward transfer; ▪ Originator Information was included with the original transfer, and where it was not included, whether the Bank immediately requested and obtained it; and ▪ where compliance was not "immediate", we will ask the Bank MLRO whether this was reported as a "suspicious transaction" to the CBB and the Enforcement Unit of the Ministry of Interior (FC 3.1.4). <p>Note: Address of the payer not mandatory. The account number of the payer may be substituted for reference number.</p>
	D.2 Remittances on behalf of other Money Transferors (FC 3.2)
31	<p>We will select a representative sample of transfers, if any, where the Bank has used the services of authorised money transferors' to effect the transfer of funds and enquire whether the Bank maintain records of:</p> <ul style="list-style-type: none"> ▪ the identity of its customer(s) in accordance with FC 1 and FC 7 of this Module; and ▪ the exact amounts transferred for each such customer (FC 3.2.1).
32	We will also make inquiries of the Bank MLRO as to whether only Authorised money transferors were engaged to transfer funds for customers to a person or organisation in another country.
	E The Money Laundering Reporting Officer (MLRO)
	E.1 Appointment and Responsibilities of the Bank MLRO (FC 4.1)
33	<p>We will read the documents appointing the Bank's MLRO and deputy MLRO and request documentary evidence of approval by the CBB. We will check whether such appointments comply with the requirements of the CBB (FC 4.1.1 and FC 4.1.5).</p> <p>In addition, we will enquire whether the position of Bank MLRO is not combined with functions that create potential conflicts of interest such as an internal auditor or business line head (FC 4.1.3).</p>

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34	We will enquire as to whether: <ul style="list-style-type: none">▪ the Bank MLRO has unrestricted access to all transactional information and customer due diligence information relating to any financial services provided by the Bank to a customer, or any transactions conducted by the Bank on behalf of a customer (FC 4.1.7); and▪ there are adequate management information systems to provide the Bank MLRO with timely information needed to identify, analyze and effectively monitor customer accounts (FC 4.1.7).
35	We will make inquiries as to whether the Bank MLRO has delegated anti-money laundering duties to other individuals, and if so whether the Bank MLRO has taken ultimate managerial responsibility for ensuring that the duties imposed on the deputy MLRO by this Regulation are complied with (FC 4.1.5).
36	We will note the level of seniority of the Bank MLRO within the Bank and the resources and support staff as well as time available to carry out his/her responsibilities (FC 4.1.7).
37	We will make inquiries as to how the Bank ensures that the Bank MLRO is able to monitor the day to day operations of its anti-money laundering activities and respond promptly to requests for information by the CBB (FC 4.1.7).
38	We will determine where the Bank MLRO and his deputy are based (FC 4.1.7).
39	We will make inquiries from the Bank MLRO to ensure that he is responsible for all matters covered by section FC 4.2.1 of the FC Module.
40	We will make inquiries as to the procedures the Bank adopts if the Bank MLRO position becomes vacant and inquire if: <ul style="list-style-type: none">▪ the Bank has appointed an acting Bank MLRO (and obtained appropriate approval from the CBB within 14 days of the position falling vacant; and▪ a permanent Bank MLRO has been appointed within 120 days of the position falling vacant (FC 4.1.9).

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	E.2 Annual Compliance Review (FC 4.3)
41	<p>We will inquire as to whether the effectiveness of the Bank's AML controls and procedures are reviewed at least once each calendar year and whether such review is comprehensive and covers its branches/subsidiaries both inside and outside Bahrain. We will inquire from the Bank MLRO as to whether (FC 4.3.1):</p> <ul style="list-style-type: none"> ▪ A report, containing the number of internal reports was made in accordance with Section FC-5.1, a breakdown of all the results of those internal reports and their outcomes for each segment of the licensee's business, and an analysis of whether controls or training need to be enhanced; ▪ A report, indicating the number of external reports made in accordance with Section FC-5.2 and, where a Islamic bank licensee has made an internal report but not made an external report, noting why no external report was made; ▪ A sample test of compliance with this Module's customer due diligence requirements; and ▪ A copy of the report required under FC-4.3.1(d) has been subsequently forwarded to the CBB for its records as required under FC-4.3.5.
42	<p>We will inquire as to whether the reports listed under Paragraph FC-4.3.1 (a) and (b) were be made by the MLRO. The sample testing required under Paragraph FC-4.3.1 (c) was done either by the licensee's internal auditor, its external auditor or a consultancy firm approved by the CBB. The report required under Paragraph FC-4.3.1 (d) was made by the licensee's external auditor or a consultancy firm approved by the CBB. (FC 4.3.2)</p>
43	<p>We will inquire whether the reports were issued to the Bank's board of directors and senior management and whether any remedial action for the deficiencies identified in the report has or is being taken (FC 4.3.3).</p>
	F. Suspicious Transactions Reporting
	F.1 Internal Reporting (FC 5.1)
44	<p>If applicable, we will sight the internal reports to check evidence of compliance with Module FC regarding reporting of suspicious transactions and will inquire about policies and procedures in place for encouraging reporting to the Bank MLRO where staffs have knowledge or suspicion of money laundering (FC 5.1).</p>
	F.2 External Reporting (FC 5.2)
45	<p>If applicable, we will select a sample of internal reports of suspicious or unusual transactions made to the Bank MLRO for evidence that they have been reported promptly to, and were considered and investigated by, the Bank MLRO, and if considered suspicious, reported by the Bank MLRO to the Financial Intelligence Unit at the Ministry of Interior and a copy to the CBB's Compliance Unit (FC 5.2.2 to FC 5.2.4).</p>
46	<p>We will make inquiries of the Bank MLRO about his accessibility to all "know your customer" information, including the financial circumstances of a customer or person on whose behalf the customer has been acting, and the nature of the transactions which the Bank has entered into with the customer (FC 5.2.2 and FC 5.2.4).</p>

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47	We will make inquiries and obtain written representation to ascertain whether the Bank MLRO is required to take the consent or approval of another person before preparing suspicious transaction reports (STRs) (FC 5.2.2).
48	If applicable, for the sample that we will select for procedure 44 above, we will read the report(s) sent to the Financial Intelligence Unit at the Ministry of Interior and a copy to the CBB's Compliance Unit to determine if the report(s) was (were) submitted in a timely manner and described the nature of the transactions which raised suspicions (FC 5.2.4).
49	We will inquire of the Bank's MLRO that all relevant details of STRs submitted to the relevant authorities is maintained, for at least five years (FC 5.2.5).
50	If applicable for the sample we will select for procedure 44 above, we will read the customer correspondence files and obtain a written representation from management of the Bank that the customer was not warned or informed that a suspicious transaction report was made (FC 5.2.6).
	G. Staff Training and Recruitment
51	We will select a representative sample of employees (including a sample of new and transferred employees) who handle, or are managerially responsible for handling of transactions which are susceptible to money laundering ("relevant staff"), to check that the Bank has records of their attendance at training on money laundering (FC 6.1).
52	We will inquire with the Bank MLRO and also check the training file to check whether training for the relevant staff remains up-to-date, and appropriate to the Bank's activities and its differing types of customers. We will inquire as to whether training is provided on an annual basis and all relevant staff has been given training within three months of joining the Bank (FC6.1.3).
53	We will inquire of the Bank MLRO as to whether the staff is made aware of the requirements listed in "FC 10.1 - Guidance provided by International Bodies" as part of their training program".
54	<p>We will read the content of training provided to staff to note whether it includes (FC 6.1.1):</p> <ul style="list-style-type: none"> ▪ their responsibilities under the AML Law and this Regulation, including the need to obtain sufficient evidence of customer identity, recognising and reporting knowledge or suspicion of money laundering; ▪ the identity and responsibilities of the Bank MLRO and his deputy; ▪ the potential effect on the bank, its employees and customers, of any breach of the AML law or this Regulation; ▪ the Bank's internal AML controls and procedures, and any updates; ▪ Money laundering typologies and trends; ▪ the types of account or customer activity that may justify an internal STR; ▪ the Bank's procedures for making internal STRs; and ▪ Customer due diligence measures with respect to establishing business relations with customers.
55	We will inquire as to the Bank's procedures ensuring high standards when hiring employees and especially the controls in place to ensure that criminals or their associates are not employed by the Bank (FC 6.1.6).

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	H. Record Keeping
56	We will inquire about the Bank's record retention policies for compliance with Module FC 7.1 (five years) and for a representative sample of business relationship records and transaction documents to determine whether these policies are being complied with (FC 7.1).
	I. NCCT Measures and Terrorist Financing
57	We will inquire of the Bank MLRO as to whether the Bank: <ul style="list-style-type: none"> ▪ identifies and gives special attention to transactions with entities or persons domiciled in countries or territories which are identified by the FATF as being "non-cooperative" or notified from time to time by the CBB; ▪ re-examines and documents the findings of transactions with such parties, if these transactions have no apparent economic or visible lawful purpose; and ▪ reports to the relevant authorities in accordance with Section F 5.2, if transactions with such parties remain suspicious.
58	We will inquire with Bank MLRO as to the procedures undertaken by the Bank on identification of suspicious persons/entities as mentioned in FC 8.1/8.2 and whether the Bank, on a continuous basis, report to the CBB: <ul style="list-style-type: none"> ▪ funds or other financial assets or economic resources held with such persons which maybe subject to Article 1, paragraphs c and d of UNSCR 1373; and ▪ all claims, whether actual or contingent, which the Bank has on such persons and entities which maybe subject to the above.
59	We will inquire with Bank MLRO whether the Bank has sighted a list a persons or entities designated by the CBB as a potentially linked to terrorist activity, and what steps it has in place to ensure that it does not deal with such parties (FC 8.3.1), and if it has dealt with such parties, whether it reports this to the relevant authorities and complies with subsequent directions issued by the relevant authorities, if any.

GENERAL TERMS AND CONDITIONS

Appendix 2 to our letter dated 2 May 2012

Our Relationship with You

- 1 We are a member of the global network of Ernst & Young firms ("EY Firms"), each of which is a separate legal entity.
- 2 We may subcontract portions of the Services to other EY Firms, who may deal with you directly. Nevertheless, we alone will be responsible to you for the Report(s), the performance of the Services, and our other obligations under this Agreement.

Your Responsibilities

- 3 You shall be responsible for your personnel's compliance with your obligations under this Agreement.

Our Reports

- 4 You may not rely on any draft Report.

Limitations

- 5 You and any others for whom Services are provided may not recover from us, in contract or tort; under statute or otherwise, any amount with respect to loss of profit, data or goodwill, or any other consequential, incidental, indirect, punitive or special damages in connection with claims arising out of this Agreement or otherwise relating to the Services, whether or not the likelihood of such loss or damage was contemplated.
- 6 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, aggregate damages in excess of the fees actually paid for the Services that directly caused the loss in connection with claims arising out of this Agreement or otherwise relating to the Services.
- 7 If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.
- 8 You shall make any claim relating to the Services or otherwise under this Agreement no later than within 12 months of the act or omission alleged to have caused the claim.
- 9 The limitations in Sections 6 and 8 will not apply to losses or damages caused by our fraud or wilful misconduct or deceit to the extent such exclusions are prohibited by applicable law or professional regulations.
- 10 You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("EY Persons") to the extent that no direct contractual relationship exists between you and any of the EY Persons. You shall make any claim or bring proceedings only against us on the basis that we are the party with whom you have contracted. The limitations in [Sections 5 through 8 and] this Section 10 are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

Indemnity

- 11 To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, "Claims"), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

Confidentiality

- 12 We follow professional standards of confidentiality and will treat information related to you disclosed to us by you or on your behalf ("Client Information") as set forth in the IFAC Code of Ethics Section 140.
- 13 Either of us may use electronic media to correspond or transmit information and such use will not in itself constitute a breach of any confidentiality obligations under this Agreement.
- 14 Unless prohibited by applicable law, we may disclose Client Information to other EY Firms and EY Persons to facilitate performance of the Services, to comply with regulatory requirements, to check conflicts, or for quality, risk management or financial accounting purposes.
- 15 You agree that, if a regulatory or governmental authority responsible for auditor oversight asks or orders us to produce information or documents in our files relating to your affairs, including our working papers or other work product, we may provide these materials to it. Except where prohibited by law, we will advise you of the request or order.
- 16 You shall cause all of your foreign subsidiaries and affiliates included in your consolidated financial statements to provide any authorization, to the fullest extent permissible under applicable law, to permit compliance with requests from regulatory or governmental authorities for production of documents or information in a foreign public accounting firm's, associated person's or our possession, custody and control that was obtained in the conduct of the Services by such firm or person.

Data Protection

- 17 We may collect, use, transfer, store or otherwise process (collectively, "Process") Client Information that can be linked to specific individuals ("Personal Data"). We may Process Personal Data in various jurisdictions in which we and the other EY Firms operate (which are listed at www.ey.com). We will Process the Personal Data in accordance with applicable law and professional regulations. We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements.
- 18 You warrant that you have the authority to provide the Personal Data to us in connection with the performance of the Services and that the Personal Data provided to us has been processed in accordance with applicable law.

Solicitation and hiring of EY personnel

- 19 Our auditor independence may be impaired if you solicit or hire certain EY personnel. This may either delay the provision of the Services or cause us to resign from the engagement. You shall not, during the term of this Agreement and for 6 months following its termination, for any reason, without our prior written consent, solicit to employ or nominate for a position on your Board of Directors or a financial reporting oversight role, or hire or appoint to your Board of Directors or a financial reporting oversight role, any professional employee of EY or of any other EY Entity who is or has been involved directly or indirectly with the performance of the Services for the current or prior financial year. A person in a financial reporting oversight role exercises, or is in a position to exercise, influence over the financial statements and anyone who prepares the financial statements.

Fees and Expenses Generally

- 20 You shall pay our professional fees and specific expenses in connection with the Services as detailed in the Engagement Letter. You shall also reimburse us for other reasonable expenses incurred in performing the Services. Our fees are exclusive of taxes or similar charges, as well as customs, duties or tariffs imposed in respect of the Services, all of which you shall pay other than taxes imposed on our income generally.
- 21 If we are required by applicable law, legal process or government action to produce information or personnel as witnesses with respect to the Services or this Agreement, you shall reimburse us for any professional time and expenses (including reasonable external and internal legal costs) incurred to respond to the request, unless we are a party to the proceeding or the subject of the investigation.

Force Majeure

- 22 Neither you nor we shall be liable for breach of this Agreement (other than payment obligations) caused by circumstances beyond your or our reasonable control.

Term and Termination

- 23 This Agreement applies to all Services performed at any time (including before the date of this Agreement).
- 24 This Agreement shall terminate on the completion of the Services. We may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.
- 25 You shall pay us for all work-in-progress, Services already performed, and expenses incurred by us up to and including the effective date of the termination of this Agreement. Payment is due within 30 days following receipt of our invoice for these amounts.

Governing Law and Dispute Resolution

- 26 This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of Bahrain applicable to agreements made and fully to be performed therein by residents thereof.
- 27 Any dispute relating to this Agreement or the Services shall be resolved [as set forth in Appendix 3] [subject to the exclusive jurisdiction of the Bahrain courts, to which each of us agrees to submit for these purposes].

Miscellaneous

- 28 This Agreement constitutes the entire agreement between us as to the Services and the other matters it covers, and supersedes all prior agreements, understandings and representations with respect thereto, including any confidentiality agreements previously delivered.
- 29 Both of us may execute this Agreement (and modifications to it) and each of us may sign a different copy of the same document. Both of us must agree in writing to modify this Agreement.
- 30 You represent that the person signing this Agreement on your behalf is expressly authorized to execute it and to bind you and any of your affiliates or others for whom Services are performed to its terms.
- 31 We retain ownership in the working papers compiled in connection with the Services.
- 32 Neither of us may assign any of our rights, obligations or claims under this Agreement.
- 33 If any provision of this Agreement (in whole or part) is held to be illegal, invalid or otherwise unenforceable, the other provisions shall remain in full force and effect.
- 34 If there is any inconsistency between provisions in different parts of this Agreement, those parts shall have precedence as follows (unless expressly agreed otherwise):
- (a) the Engagement Letter,
 - (b) these General Terms and Conditions for agreed-upon procedure Engagements, and
 - (c) other annexes to this Agreement.
- 35 We may use your name publically to identify you as a client, but we may refer to you in connection with the Services only if it is a matter of public knowledge that we are providing them (or have provided them).

Appendix 3 to our letter dated 2 May 2012

Dispute Resolution Procedure

In the event of any controversy or claim arising out of or relating to this Agreement or an Engagement Letter, or a breach thereof, the parties shall consult and negotiate with each other and, recognising their mutual interests, attempt to reach a solution satisfactory to the parties. If the parties fail to settle the controversy or claim at the expiration of thirty (30) days, then, upon notice by any party to the other(s), any unresolved controversy or claim shall be settled by arbitration administered by the International Centre for Dispute Resolution Bahrain ("Dispute Resolution Centre") (www.icdc.org) in accordance with the provisions of its [International Arbitration Rules / Procedures for Cases under the UNCITRAL Arbitration Rules]. The Parties agree that:

- (a) the arbitration shall be heard before one (1) arbitrator appointed in accordance with the procedures of the Dispute Resolution Centre.
- (b) all arbitration proceedings are to take place in Manama, Kingdom of Bahrain;
- (c) except as may be required by law, neither a party nor its representatives may disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties.
- (d) the language of the arbitration shall be English;
- (e) it is the intent of the parties that, barring extraordinary circumstances, arbitration proceedings will be concluded within 120 days from the date the arbitrator is appointed. The arbitral tribunal may extend this time limit in the interests of justice. Failure to adhere to this time limit shall not constitute a basis for challenging the award.
- (f) the decision of such arbitration shall be final and binding upon the parties hereto without appeal to any court or other party(s);
- (g) pending the decision or award, the parties shall continue to perform their obligations pursuant to the Agreement or Statement of Work; and
- (h) this clause shall continue in force notwithstanding the termination of this Agreement.



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C.R. No. 6700

PRIVATE AND CONFIDENTIAL

25 January 2012

The Board of Directors
Arcapita Bank B.S.C. (c)
P O Box 1406
Manama
Kingdom of Bahrain

**Arcapita Bank B.S.C. (c) ["the Bank"]
And its Subsidiaries ["the Group"]
Agreed-upon procedures relating to compliance with Public Disclosure
Module issued by the Central Bank of Bahrain for the Half Year ("period")
ended 31 December 2011**

Dear Sirs

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide ("services"). Our engagement will be conducted in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements and we will indicate so in our report. The terms of business, which are enclosed in Appendix 1, provide further details of our respective responsibilities and, together with this engagement letter, constitute the entire agreement between us with respect to our engagement. In the event of any inconsistency, the terms of this engagement letter will prevail.

We will perform the procedures enumerated in the attached Appendix 3 with respect to compliance by the Bank with the Public Disclosure Module [Module PD] issued by the Central Bank of Bahrain [the CBB] and report to you the factual findings resulting from our work.

The procedures that we will perform are solely to assist you in assessing whether the disclosures as referred to in the report are in compliance with the Module PD. Our report is not to be used for any other purpose and is solely for the information of the Bank and the CBB.

The procedures that we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements and, consequently, no assurance will be expressed.

The working papers prepared in conjunction with our work are the property of Ernst & Young, constitute confidential and proprietary information and will be retained by us in accordance with our policies and procedures.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our engagement.



25 January 2012

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Our fees are charged on the basis of time occupied and expenses incurred having regard to the degree of responsibility involved and the experience and skill required. For the period ended 31 December 2011, we estimate our fees to be BD 2,750. This estimate assumes we will receive appropriate assistance from your staff.

Out of pocket expenses will be added to this fee. It is our practice to request an advance payment at the commencement of our work and one or more payments on account during the course of our work.

This letter reflects the entire agreement between the Bank and Ernst & Young relating to the services described herein and supersedes any previous proposals, correspondence and understandings, whether written or oral. The agreements contained herein shall survive the completion or termination of the engagement which is the subject of this letter.

We should be grateful if you would confirm your agreement to the terms of our engagement by countersigning the enclosed copy of this letter and returning it to us.

Yours faithfully

Attachment: Appendices

IMI: fs
5218

We hereby confirm our agreement to the terms of the above letter and the enclosed terms of business:



For and on behalf of Arcapita Bank B.S.C. (c)

Date:

GENERAL TERMS AND CONDITIONS

Appendix 1 to our letter dated 25 January 2012

Our Relationship with You

- 1 We are a member of the global network of Ernst & Young firms ("EY Firms"), each of which is a separate legal entity.
- 2 We may subcontract portions of the Services to other EY Firms, who may deal with you directly. Nevertheless, we alone will be responsible to you for the Report(s), the performance of the Services, and our other obligations under this Agreement.

Your Responsibilities

- 3 You shall be responsible for your personnel's compliance with your obligations under this Agreement.

Our Reports

- 4 You may not rely on any draft Report.

Limitations

- 5 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, any amount with respect to loss of profit, data or goodwill, or any other consequential, incidental, indirect, punitive or special damages in connection with claims arising out of this Agreement or otherwise relating to the Services, whether or not the likelihood of such loss or damage was contemplated.
- 6 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, aggregate damages in excess of the fees actually paid for the Services that directly caused the loss in connection with claims arising out of this Agreement or otherwise relating to the Services.
- 7 If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.
- 8 You shall make any claim relating to the Services or otherwise under this Agreement no later than within 12 months of the act or omission alleged to have caused the claim.
- 9 The limitations in Sections 6 and 8 will not apply to losses or damages caused by our fraud or wilful misconduct or deceit to the extent such exclusions are prohibited by applicable law or professional regulations.
- 10 You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("EY Persons") to the extent that no direct contractual relationship exists between you and any of the EY Persons. You shall make any claim or bring proceedings only against us on the basis that we are the party with whom you have contracted. The limitations in [Sections 5 through 8 and] this Section 10 are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

Indemnity

- 11 To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, "Claims"), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

Confidentiality

- 12 We follow professional standards of confidentiality and will treat information related to you disclosed to us by you or on your behalf ("Client Information") as set forth in the IFAC Code of Ethics Section 140.
- 13 Either of us may use electronic media to correspond or transmit information and such use will not in itself constitute a breach of any confidentiality obligations under this Agreement.
- 14 Unless prohibited by applicable law, we may disclose Client Information to other EY Firms and EY Persons to facilitate performance of the Services, to comply with regulatory requirements, to check conflicts, or for quality, risk management or financial accounting purposes.
- 15 You agree that, if a regulatory or governmental authority responsible for agreed-upon procedure engagements or oversight asks or orders us to produce information or documents in our files relating to your affairs, including our working papers or other work product, we may provide these materials to it. Except where prohibited by law, we will advise you of the request or order.
- 16 You shall cause all of your foreign subsidiaries and affiliates included in your consolidated financial statements to provide any authorization, to the fullest extent permissible under applicable law, to permit compliance with requests from regulatory or governmental authorities for production of documents or information in a foreign public accounting firm's, associated person's or our possession, custody and control that was obtained in the conduct of the Services by such firm or person.

Data Protection

- 17 We may collect, use, transfer, store or otherwise process (collectively, "Process") Client Information that can be linked to specific individuals ("Personal Data"). We may Process Personal Data in various jurisdictions in which we and the other EY Firms operate (which are listed at www.ey.com). We will Process the Personal Data in accordance with applicable law and professional regulations. We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements.
- 18 You warrant that you have the authority to provide the Personal Data to us in connection with the performance of the Services and that the Personal Data provided to us has been processed in accordance with applicable law.

Solicitation and hiring of EY personnel

- 19 Our agreed-upon procedures engagement or independence may be impaired if you solicit or hire certain EY personnel. This may either delay the provision of the Services or cause us to resign from the engagement. You shall not, during the term of this Agreement and for 6 months following its termination, for any reason, without our prior written consent, solicit to employ or nominate for a position on your Board of Directors or a financial reporting oversight role, or hire or appoint to your Board of Directors or a financial reporting oversight role, any professional employee of EY or of any other EY Entity who is or has been involved directly or indirectly with the performance of the Services for the current or prior financial year. A person in a financial reporting oversight role exercises, or is in a position to exercise, influence over the financial statements and anyone who prepares the financial statements.

Fees and Expenses Generally

- 20 You shall pay our professional fees and specific expenses in connection with the Services as detailed in the Engagement Letter. You shall also reimburse us for other reasonable expenses incurred in performing the Services. Our fees are exclusive of taxes or similar charges, as well as customs, duties or tariffs imposed in respect of the Services, all of which you shall pay other than taxes imposed on our income generally.
- 21 If we are required by applicable law, legal process or government action to produce information or personnel as witnesses with respect to the Services or this Agreement, you shall reimburse us for any professional time and expenses (including reasonable external and internal legal costs) incurred to respond to the request, unless we are a party to the proceeding or the subject of the investigation.

Force Majeure

- 22 Neither you nor we shall be liable for breach of this Agreement (other than payment obligations) caused by circumstances beyond your or our reasonable control.

Term and Termination

- 23 This Agreement applies to all Services performed at any time (including before the date of this Agreement).
- 24 This Agreement shall terminate on the completion of the Services. We may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.

- 25 You shall pay us for all work-in-progress, Services already performed, and expenses incurred by us up to and including the effective date of the termination of this Agreement. Payment is due within 30 days following receipt of our invoice for these amounts.

Governing Law and Dispute Resolution

- 26 This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of Bahrain applicable to agreements made and fully to be performed therein by residents thereof.
- 27 Any dispute relating to this Agreement or the Services shall be resolved [as set forth in Appendix A] [subject to the exclusive jurisdiction of the Bahrain courts, to which each of us agrees to submit for these purposes].

Miscellaneous

- 28 This Agreement constitutes the entire agreement between us as to the Services and the other matters it covers, and supersedes all prior agreements, understandings and representations with respect thereto, including any confidentiality agreements previously delivered.
- 29 Both of us may execute this Agreement (and modifications to it) and each of us may sign a different copy of the same document. Both of us must agree in writing to modify this Agreement.
- 30 You represent that the person signing this Agreement on your behalf is expressly authorized to execute it and to bind you and any of your affiliates or others for whom Services are performed to its terms.
- 31 We retain ownership in the working papers compiled in connection with the Services.
- 32 Neither of us may assign any of our rights, obligations or claims under this Agreement.
- 33 If any provision of this Agreement (in whole or part) is held to be illegal, invalid or otherwise unenforceable, the other provisions shall remain in full force and effect.
- 34 If there is any inconsistency between provisions in different parts of this Agreement, those parts shall have precedence as follows (unless expressly agreed otherwise):
- (a) the Engagement Letter,
 - (b) these General Terms and Conditions, and
 - (c) other annexes to this Agreement.
- 35 We may use your name publically to identify you as a client, but we may refer to you in connection with the Services only if it is a matter of public knowledge that we are providing them (or have provided them).

Appendix 2

Dispute Resolution Procedure

In the event of any controversy or claim arising out of or relating to this Agreement or an Engagement Letter, or a breach thereof, the parties shall consult and negotiate with each other and, recognising their mutual interests, attempt to reach a solution satisfactory to the parties. If the parties fail to settle the controversy or claim at the expiration of thirty (30) days, then, upon notice by any party to the other(s), any unresolved controversy or claim shall be settled by arbitration administered by the International Centre for Dispute Resolution Bahrain ("Dispute Resolution Centre") (www.icdc.org) in accordance with the provisions of its [International Arbitration Rules / Procedures for Cases under the UNCITRAL Arbitration Rules]. The Parties agree that:

- (a) the arbitration shall be heard before one (1) arbitrator appointed in accordance with the procedures of the Dispute Resolution Centre.
- (b) all arbitration proceedings are to take place in Manama, Kingdom of Bahrain;
- (c) except as may be required by law, neither a party nor its representatives may disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties.
- (d) the language of the arbitration shall be English;
- (e) it is the intent of the parties that, barring extraordinary circumstances, arbitration proceedings will be concluded within 120 days from the date the arbitrator is appointed. The arbitral tribunal may extend this time limit in the interests of justice. Failure to adhere to this time limit shall not constitute a basis for challenging the award.
- (f) the decision of such arbitration shall be final and binding upon the parties hereto without appeal to any court or other party(s);
- (g) pending the decision or award, the parties shall continue to perform their obligations pursuant to the Agreement or Statement of Work; and
- (h) this clause shall continue in force notwithstanding the termination of this Agreement.

Sr. No.	Procedures
	General requirements (PD-A.2)
1	We will check whether the Bank has a formal disclosure policy as part of the management's overall communications strategy approved by the Board of Directors (and supported by documented procedures) that addresses the disclosures made by the Bank and the internal controls over the disclosure process. (PD-A.2.1)
2	We will inquire whether the Bank carries out a regular review of the validity of its disclosures (in terms of scope and accuracy) as outlined in Module BR-5.2 and AU-3.2. (PD-A.2.1)
3	We will check whether the Bank has published extracts from their reviewed quarterly consolidated financial statements* in one Arabic and one English daily newspaper and on the Bank's website within 45 days of the end of quarter. In addition, we will check that the Bank has submitted a newspaper copy to the CBB within two business days of publication. (PD-A.2.2, PD 3.1.4 and PD 3.1.5)
4	We will check whether the Bank's consolidated financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). When there are no specific accounting standards under AAOIFI, we will check whether the Bank has used International Financial Reporting Standards (IFRS) as required by PD-A.2.6. (PD-A.2.2)
5	We will check whether the Bank has made the disclosures specified in the PD Module, which are in addition to those required by applicable accounting standards, on which the Bank's external auditors are required to issue an agreed upon procedures report (unless IFRS require that the concerned disclosures are audited). (PD-A.2.4)
6	We will check whether the Bank has maintained an up-to-date checklist of all applicable AAOIFI standards and IFRS and also the disclosure requirements set out in PD module for full compliance purposes and whether such checklists are part of the Bank's public disclosure procedures. (PD-A.2.3)
7	<p>In case of situations where disclosures required in the PD Module are in conflict with those required under AAOIFI standards and IFRS and/or Bahrain Stock Exchange (BSE) listing requirements, we will check whether the Bank has followed AAOIFI requirements first. Further, in such situations, we will check whether the Bank has explained any material differences between the accounting or other disclosures and the disclosure required in the PD Module.</p> <p><i>Note: As per PD Module, this explanation does not have to take the form of a line by line reconciliation, but should provide stakeholders with sufficient detail to make an objective assessment of the Bank's financial and operational health. Moreover, a formal notification to the Central Bank of Bahrain is required in such a situation. (PD-A.2.6)</i></p>

Sr. No.	Procedures
8	<p>We will check whether the disclosures referred to in the PD Module have been made at the top consolidated level of a Banking group (i.e. at the level of the parent Bank in Bahrain).</p> <p>We will inquire whether, disclosures related to individual Banks within a Banking group have been made where listing requirements or differing accounting requirements would make separate disclosure necessary. (PD-A.2.9)</p>
Proprietary and Confidential Information (PD-A.3)	
9	<p>We will check whether the Bank considered disclosures of certain information required in section PD-1.3 may prejudice seriously its position by making public information that is either proprietary or confidential in nature. Further, in such cases, we will check whether it has obtained prior approval from the Central Bank of Bahrain, so as not to disclose those specific items.</p> <p>We will check, whether in such situations, the Bank has disclosed general information about the subject matter of the requirement, together with the fact that, and the reason why, the specific items of information have not been disclosed.</p> <p><i>Note: As per PD Module, this limited exemption is not intended to conflict with the disclosure requirements under IFRS or AAOIFI. (PD-A.3.2)</i></p>
Scope of Application	
10	<p>We will check whether the Bank has disclosed:</p> <p>a) The full legal name of the top corporate entity in the Group to which the disclosure requirements apply.</p> <p>We will check that the bank reports:</p> <p>a) Restricted Investment accounts off-balance sheet in the financial statements. (PD-1.3.4)</p> <p>b) Unrestricted investment accounts on-balance sheet in the financial statements. (PD-1.3.5)</p>
Scope of Application - Quantitative Disclosures	
11	<p>We will agree to the Consolidated Prudential Information Return for Islamic Banks submitted by the Bank to the Central Bank of Bahrain for the quarter ended 31 December 2011 (PIRI), the aggregate amount of capital deficiencies in subsidiaries that are not included in the consolidation (i.e. that are deducted) and also the names and country of incorporation of such subsidiaries. (PD-1.3.7(a))</p>
12	<p>We will agree to the PIRI, the aggregate amounts (current book value) of the Bank's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate Group-wide methodology, as well as their name, their country of incorporation or residence and the proportion of voting power in these entities.</p> <p>In addition, we will also check whether the Bank has disclosed the quantitative impact on regulatory capital of using this method versus the deduction or alternate Group-wide method. (PD-1.3.7(b))</p>

Sr. No.	Procedures
13	We will also agree to the PIRI, the disclosure made by the Bank for aggregate capital deductions and risk-weighted asset amounts of holdings of equities listed in paragraph PD-1.3.7(b), which are not consolidated into the accounts of the Bank. (PD-1.3.7(c))
Financial performance and position	
14	We will check whether the Bank has made the following disclosures: (PD-1.3.9) a) Basic quantitative indicators of financial performance including, but not restricted to, ROAE, ROAA, cost-to-income ratios etc. for the past 5 years; (PD-1.3.9 (b))
15	We will check whether the Bank has made the following disclosures: a) A discussion of the impact of acquisitions of new businesses and discontinued business and unusual items; (PD-1.3.9(c))
Capital Structure - Quantitative Disclosures	
16	We will agree to PIRI, the amount of Tier 1 Capital disclosed by the Bank along with separate disclosures of: (PD-1.3.12) a) Issued and paid-up share capital/common stock and any changes since last reporting period; b) Breakdown of Reserves and Retained Earnings; c) Minority interests in the equity of subsidiaries; d) Innovative capital instruments; e) Other capital instruments; and f) Regulatory deductions from Tier 1 Capital (refer CA-2 for guidance).
17	We will agree to the PIRI, the components of, and the total amounts of, Tier 2 Capital prior to and after any adjustments or deductions (e.g. amortisations) disclosed by the Bank. (PD-1.3.13)
18	We will agree to the PIRI, disclosure made by the Bank with respect to the aggregate general deductions from Tier 1 and Tier 2 capital (i.e. in respect of subsidiaries and material holdings of equities - see PD-1.3.7 and PD-1.3.8 and Module Prudential Consolidation and Deduction Requirements (PCD Module) in respect of deduction requirements). (PD-1.3.14)
19	We will agree to the PIRI, the disclosure made by the Bank for total eligible capital after all deductions, adjustments or caps (e.g. because of Large Exposures materiality thresholds or ceilings on components of Tier Two capital); and after observing all ceilings on Tier Two Capital. (PD-1.3.15) We will also ascertain the arithmetical accuracy of the computation.

Sr. No.	Procedures
	Capital Adequacy
20	<p>We will agree to the PIRI, the disclosure made by the Bank with regards to regulatory capital requirements for credit risk by each type of Islamic financing contracts. (PD-1.3.17)</p> <p>For a sample of 10 items, from the computation provided by the Bank, we will agree the balance to the accounting system as at 31 December 2011.</p>
21	<p>We will agree to the PIRI, the disclosure made by the Bank with regards to capital requirements for market risk using the standardised approach. (PD-1.3.18)</p> <p>For a sample of 10 items, from the computation provided by the Bank, we will agree the balance to the accounting system as at 31 December 2011.</p>
22	<p>We will agree to the PIRI, the disclosure made by the Bank with regards to capital requirements for operational risk under: (PD-1.3.19)</p> <p>a) the basic indicator approach; or b) the standardized approach (as applicable)</p> <p>For a sample of 10 items, from the computation provided by the Bank, we will agree the balance to the accounting system as at 31 December 2011.</p>
23	<p>We will agree to the PIRI, the disclosure made by the Bank with regards to total and Tier 1 Capital Ratios segregated on the following basis: (PD-1.3.20)</p> <p>a) for the top consolidated Bank in Bahrain; b) for all significant Bank subsidiaries (i.e. whose regulatory capital amounts to over 5% of Bank consolidated regulatory capital whether on a stand-alone or sub-consolidated basis).</p>
	Credit risk - Quantitative disclosures
24	<p>For a sample of 15 transactions we will agree the balance as per the accounting system as at 31 December 2011 to the working for total gross credit exposures (gross outstanding before any risk mitigation) plus average gross exposures over the period broken down by major types of credit exposure (as outlined under IFRS) into funded and unfunded exposures. Where the period end position is representative of the risk positions of the Bank during the period, the average gross exposures need not be disclosed and we will inquire about the reasons and check whether these reasons are appropriately disclosed.</p> <p>Where average amounts are disclosed in accordance with an accounting standard or other requirement which specifies the calculation method to be used, we will inquire whether that method is followed. We will also inquire whether, the average exposures are calculated using the most frequent interval that the Bank's systems generate for management, regulatory or other reasons, provided that the resulting averages are representative of the Bank's operations and we will check whether the basis used for calculating averages are stated. (PD-1.3.23(a))</p>

Sr. No.	Procedures
25	For a sample of 15 transactions we will agree the balance as per the accounting system as at 31 December 2011 to the working for geographic distribution of exposures, broken down into significant areas by major types of credit exposure and also check whether the Bank has disclosed the criteria used to allocate exposures to particular geographical area. (PD-1.3.23(b))
26	For a sample of 15 items, we will agree the balance as per the accounting system as at 31 December 2011 to the working for distribution of exposures by industry or counterparty type, broken down by major types of credit exposure and further broken down by funded and unfunded exposure. (PD-1.3.23(c))
27	For a sample of 15 items, we will agree the balance as per the accounting system as at 31 December 2011 to the working for intra-group transactions including exposures to related parties and inquire whether such transactions have been made on an arm's length basis and check whether this is appropriately stated. (PD-1.3.23(d))
28	We will inquire with the Bank Head of Risk Management the basis on which the Bank determines its customers/counterparties as highly leveraged or having high risk and whether it is in line with the definition given in PD-1.3.24(e)) and for a sample of 5 transactions we will agree the financings to these customers/counterparties as per the accounting system as at 31 December 2011 to the working provided by the Bank. (PD-1.3.23(e))
29	For a sample of 5 items, we will agree the balance as per the accounting system as at 31 December 2011 to the working for concentration of risk to individual counterparties where the exposure is in excess of the 15% individual obligor limit. (PD-1.3.23(f)) <i>Note: These do not require the disclosure of the name of the counterparty.</i>
30	For a sample of 15 items, we will agree the balance as per the accounting system as at 31 December 2011 to the working for residual contractual maturity breakdown of the whole credit portfolio, broken down by major types of credit exposure. (PD-1.3.23(g)) <i>Note: Bank must follow the residual maturity groupings currently followed under IFRS 7 (Guidance application B11), but they must also extend the periods to include 5-10 years, 10-20 years, and 20 years and over (where the Bank has exposures or liabilities of such maturity). (PD-1.3.24(a))</i>

Sr. No.	Procedures
31	<p>For a sample of 15 transactions we will agree the balance as per the accounting system as at 31 December 2011 to the working for disclosure by major industry or counterparty type with respect to: (PD-1.3.23(h))</p> <ul style="list-style-type: none"> ▸ the amount of non-performing and impaired Islamic financing contracts and past due Islamic financing contracts; ▸ specific and collective impairment provisions during the financial year; ▸ charges for specific provisions and charge-offs (write-offs) during the period; and ▸ Reconciliation of changes in provisions for Islamic financing contracts impairment. <p>We will check whether the Bank's disclosure of past due financing contracts is on the following basis: (PD-1.3.24(b))</p> <ul style="list-style-type: none"> ▸ Ageing schedule (over 3 months, over 1 year and over 3 years) of past due Islamic financing contracts; and ▸ Breakdown by relevant counterparty type or major industry; <p>We will also check whether the reconciliation of changes in provisions show specific and collective impairment provisions separately. (PD-1.3.24(d))</p>
32	<p>For a sample of 15 transactions we will agree the balance as per the accounting system as at 31 December 2011 to the working for disclosure made by the Bank for the amount of past due financing contracts, separately broken down by significant geographic areas, including the amounts of specific and collective impairment provisions related to each geographical area (as defined under PD-1.3.23(b)). (PD-1.3.23(i))</p> <p>We will also check whether for specific, collective and other impairment provisions, the portion of collective impairment provisions not allocated to specific geographical areas are shown separately. (PD-1.3.24(c))</p>
33	<p>Further, for a sample of 15 items we will agree the balance as per the accounting system as at 31 December 2011 to the working provided by the Bank for all outstanding Islamic financing contracts at year end not included in PD-1.3.23(e) that have been restructured (according to the definition in the Prudential Information Return instructions) during the period as follows: (PD-1.3.23(j))</p> <ul style="list-style-type: none"> ▸ The balance of any restructured Islamic financing contracts; ▸ The magnitude of any restructuring activity; ▸ The impact of restructured Islamic financing contracts on provisions and present and future earnings; and ▸ The basic nature of concessions on all credit relationships that are restructured, including Islamic financing contracts, and other on- and off-balance sheet activities. <p>Note: If full repayment is expected, the restructured credit need not be disclosed in this section after satisfactory performance for a period of six months in accordance with the modified terms.</p>

Sr. No.	Procedures
34	For a sample of 15 items, we will agree the balance as per the accounting system as at 31 December 2011 to the working provided by the Bank for quantitative information (including amount of assets sold and any unexpected losses) disclosed by the Bank concerning the obligations with respect to recourse transactions, i.e. where the asset has been sold, but the Bank retains responsibility for repayment if the original counterparty defaults or fails to fulfill their obligations. (PD-1.3.23(k))
35	We will check whether the Bank has disclosed any penalty charged to customers for default and how such money recovered through penalty is disposed off. (PD-1.3.23(l))
<i>Credit Risk Mitigation: Disclosure Requirements</i>	
36	We will agree to the PIRI the disclosure by type of Islamic financing contract, the total exposure (after on- or off-balance sheet netting, where applicable) that is covered by eligible collateral after the application of haircuts. (PD-1.3.25(b))
37	We will agree to the Bank's records the total exposure (after on- or off-balance sheet netting where applicable) that is covered by guarantees by type of Islamic financing contract. (PD-1.3.25(c)) For a sample of 10 items, from the computation provided by the Bank, we will agree the balance to the accounting system as at 31 December 2011.
<i>Disclosures related to counterparty credit risk (CCR)</i>	
38	We will agree to the PIRI, the following disclosures made by the Bank with regard to the counterparty credit risk: (PD-1.3.26(b)) Gross positive fair value of contracts, netting benefits, netted current credit exposures, collateral held (including type: e.g. cash, government securities, etc.), and net derivatives credit exposure. Also measures for exposure at default. The distribution of current credit exposure by type of credit exposure (e.g. FX contracts, equity contracts, commodity contracts, etc.).
<i>Market Risk Disclosures</i>	
39	We will agree the disclosure of the following items to the PIRI: The capital requirements on an end period basis, as well as showing the maximum and minimum values during the period for each category of market risk as follows: <ul style="list-style-type: none"> ▸ Market risk on trading positions in sukuk; ▸ Equity position risk; ▸ Foreign exchange risk; and ▸ Commodity risk. (PD-1.3.27(b))

Sr. No.	Procedures
	Operational Risk Disclosures
40	<p>We will agree following to the PIRI (PD-1.3.30):</p> <p>a) the capital charge or RWA equivalent for operational risk</p> <p>b) Indicators of operational risk exposures, such as:</p> <ul style="list-style-type: none"> • Gross income; • Amount of non-Shari'a- compliant income; • Number of Shari'a violations that were identified and reported during the financial year. <p>Further, we will inquire with the Head of Legal department of any material legal contingencies including pending actions and check whether the Bank has disclosed these along with a discussion and estimate of the potential liabilities, in addition to qualitative statements about how the Bank manages and controls such risks. (PD-1.3.30(c))</p>
	Disclosure Requirements for Equity Positions in the Banking Book
41	<p>For a sample of 10 transactions we will agree the balance as per the accounting system as at 31 December 2011 to the working provided by the Bank in respect of the following disclosures for any equities held in the Banking book: (PD-1.3.31(b) to (e))</p> <p>a) Total gross exposure and average gross exposure to equity based financing structures by type of financing contracts. (PD-1.3.31(b))</p> <p>b) The types and nature of investments, including the amount that can be classified as quoted on an active market or privately held. (PD-1.3.31(c))</p> <p>c) The cumulative realised gains (or losses) arising from sales or liquidations in the reporting period. (PD-1.3.31(d))</p> <p>d) Total unrealised gains and losses recognised in the balance sheet but not through the P&L and any unrealised gains and losses included in Tier 1 and Tier 2 capital. (PD-1.3.31(e))</p> <p>e) Capital requirements broken down by appropriate equity groupings, consistent with the methodology, as well as the aggregate amounts and type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirement. (PD-1.3.31(f))</p>

Sr. No.	Procedures
	Quantitative disclosures with regard to Unrestricted Investment Accounts
42	<p>We will agree to the Bank's records, PIRI and will check the computation, if applicable, for following quantitative disclosures made by the Bank:</p> <ul style="list-style-type: none"> a) Amount of IAH funds. b) The ratio of Profit Equalization Reserves (PER) to the total amount of PSIA by type of IAH. c) The ratio of Investment Risk Reserves (IRR) to the total of PSIA by type of IAH. d) ROAA and ROAE. e) Ratio of profit distributed to PSIA by type of IAH. We will check that the bank has disclosed the profit sharing formula used for the calculation and distribution of profits. f) The management fee (Mudarib share) as a percentage of the total investment profit, and the extent to which it is subject to partial or total waiver in order to pay a competitive rate of return to IAH. g) Ratio of financing to PSIA by type of IAH. h) Percentage of financing for each type of Shari'a-compliant contract to total financing. i) Percentage of financing for each category of counterparty to total financing - that is, Amount of Shari'a-compliant financing extended to a category of counterparties (outstanding) / Amount of total financing (outstanding) x 100. j) The carrying amount of any assets that the Bank has pledged as collateral and the terms and conditions relating to the pledge. k) The amount of any guarantees or pledges given by the Bank and the conditions attaching to those guarantees or pledges. l) Share of profits earned by IAH, before transfers to or from reserves (amount and as a percentage of funds invested). m) Share of profits paid out to IAH, after transfers to or from reserves (amount and as a percentage of funds invested). n) Share of profits paid out to the Bank as Mudarib. o) Movement on PER and IRR during the year. p) The utilization and computation of PER and/or IRR during the period q) Average declared rate of return or profit rate on PSIA by maturity (3-month, 6-month, 12-month, and 36-month). r) Types of assets in which the funds are invested and the actual allocation among various types of assets. s) Changes in asset allocation in the last six months. t) Off-balance sheet exposures arising from investment decisions, such as commitment and contingencies. u) Limits imposed on the amount that can be invested in any one asset. v) The treatment of assets financed by IAH in the calculation of RWA for capital adequacy purposes. w) Profits earned and profits paid out over the past five years (amount and as a percentage of funds invested). x) Amount of total administrative expenses charged to unrestricted IAH. <p>(PD-1.3.33)</p>

Sr. No.	Procedures
	Qualitative disclosures with regard to Restricted Investment Accounts
43	<p>We will agree to the Bank's records, PIRI and will check the computation, if applicable, for following quantitative disclosures, in addition to disclosures required by PD 1.3.33 (a) to (w) excluding PD 1.3.33 (p), made by the Bank:</p> <p>a) Current period returns. b) Historical returns over the past five years. c) The use of off-balance sheet transactions for investment management, where relevant. d) Disclosure of the range and measures of risks facing each restricted IAH fund based on its specific investment policies.</p> <p>(PD-1.3.35)</p>
	Liquidity Risk - Quantitative Disclosures
44	<p>We will check that the Bank has disclosed the indicators of exposures to liquidity risk and noted the accuracy of the ratios disclosed by the Bank. (PD-1.3.37)</p>
45	<p>We will check that the Bank has disclosed the maturity analysis of financing and various categories of funding (current account, unrestricted investment account and restricted investment account) by different maturity buckets.</p> <p>For a sample of 15 transactions we will agree the balance as per the accounting system as at 31 December 2011 to the working for maturity analysis of financing and categories of funding (PD-1.3.38).</p>
	Rate of Return Risk - Quantitative Disclosures
46	<p>We will check that Bank has disclosed and, if applicable, we will check the computation of the following:</p> <p>(a) Indicators of exposures to rate of return risk- for example, data on expected payments/ receipts on financing and funding and the cost of funding at different maturity buckets according to time of maturity or time of re-pricing for floating rate assets or funding. (PD-1.3.40(a)) b) Sensitivity analysis of Bank's profits and the rate of returns to price or profit rate movements in the market, including detailed quantitative information about the nature and extent of profit-rate sensitive assets and liabilities and off-balance sheet exposures (e.g. breakdown of fixed and floating profit items and the profit margin earned, and the duration and effective profit rate of assets and liabilities). These disclosures should be by each portfolio identified in PD-1.3.23 a), showing their related gains and losses. Also, the effect on the value of assets, liabilities and economic capital for a benchmark change of 200bp in profit rates. (PD-1.3.40(a))</p>
	Displaced Commercial Risk (DCR) disclosures
47	<p>We will check that the Bank has disclosed its policy on DCR, including the framework for managing the expectations of its shareholders and unrestricted IAH, the sharing of risks among the various stakeholders, the range and measures of risk facing unrestricted IAH based on the Bank's general business strategies and investment polices. (PD - 1.3.41(a))</p>

Sr. No.	Procedures
48	<p>We will match the Bank's accounting records following disclosures in respect of DCR:</p> <ul style="list-style-type: none"> a) The historical data over the past five years for the following: <ul style="list-style-type: none"> • Total Mudarabah profits available for sharing between unrestricted IAH and shareholders as Mudarib (as a percentage of Mudarabah assets); • Mudarabah profits earned for unrestricted IAH (as a percentage of assets) before any smoothing; • Mudarabah profits paid out to unrestricted IAH (as a percentage of assets) after any smoothing; • Balances of PER and IRR, and movement of these in determining unrestricted IAH payout excluding PD-1.3.33(p); • Variations in Mudarib's agreed profit-sharing ratio from the contractually agreed ratio; and • Market benchmark rates selected by the Bank. (PD-1.3.41(b)) b) Five year comparison of historical rate of return of unrestricted IAH in relation to the market benchmark rate selected by the Bank. (PD-1.3.41(c)) c) Five year comparison between the percentage rate of returns to IAH and the percentage returns to shareholders from Mudarabah profits. (PD-1.3.41(d)) d) Amount and percentage of profits appropriated to PER and IRR. (PD-1.3.41(e)) e) Analysis of the difference between aggregate Mudarabah earned profit and profit distributed to IAH as a function of movement in PER, IRR and the Mudarib's share. (PD-1.3.41(f)) f) Analysis of the proportion of the RWA funded by IAH that should be considered in arriving at the total RWA together with an explanation of the underlying rationale. (PD-1.3.41(g))
	<p><i>Disclosures concerning other risks</i></p>
49	<p>We will check whether the Bank has disclosed following quantitative information about its investment in foreign subsidiaries: (PD-1.3.42)</p> <ul style="list-style-type: none"> a) The nature of the related currency exposure; b) How that exposure has changed from year to year; c) Foreign exchange translation effects thereon; d) The earnings impact of foreign exchange transactions; and e) The effectiveness of risk management (hedging) strategies.

Sr. No.	Procedures
	Compliance disclosures
50	<p>We will check that the financial statements include a declaration by the external auditors that they did not come across any violations of the requirements below during the course of their audit work that would have any material negative impact on the financial position of the Bank: (PD-1.3.43)</p> <p>a) The Bahrain Commercial Companies Law (as amended); b) The CBB Law where a violation might have had a material negative effect on the business of the Bank or on its financial position; c) The Regulations and Directives issued by the CBB; and d) The Rulebook of the licensed exchange and associated Resolutions, Rules and Procedures (where applicable).</p> <p>We will check that the financial statements disclose the amount of any penalties paid to the CBB during the period of the report together with a factual description of the reason(s) given by the CBB for the penalty.(PD-1.3.44)</p>



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C.R. No. 6700

PRIVATE AND CONFIDENTIAL

2 May 2012

The Board of Directors
Arcapita Bank B.S.C. (c)
P O Box 1406
Manama
Kingdom of Bahrain

**Arcapita Bank B.S.C. (c) ["the Bank"]
And its Subsidiaries ["the Group"]
Agreed-upon procedures relating to compliance with Public Disclosure
Module issued by the Central Bank of Bahrain for the year ending 30 June
2012**

Dear Sirs

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements and we will indicate so in our report. The terms of business, which are enclosed in Appendix 1, provide further details of our respective responsibilities and, together with this engagement letter, constitute the entire agreement between us with respect to our engagement. In the event of any inconsistency, the terms of this engagement letter will prevail.

We will perform the procedures enumerated in the attached Appendix 2 with respect to compliance by the Bank with the Public Disclosure Module [Module PD] issued by the Central Bank of Bahrain [the CBB] and report to you the factual findings resulting from our work.

The procedures that we will perform are solely to assist you in assessing whether the disclosures as referred to in the report are in compliance with the Module PD. Our report is not to be used for any other purpose and is solely for the information of the Bank and the CBB.

The procedures that we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements and, consequently, no assurance will be expressed.

The working papers prepared in conjunction with our work are the property of Ernst & Young, constitute confidential and proprietary information and will be retained by us in accordance with our policies and procedures.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our engagement.



2 May 2012

2

Our fees are charged on the basis of time occupied and expenses incurred having regard to the degree of responsibility involved and the experience and skill required. For the year ending 30 June 2012, we estimate our fees to be BD 6,500. This estimate assumes we will receive appropriate assistance from your staff.

Out of pocket expenses will be added to this fee. It is our practice to request an advance payment at the commencement of our work and one or more payments on account during the course of our work.

This letter reflects the entire agreement between the Bank and Ernst & Young relating to the services described herein and supersedes any previous proposals, correspondence and understandings, whether written or oral. The agreements contained herein shall survive the completion or termination of the engagement which is the subject of this letter.

We should be grateful if you would confirm your agreement to the terms of our engagement by countersigning the enclosed copy of this letter and returning it to us.

Yours faithfully

Attachment: Appendices

IMI: fs
5218

We hereby confirm our agreement to the terms of the above letter and the enclosed terms of business:



For and on behalf of Arcapita Bank B.S.C. (c)

Date:

GENERAL TERMS AND CONDITIONS

Appendix 1 to our letter dated 2 May 2012

Our Relationship with You

- 1 We are a member of the global network of Ernst & Young firms ("EY Firms"), each of which is a separate legal entity.
- 2 We may subcontract portions of the Services to other EY Firms, who may deal with you directly. Nevertheless, we alone will be responsible to you for the Report(s), the performance of the Services, and our other obligations under this Agreement.

Your Responsibilities

- 3 You shall be responsible for your personnel's compliance with your obligations under this Agreement.

Our Reports

- 4 You may not rely on any draft Report.

Limitations

- 5 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, any amount with respect to loss of profit, data or goodwill, or any other consequential, incidental, indirect, punitive or special damages in connection with claims arising out of this Agreement or otherwise relating to the Services, whether or not the likelihood of such loss or damage was contemplated.
- 6 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, aggregate damages in excess of the fees actually paid for the Services that directly caused the loss in connection with claims arising out of this Agreement or otherwise relating to the Services.
- 7 If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.
- 8 You shall make any claim relating to the Services or otherwise under this Agreement no later than within 12 months of the act or omission alleged to have caused the claim.
- 9 The limitations in Sections 6 and 8 will not apply to losses or damages caused by our fraud or wilful misconduct or deceit to the extent such exclusions are prohibited by applicable law or professional regulations.
- 10 You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("EY Persons") to the extent that no direct contractual relationship exists between you and any of the EY Persons. You shall make any claim or bring proceedings only against us on the basis that we are the party with whom you have contracted. The limitations in [Sections 5 through 8 and] this Section 10 are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

Indemnity

- 11 To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, "Claims"), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

Confidentiality

- 12 We follow professional standards of confidentiality and will treat information related to you disclosed to us by you or on your behalf ("Client Information") as set forth in the IFAC Code of Ethics Section 140.
- 13 Either of us may use electronic media to correspond or transmit information and such use will not in itself constitute a breach of any confidentiality obligations under this Agreement.
- 14 Unless prohibited by applicable law, we may disclose Client Information to other EY Firms and EY Persons to facilitate performance of the Services, to comply with regulatory requirements, to check conflicts, or for quality, risk management or financial accounting purposes.
- 15 You agree that, if a regulatory or governmental authority responsible for agreed-upon procedure engagements or oversight asks or orders us to produce information or documents in our files relating to your affairs, including our working papers or other work product, we may provide these materials to it. Except where prohibited by law, we will advise you of the request or order.
- 16 You shall cause all of your foreign subsidiaries and affiliates included in your consolidated financial statements to provide any authorization, to the fullest extent permissible under applicable law, to permit compliance with requests from regulatory or governmental authorities for production of documents or information in a foreign public accounting firm's, associated person's or our possession, custody and control that was obtained in the conduct of the Services by such firm or person.

Data Protection

- 17 We may collect, use, transfer, store or otherwise process (collectively, "Process") Client Information that can be linked to specific individuals ("Personal Data"). We may Process Personal Data in various jurisdictions in which we and the other EY Firms operate (which are listed at www.ey.com). We will Process the Personal Data in accordance with applicable law and professional regulations. We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements.
- 18 You warrant that you have the authority to provide the Personal Data to us in connection with the performance of the Services and that the Personal Data provided to us has been processed in accordance with applicable law.

Solicitation and hiring of EY personnel

- 19 Our agreed-upon procedures engagement or independence may be impaired if you solicit or hire certain EY personnel. This may either delay the provision of the Services or cause us to resign from the engagement. You shall not, during the term of this Agreement and for 6 months following its termination, for any reason, without our prior written consent, solicit to employ or nominate for a position on your Board of Directors or a financial reporting oversight role, or hire or appoint to your Board of Directors or a financial reporting oversight role, any professional employee of EY or of any other EY Entity who is or has been involved directly or indirectly with the performance of the Services for the current or prior financial year. A person in a financial reporting oversight role exercises, or is in a position to exercise, influence over the financial statements and anyone who prepares the financial statements.

Fees and Expenses Generally

- 20 You shall pay our professional fees and specific expenses in connection with the Services as detailed in the Engagement Letter. You shall also reimburse us for other reasonable expenses incurred in performing the Services. Our fees are exclusive of taxes or similar charges, as well as customs, duties or tariffs imposed in respect of the Services, all of which you shall pay other than taxes imposed on our income generally.
- 21 If we are required by applicable law, legal process or government action to produce information or personnel as witnesses with respect to the Services or this Agreement, you shall reimburse us for any professional time and expenses (including reasonable external and internal legal costs) incurred to respond to the request, unless we are a party to the proceeding or the subject of the investigation.

Force Majeure

- 22 Neither you nor we shall be liable for breach of this Agreement (other than payment obligations) caused by

circumstances beyond your or our reasonable control.

Term and Termination

- 23 This Agreement applies to all Services performed at any time (including before the date of this Agreement).
- 24 This Agreement shall terminate on the completion of the Services. We may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.
- 25 You shall pay us for all work-in-progress, Services already performed, and expenses incurred by us up to and including the effective date of the termination of this Agreement. Payment is due within 30 days following receipt of our invoice for these amounts.

Governing Law and Dispute Resolution

- 26 This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of Bahrain applicable to agreements made and fully to be performed therein by residents thereof.
- 27 Any dispute relating to this Agreement or the Services shall be resolved [as set forth in Appendix A] [subject to the exclusive jurisdiction of the Bahrain courts, to which each of us agrees to submit for these purposes].

Miscellaneous

- 28 This Agreement constitutes the entire agreement between us as to the Services and the other matters it covers, and supersedes all prior agreements, understandings and representations with respect thereto, including any confidentiality agreements previously delivered.
- 29 Both of us may execute this Agreement (and modifications to it) and each of us may sign a different copy of the same document. Both of us must agree in writing to modify this Agreement.
- 30 You represent that the person signing this Agreement on your behalf is expressly authorized to execute it and to bind you and any of your affiliates or others for whom Services are performed to its terms.
- 31 We retain ownership in the working papers compiled in connection with the Services.
- 32 Neither of us may assign any of our rights, obligations or claims under this Agreement.
- 33 If any provision of this Agreement (in whole or part) is held to be illegal, invalid or otherwise unenforceable, the other provisions shall remain in full force and effect.
- 34 If there is any inconsistency between provisions in different parts of this Agreement, those parts shall have precedence as follows (unless expressly agreed otherwise):
 - (a) the Engagement Letter,
 - (b) these General Terms and Conditions, and
 - (c) other annexes to this Agreement.
- 35 We may use your name publically to identify you as a client, but we may refer to you in connection with the Services only if it is a matter of public knowledge that we are providing them (or have provided them).

Appendix A

Dispute Resolution Procedure

In the event of any controversy or claim arising out of or relating to this Agreement or an Engagement Letter, or a breach thereof, the parties shall consult and negotiate with each other and, recognising their mutual interests, attempt to reach a solution satisfactory to the parties. If the parties fail to settle the controversy or claim at the expiration of thirty (30) days, then, upon notice by any party to the other(s), any unresolved controversy or claim shall be settled by arbitration administered by the International Centre for Dispute Resolution Bahrain ("Dispute Resolution Centre") (www.icdc.org) in accordance with the provisions of its [International Arbitration Rules / Procedures for Cases under the UNCITRAL Arbitration Rules]. The Parties agree that:

- (a) the arbitration shall be heard before one (1) arbitrator appointed in accordance with the procedures of the Dispute Resolution Centre.
- (b) all arbitration proceedings are to take place in Manama, Kingdom of Bahrain;
- (c) except as may be required by law, neither a party nor its representatives may disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties.
- (d) the language of the arbitration shall be English;
- (e) it is the intent of the parties that, barring extraordinary circumstances, arbitration proceedings will be concluded within 120 days from the date the arbitrator is appointed. The arbitral tribunal may extend this time limit in the interests of justice. Failure to adhere to this time limit shall not constitute a basis for challenging the award.
- (f) the decision of such arbitration shall be final and binding upon the parties hereto without appeal to any court or other party(s);
- (g) pending the decision or award, the parties shall continue to perform their obligations pursuant to the Agreement or Statement of Work; and
- (h) this clause shall continue in force notwithstanding the termination of this Agreement.

Arcapita Bank B.S.C. (c)

Appendix 2 to Ernst & Young's agreed-upon procedures engagement letter dated 2 May 2012

Sr. No.	Procedures
	General requirements (PD-A.2)
1	We will check whether the Bank has a formal disclosure policy as part of the management's overall communications strategy approved by the Board of Directors (and supported by documented procedures) that addresses the disclosures made by the Bank and the internal controls over the disclosure process. (PD-A.2.1)
2	We will enquire whether the Bank carries out a regular review of the validity of its disclosures (in terms of scope and accuracy) as outlined in Module BR-5.2 and AU-3.2. (PD-A.2.1)
3	We will check whether the Bank has published their annual audited and reviewed quarterly consolidated financial statements as per the rules set out in the PD module and the CBB Law, Bahrain Commercial Companies Law (as amended), the Rulebook of the licensed exchange and Volume 6 (Capital Markets), where applicable. (PD-A.2.2)
4	We will check whether the Bank's consolidated financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). When there are no specific accounting standards under AAOIFI, we will check whether the Bank has used International Financial Reporting Standards (IFRS) as required by PD-A.2.6. (PD-A.2.2)
5	We will check whether the Bank has made the disclosures specified in the PD Module, which are in addition to those required by applicable accounting standards, on which the Bank's external auditors are required to issue an agreed upon procedures report (unless IFRS require that the concerned disclosures are audited). <i>Note: The disclosures required by the PD Module may be presented as an accompanying document or appendices to the Annual Report or in the notes to the financial statements at the discretion of the Bank. (PD-A.2.4)</i>
6	We will check whether the Bank has maintained an up-to-date checklist of all applicable AAOIFI standards and IFRS and also the disclosure requirements set out in PD module for full compliance purposes and whether such checklists are part of the Bank's public disclosure procedures. (PD-A.2.3)
7	We will check whether statements forming part of the Annual Report such as the Chairman's report are consistent with the audited financial statements and the disclosures required by the PD Module. We will also check whether all qualitative or descriptive disclosures in the Annual Report are based upon and reflective of facts and actual practice by the Bank. (PD-A.2.5)

Arcapita Bank B.S.C. (c)

Appendix 2 to Ernst & Young's agreed-upon procedures engagement letter dated 2 May 2012

Sr. No.	Procedures
8	<p>In case of situations where disclosures required in the PD Module are in conflict with those required under AAOIFI standards and IFRS and/or Bahrain Stock Exchange (BSE) listing requirements, we will check whether the Bank has followed AAOIFI requirements first. Further, in such situations, we will also check whether the Bank has explained any material differences between the accounting or other disclosures and the disclosure required in the PD Module.</p> <p><i>Note: As per PD Module, this explanation does not have to take the form of a line by line reconciliation, but should provide stakeholders with sufficient detail to make an objective assessment of the Bank's financial and operational health. Moreover, a formal notification to the Central Bank of Bahrain is required in such a situation. (PD-A.2.6)</i></p>
9	<p>We will check whether the disclosures referred to in the PD Module have been made at the top consolidated level of a Banking group (i.e. at the level of the parent Bank in Bahrain).</p> <p>We will enquire whether, disclosures related to individual Banks within a Banking group have been made where listing requirements or differing accounting requirements would make separate disclosure necessary. (PD-A.2.9)</p>
<i>Proprietary and Confidential Information (PD-A.3)</i>	
10	<p>We will check whether the Bank considered disclosures of certain information required in section PD-1.3 may prejudice seriously its position by making public information that is either proprietary or confidential in nature. Further, in such cases, we will check whether it has obtained prior approval from the Central Bank of Bahrain, so as not to disclose those specific items.</p> <p>We will also check, whether in such situations, the Bank has disclosed general information about the subject matter of the requirement, together with the fact that, and the reason why, the specific items of information have not been disclosed.</p> <p><i>Note: As per PD Module, this limited exemption is not intended to conflict with the disclosure requirements under IFRS or AAOIFI. (PD-A.3.2)</i></p>
<i>Requirements for Annual Audited Financial Statements and Annual Reports (PD-1.2)</i>	
<i>Submission of Annual Audited Financial Statements</i>	
11	<p>We will check, whether the Bank has submitted its annual audited financial statements to the Central Bank of Bahrain within 3 months of the end of the Bank's financial year (as required by Article 62 of the CBB Law). We will also check whether the Banks' annual audited financial statements are audited by their external auditors. (PD-1.2.1)</p>
12	<p>We will check that the Bank has placed its full annual audited consolidated financial statements reports on its website (see also PD-1.3.10 (h)) within one week of submission to the CBB.(PD-1.2.2)</p>

Arcapita Bank B.S.C. (c)

Appendix 2 to Ernst & Young's agreed-upon procedures engagement letter dated 2 May 2012

Sr. No.	Procedures
	<i>Publication of Annual Audited Financial Statements</i>
13	<p>We will check whether the Bank has published extracts from their annual audited consolidated financial statements in one Arabic and one English daily newspaper within 2 months of the end of the financial year.</p> <p>We will also check whether the newspaper disclosures were placed on the Bank's website within one week of publication. (PD-1.2.3)</p> <p><i>Note: The newspaper disclosures may be edited so that notes are not included, but must include at a minimum the statement of financial position (balance sheet), the statement of income, cash flow and changes in equity.</i></p> <p>(PD-1.2.3)</p>
14	<p>We will check whether the newspaper disclosures include a reference to the fact that the published figures "have been extracted from financial statements audited by XYZ auditors, who expressed an unqualified opinion on (dated report)". (PD-1.2.4)</p> <p><i>Note: Bank must disclose in full any audit qualifications or matter of emphasis paragraphs contained within the auditor's opinion. The auditor's opinion must be made in accordance with AAOIFI's Standards on Auditing and International standards on Auditing as established by the International Federation of Accountants (as appropriate). (PD-1.2.4)</i></p>
15	<p>We will check that the Bank has submitted a newspaper copy of the published annual audited consolidated financial statements to the CBB within two days of publication in the concerned newspaper.</p> <p><i>Noted: The copy must be accompanied by a letter clearly showing on which date and in which publications the statements were published. (PD-1.2.5)</i></p>
	<i>Submission of Annual Report</i>
16	<p>We will check that the Bank has submitted its full printed Annual Reports to the Central Bank, including the full disclosures prescribed within 4 months of the end of the Bank's financial year.(PD-1.2.6)</p>
17	<p>We will check that the Bank has placed the Annual Reports on its website within one week of submission to the CBB.(PD 1.2.7)</p>

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	<i>Disclosures in the Annual Reports (PD-1.3)</i>
	<i>Scope of Application - Qualitative Disclosures</i>
18	<p>We will check whether the Bank has disclosed:</p> <p>a) The full legal name of the top corporate entity in the Group to which the disclosure requirements apply.</p> <p>b) An outline of the differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the Bank which for regulatory purposes are:</p> <ul style="list-style-type: none"> ▶ Fully consolidated; ▶ Pro-rata consolidated; ▶ Subject to deduction treatment; ▶ Allowed to recognise surplus capital at the parent level; and ▶ Neither consolidated nor deducted (e.g. the investment is risk-weighted). <p>c) Any restrictions on the transfer of funds or regulatory capital within the Group (e.g. large exposure or exchange control regulations or covenants over the repayment of capital or the payment of dividends).</p> <p>(PD 1.3.6)</p> <p>We have also checked that the bank reports:</p> <p>a) Restricted Investment accounts off-balance sheet in the financial statements. (PD-1.3.4)</p> <p>b) Unrestricted investment accounts on-balance sheet in the financial statements. (PD-1.3.5)</p>
	<i>Scope of Application - Quantitative Disclosures</i>
19	<p>We will agree to the Consolidated Prudential Information Return for Islamic Banks submitted by the Bank to the Central Bank of Bahrain for the quarter ended 30 June 2012 (Form PIRI), the aggregate amount of capital deficiencies in subsidiaries that are not included in the consolidation (i.e. that are deducted) and also the names and country of incorporation of such subsidiaries. (PD-1.3.7(a))</p>
20	<p>We will agree to the PIRI, the aggregate amounts (current book value) of the Bank's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate Group-wide methodology, as well as their name, their country of incorporation or residence and the proportion of voting power in these entities.</p> <p>In addition, we will also check whether the Bank has disclosed the quantitative impact on regulatory capital of using this method versus the deduction or alternate Group-wide method. (PD-1.3.7(b))</p>

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21	We will also agree to the PIRI, the disclosure made by the Bank for aggregate capital deductions and risk-weighted asset amounts of holdings of equities listed in paragraph PD-1.3.7(b), which are not consolidated into the accounts of the Bank. (PD-1.3.7(c))
<i>Financial performance and position</i>	
22	We will check whether the Bank has made the following disclosures: (PD-1.3.9) a) Discussion of the main factors that influenced the Bank's financial performance for the year, explaining any differences in performance between the current year and previous year and the reasons for such differences, and discussing factors that will have a significant influence on the Bank's future financial performance; b) Basic quantitative indicators of financial performance including, but not restricted to, ROAE, ROAA, cost-to-income ratios etc. for the past 5 years;
23	We will check whether the Bank has made the following disclosures: a) A discussion of the impact of acquisitions of new businesses and discontinued business and unusual items; (PD-1.3.9(c))and b) A discussion of any changes in the capital structure and their possible impact on earnings and dividends (PD-1.3.9(d)).
<i>Corporate governance and transparency</i>	
24	We will check whether the Bank has made the following disclosures: a) Information about the Board structure (e.g. the size of the Board, Board committees, function of committees and membership divided into independent and non-independent members), and the basic organisational structure (lines of business structure and legal entity structure); (PD-1.3.10(a)) b) Information about the profession, business title, and experience in years of each Board member, describing each director as executive or non-executive and the qualifications and experience in years of all senior managers (See section PD-1.1 for definitions); (PD-1.3.10(b)) c) Descriptive information on the managerial structure, including: (PD-1.3.10(c)) i. Committees (see PD-1.3.10(w) for detailed disclosure requirements relating to various types of committees); ii. Segregation of duties; iii. Reporting lines, and iv. Responsibilities. d) Descriptive information on the performance-linked incentive structure for the Chief Executive, the General Manager, Managers, Shari'a Board and the board (remuneration policies, executive compensation, stock options, etc.); (PD-1.3.10(d)) e) Nature and extent of transactions with related parties (as defined by AAOIFI and IFRS as appropriate see also PD-1.3.23); (PD-1.3.10(e))

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	<p>f) Approval process for related party transactions;</p> <p>g) Information about any changes in the structures (as mentioned in paragraph PD-1.3.10 (a) to (c)), from prior periods; (PD-1.3.10(f))</p> <p>h) The communications strategy approved by the Board (including the use of the Bank's website) which should undertake to perform at least the following: (PD-1.3.10(g))</p> <p>i. The disclosure of all relevant information to stakeholders on a timely basis in a timely manner; and</p> <p>ii. The provision of at least the last three years of financial data on the Bank's website.</p> <p>i) Distribution of ownership of shares by nationality;</p> <p>j) Directors' and senior managers trading of the bank's shares during the year, on an individual basis;</p> <p>k) Distribution of ownership of shares by directors and senior managers, on an individual basis;</p> <p>l) Distribution of ownership of shares by size of shareholder;</p> <p>m) Ownership of shares by government;</p> <p>n) The Board's functions—rather than a general statement (which could be disclosed simply as the Board's legal obligations under various laws) the 'mandate' of the Board should be set out;</p> <p>o) The types of material transactions that require board approval;</p> <p>p) Number and names of independent board members;</p> <p>q) Board terms and start date for each term for each director;</p> <p>r) What the board does to induct, educate, orient new directors;</p> <p>s) Election system of directors and any termination arrangements;</p> <p>t) Meeting dates (number of meetings during the year);</p> <p>u) Attendance of directors at each meeting;</p> <p>v) Whether the board has adopted a written code of ethical business conduct, and if so the text of that code and a statement of how the board monitors compliance;</p> <p>w) Minimum number of Board committee meetings per year, the actual number of board meetings, attendance of committees' members and the work of committees and any significant issues arising during the period;</p>

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	<p>x) Reference to Module HC and any amendments subsequently made by the CBB; including explanation and nature of any non-compliance with Module HC in accordance with Paragraph HC-A.1.8;</p> <p>y) Review of internal control processes and procedures;</p> <p>z) Directors responsibility with regard to the preparation of financial statements;</p> <p>aa) Board of Directors—whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution;</p> <p>bb) Banks are encouraged to maintain a website. If a bank does not have a website, it must state in its strategy how it will make all relevant information available to shareholders and other stakeholders on a timely basis.</p> <p>cc) Descriptive information on any investor / consumer awareness programmes for information on new products and services.</p> <p>dd) Information on any mediation and advice bureaus for investors and customers set up by the Bank, including clearly written procedures for logging of complaints;</p> <p>ee) Social functions and charitable contributions of the Bank;</p> <p>ff) Descriptive information on the governance arrangements, systems and controls employed by the Bank to ensure Shari'a compliance and on how these meet applicable AAOIFI standards, and if there is less than full compliance, an explanation of the reasons for noncompliance;</p> <p>gg) How non Shari'a compliant earnings and expenditure occur and the manner in which they are disposed of;</p> <p>hh) The annual zakah contributions of the Bank; where relevant;</p> <p>ii) Aggregate remuneration paid to board members;</p> <p>jj) Remuneration policy of the bank for board members and senior management; and</p> <p>kk) Aggregate remuneration paid to senior management.</p>
	<p>Capital Structure - Qualitative Disclosures</p>
25	<p>We will check whether the Bank has disclosed summary descriptive information on the types, forms, terms and conditions of the main features of all capital- and equity- related instruments and unrestricted investment accounts listed in PD-1.3.12, PD-1.3.13 and PD-1.3.15, especially in the case of innovative, complex or hybrid capital instruments. (PD-1.3.11)</p>

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	<i>Capital Structure - Quantitative Disclosures</i>
26	We will agree to PIRI, the amount of Tier 1 Capital disclosed by the Bank along with separate disclosures of: (PD-1.3.12) a) Issued and paid-up share capital/common stock and any changes since last reporting period; b) Breakdown of Reserves and Retained Earnings; c) Minority interests in the equity of subsidiaries; d) Innovative capital instruments; e) Other capital instruments; and f) Regulatory deductions from Tier 1 Capital (refer CA-2 for guidance).
27	We will agree to the PIRI, the components of, and the total amounts of, Tier 2 Capital prior to and after any adjustments or deductions (e.g. amortisations) disclosed by the Bank. (PD-1.3.13)
28	We will agree to the PIRI, disclosure made by the Bank with respect to the aggregate general deductions from Tier 1 and Tier 2 capital (i.e. in respect of subsidiaries and material holdings of equities - see PD-1.3.7 and PD-1.3.8 and Module Prudential Consolidation and Deduction Requirements (PCD Module) in respect of deduction requirements). (PD-1.3.14)
29	We will agree to the PIRI, the disclosure made by the Bank for total eligible capital after all deductions, adjustments or caps (e.g. because of Large Exposures materiality thresholds or ceilings on components of Tier Two capital); and after observing all ceilings on Tier Two Capital. (PD-1.3.15) We have also ascertained the arithmetical accuracy of the computation.
30	We will check whether the Bank has made a summary discussion of its approach to assess the adequacy of capital to support current and future activities and also disclosed a description of the policy on identifying assets suitable for funding by unrestricted investment accounts. (PD-1.3.16).
	<i>Capital Adequacy</i>
31	We will agree to the PIRI, the disclosure made by the Bank with regards to regulatory capital requirements for credit risk by each type of Islamic financing contracts. (PD-1.3.17) For a sample of 10 items, from the computation provided by the Bank, we will agree the balance to the accounting system as at 30 June 2012.
32	We will agree to the PIRI, the disclosure made by the Bank with regards to capital requirements for market risk using the standardised approach. (PD-1.3.18) For a sample of 10 items, from the computation provided by the Bank, we will agree the balance to the accounting system as at 30 June 2012.

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33	<p>We will agree to the PIRI, the disclosure made by the Bank with regards to capital requirements for operational risk under: (PD-1.3.19)</p> <p>a) the basic indicator approach; or b) the standardized approach (as applicable)</p> <p>For a sample of 10 items, from the computation provided by the Bank, we will agree the balance to the accounting system as at 30 June 2012.</p>
34	<p>We will agree to the PIRI, the disclosure made by the Bank with regards to total and Tier 1 Capital Ratios segregated on the following basis: (PD-1.3.20)</p> <p>a) for the top consolidated Bank in Bahrain; b) for all significant Bank subsidiaries (i.e. whose regulatory capital amounts to over 5% of Bank consolidated regulatory capital whether on a stand-alone or sub-consolidated basis).</p>
	<p><i>Risk: General Qualitative Disclosure Requirements</i></p>
35	<p>We will check whether the Bank has disclosed its risk management objectives and policies for each separate risk area below and whether the strategies used by the Bank have been effective throughout the reporting period.</p> <p>Further, we will also check whether the Bank has disclosed its strategies, processes and internal controls (including internal audit) for each area below including the structure and organisation of the relevant risk management function, and the scope and nature of risk reporting systems and policies for hedging/mitigating risk and strategies for monitoring the continuing effectiveness of hedges/mitigants.</p> <p>There are also certain specific disclosures for each of these areas in addition to the general qualitative disclosures required as follow:</p> <p>a) Credit Risk (refer PD-1.3.22 - PD-1.3.24); b) Market Risk (refer PD-1.3.27); c) Operational Risk (refer PD-1.3.28 - PD-1.3.30); d) Equity Risk in the Banking Book (refer PD-1.3.31); e) Rate of Return Risk (refer PD-1.3.39- PD-1.3.40); f) Displaced Commercial risk (refer PD-1.3.41).</p>

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	<i>Credit Risk - Qualitative Disclosures</i>
36	<p>We will check whether the Bank has made the following general qualitative disclosures:</p> <ul style="list-style-type: none"> a) Definition of past due and impaired Islamic financing contracts; b) Description of the approaches for specific and general impairment provisions and associated statistical methods used (where applicable); c) The names of External Credit Assessment Institutions (ECAIs) used for assigning risk weights to assets; d) The types of exposure for which each ECAI is used; e) The process used to transfer ECAI public issue ratings onto comparable (financing) assets in the Banking book. <p>(PD-1.3.22)</p>
	<i>Credit risk - Quantitative disclosures</i>
37	<p>For a sample of 15 transactions we will agree the balance as per the accounting system as at 30 June 2012 to the working for total gross credit exposures (gross outstanding before any risk mitigation) plus average gross exposures over the period broken down by major types of credit exposure (as outlined under IFRS) into funded and unfunded exposures. Where the period end position is representative of the risk positions of the Bank during the period, the average gross exposures need not be disclosed and we will enquire about the reasons and check whether these reasons are appropriately disclosed.</p> <p>Where average amounts are disclosed in accordance with an accounting standard or other requirement which specifies the calculation method to be used, we have inquired whether that method is followed. We have also inquired whether, the average exposures are calculated using the most frequent interval that the Bank's systems generate for management, regulatory or other reasons, provided that the resulting averages are representative of the Bank's operations and we will check whether the basis used for calculating averages are stated. (PD-1.3.23(a))</p>
38	<p>For a sample of 15 transactions we will agree the balance as per the accounting system as at 30 June 2012 to the working for geographic distribution of exposures, broken down into significant areas by major types of credit exposure and also checked whether the Bank has disclosed the criteria used to allocate exposures to particular geographical area. (PD-1.3.23(b))</p>
39	<p>For a sample of 15 items, we will agree the balance as per the accounting system as at 30 June 2012 to the working for distribution of exposures by industry or counterparty type, broken down by major types of credit exposure and further broken down by funded and unfunded exposure. (PD-1.3.23(c))</p>
40	<p>For a sample of 15 items, we will agree the balance as per the accounting system as at 30 June 2012 to the working for intra-group transactions including exposures to related parties, and enquired whether such transactions have been made on an arm's length basis and check whether this is appropriately stated. (PD-1.3.23(d))</p>

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41	<p>We will enquire with the Bank Head of Risk Management the basis on which the Bank determines its customers/counterparties as highly leveraged or having high risk and whether it is in line with the definition given in PD-1.3.24(e)) and for a sample of 5 transactions agreed the financings to these customers/counterparties as per the accounting system as at 30 June 2012 to the working provided by the Bank. (PD-1.3.23(e))</p>
42	<p>For a sample of 5 items, we will agree the balance as per the accounting system as at 30 June 2012 to the working for concentration of risk to individual counterparties where the exposure is in excess of the 15% individual obligor limit. (PD-1.3.23(f))</p> <p><i>Note: These do not require the disclosure of the name of the counterparty.</i></p>
43	<p>For a sample of 15 items, we will agree the balance as per the accounting system as at 30 June 2012 to the working for residual contractual maturity breakdown of the whole credit portfolio, broken down by major types of credit exposure. (PD-1.3.23(g))</p> <p><i>Note: Bank must follow the residual maturity groupings currently followed under IFRS 7 (Guidance application B11), but they must also extend the periods to include 5-10 years, 10-20 years, and 20 years and over (where the Bank has exposures or liabilities of such maturity). (PD-1.3.24(a))</i></p>
44	<p>For a sample of 15 transactions we will agree the balance as per the accounting system as at 30 June 2012 to the working for disclosure by major industry or counterparty type with respect to: (PD-1.3.23(h))</p> <ul style="list-style-type: none"> ▶ the amount of non-performing and impaired Islamic financing contracts and past due Islamic financing contracts; ▶ specific and collective impairment provisions during the financial year; ▶ charges for specific provisions and charge-offs (write-offs) during the period; and ▶ Reconciliation of changes in provisions for Islamic financing contracts impairment. <p>We will check whether the Bank's disclosure of past due financing contracts is on the following basis: (PD-1.3.24(b))</p> <ul style="list-style-type: none"> ▶ Ageing schedule (over 3 months, over 1 year and over 3 years) of past due Islamic financing contracts; and ▶ Breakdown by relevant counterparty type or major industry; <p>We will also check whether the reconciliation of changes in provisions show specific and collective impairment provisions separately. (PD-1.3.24(d))</p>

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45	<p>For a sample of 15 transactions we will agree the balance as per the accounting system as at 30 June 2012 to the working for disclosure made by the Bank for the amount of past due financing contracts, separately broken down by significant geographic areas, including the amounts of specific and collective impairment provisions related to each geographical area (as defined under PD-1.3.23(b)). (PD-1.3.23(i))</p> <p>We will also check whether for specific, collective and other impairment provisions, the portion of collective impairment provisions not allocated to specific geographical areas are shown separately. (PD-1.3.24(c))</p>
46	<p>Further, for a sample of 15 items we will agree the balance as per the accounting system as at 30 June 2012 to the working provided by the Bank for all outstanding Islamic financing contracts at year end not included in PD-1.3.23(e) that have been restructured (according to the definition in the Prudential Information Return instructions) during the period as follows: (PD-1.3.23(j))</p> <ul style="list-style-type: none"> ▶ The balance of any restructured Islamic financing contracts; ▶ The magnitude of any restructuring activity; ▶ The impact of restructured Islamic financing contracts on provisions and present and future earnings; and ▶ The basic nature of concessions on all credit relationships that are restructured, including Islamic financing contracts, and other on- and off-balance sheet activities. <p>Note: If full repayment is expected, the restructured credit need not be disclosed in this section after satisfactory performance for a period of six months in accordance with the modified terms.</p>
47	<p>For a sample of 15 items, we will agree the balance as per the accounting system as at 30 June 2012 to the working provided by the Bank for quantitative information (including amount of assets sold and any unexpected losses) disclosed by the Bank concerning the obligations with respect to recourse transactions, i.e. where the asset has been sold, but the Bank retains responsibility for repayment if the original counterparty defaults or fails to fulfill their obligations. (PD-1.3.23(k))</p>
48	<p>We will check whether the Bank has disclosed any penalty charged to customers for default and how such money recovered through penalty is disposed off. (PD-1.3.23(l))</p>

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49	<p>Credit Risk Mitigation: Disclosure Requirements</p> <p>We will check whether the Bank has made the following qualitative disclosures with respect to the credit risk mitigation:</p> <ul style="list-style-type: none"> a) Policies and processes for, and an indication of the extent to which, the Bank makes use of on- and off-balance sheet netting; b) Policies and processes for collateral valuation and management; c) A description of the main type collateral or other Shari'a compliant risk mitigation techniques employed by the Bank; d) The main types of guarantor and their credit worthiness; e) Information about (market or credit) risk concentrations within the credit risk mitigation taken; f) policies and the carrying amounts for assets owned and leased under Ijarah Muntahia Bittamleek; g) Risk weight applicable to the guarantor in case guarantee is used as credit risk mitigant and shari'a compliance of guarantee is confirmed; and h) The nature and carrying amount of any assets held by the Bank as collateral (including any haircuts) and the terms and conditions relating to the pledges. When the assets are not readily convertible into cash by the Bank, does the Bank disclose the policies for disposing of the assets, or for using them in the Bank's operations. (PD-1.3.25(a))
50	<p>We will agree to the PIRI the disclosure by type of Islamic financing contract, the total exposure (after on- or off-balance sheet netting, where applicable) that is covered by eligible collateral after the application of haircuts. (PD-1.3.25(b))</p>
51	<p>We will agree to the Bank's records the total exposure (after on- or off-balance sheet netting where applicable) that is covered by guarantees by type of Islamic financing contract. (PD-1.3.25(c))</p> <p>For a sample of 10 items, from the computation provided by the Bank, we will agree the balance to the accounting system as at 30 June 2012.</p>
	<p>Disclosures related to counterparty credit risk (CCR)</p>
52	<p>We will check whether the Bank has made the following disclosures with respect to CCR: (PD-1.3.26(a))</p> <ul style="list-style-type: none"> ▶ Discussion of methodology used to assign capital and credit limits for counterparty credit exposures; ▶ Discussion of policies for securing collateral and establishing credit reserves; ▶ Discussion of the impact of the amount of collateral the Bank would have to provide if given a credit rating downgrade.
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53	<p>We will agree to the Form PIRI, the following disclosures made by the Bank with regard to the counterparty credit risk: (PD-1.3.26(b))</p> <p>Gross positive fair value of contracts, netting benefits, netted current credit exposures, collateral held (including type: e.g. cash, government securities, etc.), and net derivatives credit exposure. Also measures for exposure at default. The distribution of current credit exposure by type of credit exposure (e.g. FX contracts, equity contracts, commodity contracts, etc.).</p>
	<p>Market Risk Disclosures</p>
54	<p>We will check whether the Bank has disclosed the general qualitative disclosures, with respect to market risk, identifying the portfolios covered by the standardised approach; (PD-1.3.27(a))</p>
55	<p>We will agree the disclosure of the following items to the PIRI: The capital requirements on an end period basis, as well as showing the maximum and minimum values during the period for each category of market risk as follows:</p> <ul style="list-style-type: none"> ▸ Market risk on trading positions in sukuk; ▸ Equity position risk; ▸ Foreign exchange risk; and ▸ Commodity risk. <p>(PD-1.3.27(b))</p>
	<p>Operational Risk Disclosures</p>
56	<p>We will check whether the Bank has made general qualitative disclosures and the approach for operational risk the Bank employs to control such risk, and disclosures of any issues considered to be individually significant. (PD-1.3.28)</p> <p>We will check whether the following qualitative disclosures in relation to operational risk are included: (PD-1.3.29)</p> <p>a) Policies to incorporate operational risk measures into the management framework- for example budgeting, target setting, and performance review and compliance;</p> <p>b) Policies and processes:</p> <ul style="list-style-type: none"> • To help track loss events and potential exposures; • To report these losses, indicators and scenarios on a regular basis; • To review the reports jointly by risk and line managers. <p>c) Policies on the loss mitigation process via contingency planning, business continuity planning, staff training and enhancement of internal controls, as well as business processes and infrastructures.</p>

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	<p>We will agree following to the PIRI (PD-1.3.30):</p> <p>a) the capital charge or RWA equivalent for operational risk</p> <p>b) Indicators of operational risk exposures, such as:</p> <ul style="list-style-type: none"> • Gross income; • Amount of non-Shari'a- compliant income; • Number of Shari'a violations that were identified and reported during the financial year. <p>Further, we will enquire with the Head of Legal department of any material legal contingencies including pending actions and checked whether the Bank has disclosed these along with a discussion and estimate of the potential liabilities, in addition to qualitative statements about how the Bank manages and controls such risks. (PD-1.3.30(c))</p>
	<p><i>Disclosure Requirements for Equity Positions in the Banking Book</i></p>
57	<p>We will check whether the Bank has made the following general qualitative disclosures with respect to equity risk: (PD-1.3.31)</p> <p>▸ Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; (PD-1.3.31 (a)) and</p> <p>▸ Discussion of important policies covering the valuation and accounting of equity holdings in the Banking book. This will include the accounting policies and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices. (PD-1.3.31 (a))</p>
58	<p>For a sample of 10 transactions we will agree the balance as per the accounting system as at 30 June 2012 to the working provided by the Bank in respect of the following disclosures for any equities held in the Banking book: (PD-1.3.31(b) to (e))</p> <p>a) Total gross exposure and average gross exposure to equity based financing structures by type of financing contracts. (PD-1.3.31(b))</p> <p>b) The types and nature of investments, including the amount that can be classified as quoted on an active market or privately held. (PD-1.3.31(c))</p> <p>c) The cumulative realised gains (or losses) arising from sales or liquidations in the reporting period. (PD-1.3.31(d))</p> <p>d) Total unrealised gains and losses recognised in the balance sheet but not through the P&L and any unrealised gains and losses included in Tier 1 and Tier 2 capital. (PD-1.3.31(e))</p> <p>e) Capital requirements broken down by appropriate equity groupings, consistent with the methodology, as well as the aggregate amounts and type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirement. (PD-1.3.31(f))</p>

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	<i>Qualitative disclosures with regard to Unrestricted Investment Accounts</i>
59	<p>We will check that following disclosures are made by the Bank:</p> <ul style="list-style-type: none"> a) Written procedures and policies applicable to the investment accounts, including a synopsis of the following: <ul style="list-style-type: none"> 1. General applicable investment objectives; 2. Range of investment products available; 3. Characteristics of investors for whom various investment accounts may be appropriate; 4. Purchase, redemption and distribution procedures, including IAH's rights to withdraw funds during the term of the Mudarabah contract, and any penalties, such as forfeited shares of profits, that will be incurred by doing so; 5. Experience of portfolio managers, investment advisors and trustees; 6. Governance arrangements for the IAH funds; and 7. Strategy for trading and organization of assets. b) Disclosure that IAH funds are invested and managed in accordance with Shari'a requirements. c) Product information and the manner in which the products are made available to investors. d) Basis and method of allocation of assets, expenses and profit in relation to IAH funds, including, with particular reference to unrestricted IAH, the rules governing co-mingling of their funds with other funds managed by the transfer Bank, the balance between shareholders' and IAH's interests in terms of funds to or from PER and IRR including contractual or regulatory limits on management's discretion in the matter and the disposition of unused balances on these accounts at allocating investment funds and the risk-return characteristics of investments. e) Disclosures on the policies governing the management of IAH funds, which covers the approaches to the management of investment portfolio, establishment of prudential reserves, and the calculation, allocation and distribution of profits, including the extent of management's right to appropriate IAH's share of investment profit in order to build up PER and or IRR, to use these reserves to smooth profit payouts to IAH, the rules governing the transfer of funds to or from PER and IRR, including contractual or regulatory limits on management's discretion in the matter and the disposition of unused balances on these accounts at the end of the relevant Mudarabah contract. f) The availability of "personal Banking" and investment advisory and financial planning services for the benefit of IAH, and the degree of independence of such advisors in recommending products offered by other Banks. g) Complaints procedures available to dissatisfied IAH.

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Sr. No.	Procedures
	<p>h) The extent of any sharing of profits from the Bank's provision of fee-based Banking.</p> <p>i) The extent to which the Bank is committed to paying a competitive rate of return by accepting DCR.</p> <p>j) The major changes in the investment strategies that affect the investment accounts (including commingling of funds).</p> <p>k) Bases applied for charging expenses to unrestricted IAH.</p> <p>l) Description of total administrative expenses charged to unrestricted IAH.</p> <p>(PD-1.3.32)</p>
	Quantitative disclosures with regard to Unrestricted Investment Accounts
60	<p>We will agree to the Bank's records, PIRI and will check the computation, if applicable, for following quantitative disclosures made by the Bank:</p> <p>a) Amount of IAH funds.</p> <p>b) The ratio of Profit Equalization Reserves (PER) to the total amount of PSIA by type of IAH.</p> <p>c) The ratio of Investment Risk Reserves (IRR) to the total of PSIA by type of IAH.</p> <p>d) ROAA and ROAE.</p> <p>e) Ratio of profit distributed to PSIA by type of IAH. We have ensured that the bank has disclosed the profit sharing formula used for the calculation and distribution of profits.</p> <p>f) The management fee (Mudarib share) as a percentage of the total investment profit, and the extent to which it is subject to partial or total waiver in order to pay a competitive rate of return to IAH.</p> <p>g) Ratio of financing to PSIA by type of IAH.</p> <p>h) Percentage of financing for each type of Shari'a-compliant contract to total financing.</p> <p>i) Percentage of financing for each category of counterparty to total financing - that is, Amount of Shari'a-compliant financing extended to a category of counterparties (outstanding) / Amount of total financing (outstanding) x 100.</p> <p>j) The carrying amount of any assets that the Bank has pledged as collateral and the terms and conditions relating to the pledge.</p> <p>k) The amount of any guarantees or pledges given by the Bank and the conditions attaching to those guarantees or pledges.</p> <p>l) Share of profits earned by IAH, before transfers to or from reserves (amount and as a percentage of funds invested).</p> <p>m) Share of profits paid out to IAH, after transfers to or from reserves (amount and as a percentage of funds invested).</p> <p>n) Share of profits paid out to the Bank as Mudarib.</p> <p>o) Movement on PER and IRR during the year.</p> <p>p) The utilization and computation of PER and/or IRR during the period</p>

Sr.	Procedures
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Arcapita Bank B.S.C. (c)

Appendix 2 to Ernst & Young's agreed-upon procedures engagement letter dated 2 May 2012

No.	
	<p>q) Average declared rate of return or profit rate on PSIA by maturity (3-month, 6-month, 12-month, and 36-month).</p> <p>r) Types of assets in which the funds are invested and the actual allocation among various types of assets.</p> <p>s) Changes in asset allocation in the last six months.</p> <p>t) Off-balance sheet exposures arising from investment decisions, such as commitment and contingencies.</p> <p>u) Limits imposed on the amount that can be invested in any one asset.</p> <p>v) The treatment of assets financed by IAH in the calculation of RWA for capital adequacy purposes.</p> <p>w) Profits earned and profits paid out over the past five years (amount and as a percentage of funds invested).</p> <p>x) Amount of total administrative expenses charged to unrestricted IAH.</p> <p>(PD-1.3.33)</p>
	<p><i>Qualitative disclosures with regard to Restricted Investment Accounts</i></p>
61	<p>We will check that following disclosures, in addition to PD 1.3.32 (a) to (g), are made in respect of Restricted Investment Accounts:</p> <p>a) Written policies on the Bank's fiduciary duties in managing IAH funds, and the policies and procedures for monitoring these duties. (PD-1.3.34(a))</p> <p>b) The duties and obligations of investment account managers in managing the IAH funds, and the policies and procedures for monitoring these duties and obligations. (PD-1.3.34(b))</p>
	<p><i>Quantitative disclosures with regard to Restricted Investment Accounts</i></p>
62	<p>We will agree to the Bank's records, PIRI and will check the computation, if applicable, for following quantitative disclosures, in addition to disclosures required by PD 1.3.33 (a) to (w) excluding PD 1.3.33 (p), made by the Bank:</p> <p>a) Current period returns.</p> <p>b) Historical returns over the past five years.</p> <p>c) The use of off-balance sheet transactions for investment management, where relevant.</p> <p>d) Disclosure of the range and measures of risks facing each restricted IAH fund based on its specific investment policies.</p> <p>(PD-1.3.35)</p>

Arcapita Bank B.S.C. (c)

Appendix 2 to Ernst & Young's agreed-upon procedures engagement letter dated 2 May 2012

Sr. No.	Procedures
	<i>Liquidity Risk - Qualitative Disclosures</i>
63	<p>We will check that the Bank has made following disclosures with respect to liquidity risk: (PD-1.3.36)</p> <p>(a) Liquidity risk management framework used for assessing the risk exposure for each category of funding as well as on an aggregate basis:</p> <ul style="list-style-type: none"> • Current accounts; • Unrestricted investment accounts; • Restricted investment account. <p>(b) Policy on diversity of funding sources to allow sufficient resources to Shari'a compliant funds to mitigate liquidity risk.</p>
	<i>Liquidity Risk - Qualitative Disclosures</i>
64	We will check that Bank has disclosed the indicators of exposures to liquidity risk and noted the accuracy of the ratios disclosed by the Bank. (PD-1.3.37)
65	We will check that the Bank has disclosed the maturity analysis of financing and various categories of funding (current account, unrestricted investment account and restricted investment account) by different maturity buckets. (PD-1.3.38)
	<i>Rate of Return Risk - Qualitative Disclosures</i>
66	<p>We will check that the Bank has made following disclosures with respect to rate of return risk:(PD-1.3.39)</p> <p>(a) Discussion of factors affecting rates of return and benchmark rates, and the effects thereof on the pricing of contracts; and</p> <p>b) Processes and systems to monitor and measure the factors that give rise to rate of return risk.</p>
	<i>Rate of Return Risk - Quantitative Disclosures</i>
67	<p>We will check that Bank has disclosed and, if applicable, we will check the computation of the following:</p> <p>(a) Indicators of exposures to rate of return risk- for example, data on expected payments/ receipts on financing and funding and the cost of funding at different maturity buckets according to time of maturity or time of re-pricing for floating rate assets or funding. (PD-1.3.40(a))</p> <p>b) Sensitivity analysis of Bank's profits and the rate of returns to price or profit rate movements in the market, including detailed quantitative information about the nature and extent of profit-rate sensitive assets and liabilities and off-balance sheet exposures (e.g. breakdown of fixed and floating profit items and the profit margin earned, and the duration and effective profit rate of assets and liabilities). These disclosures should be by each portfolio identified in PD-1.3.23 a), showing their related gains and losses. Also, the effect on the value of assets, liabilities and economic capital for a benchmark change of 200bp in profit rates. (PD-1.3.40(a))</p>

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Appendix 2 to Ernst & Young's agreed-upon procedures engagement letter dated 2 May 2012

Sr. No.	Procedures
	<i>Displaced Commercial Risk (DCR) Disclosures</i>
68	We will check that the Bank has disclosed its policy on DCR, including the framework for managing the expectations of its shareholders and unrestricted IAH, the sharing of risks among the various stakeholders, the range and measures of risk facing unrestricted IAH based on the Bank's general business strategies and investment polices. (PD - 1.3.41(a))
69	<p>We will match to the Bank's accounting records following disclosures in respect of DCR:</p> <p>a) The historical data over the past five years for the following:</p> <ul style="list-style-type: none"> • Total Mudarabah profits available for sharing between unrestricted IAH and shareholders as Mudarib (as a percentage of Mudarabah assets); • Mudarabah profits earned for unrestricted IAH (as a percentage of assets) before any smoothing; • Mudarabah profits paid out to unrestricted IAH (as a percentage of assets) after any smoothing; • Balances of PER and IRR, and movement of these in determining unrestricted IAH payout excluding PD-1.3.33(p); • Variations in Mudarib's agreed profit-sharing ratio from the contractually agreed ratio; and • Market benchmark rates selected by the Bank. <p>(PD-1.3.41(b))</p> <p>b) Five year comparison of historical rate of return of unrestricted IAH in relation to the market benchmark rate selected by the Bank. (PD-1.3.41(c))</p> <p>c) Five year comparison between the percentage rate of returns to IAH and the percentage returns to shareholders from Mudarabah profits. (PD-1.3.41(d))</p> <p>d) Amount and percentage of profits appropriated to PER and IRR. (PD-1.3.41(e))</p> <p>e) Analysis of the difference between aggregate Mudarabah earned profit and profit distributed to IAH as a function of movement in PER, IRR and the Mudarib's share. (PD-1.3.41(f))</p> <p>f) Analysis of the proportion of the RWA funded by IAH that should be considered in arriving at the total RWA together with an explanation of the underlying rationale. (PD-1.3.41(g))</p>
	<i>Disclosures Concerning Other Risks</i>
70	<p>We will check whether the Bank has disclosed following quantitative information about its investment in foreign subsidiaries: (PD-1.3.42)</p> <p>a) The nature of the related currency exposure;</p> <p>b) How that exposure has changed from year to year;</p> <p>c) Foreign exchange translation effects thereon;</p> <p>d) The earnings impact of foreign exchange transactions; and</p> <p>e) The effectiveness of risk management (hedging) strategies.</p>

Arcapita Bank B.S.C. (c)

Appendix 2 to Ernst & Young's agreed-upon procedures engagement letter dated 2 May 2012

Sr. No.	<i>Procedures</i>
	<i>Compliance Disclosures</i>
71	<p>We will check that the annual report include a declaration by the external auditors that they did not come across any violations of the requirements below during the course of their audit work that would have any material negative impact on the financial position of the Bank: (PD-1.3.43)</p> <p>a) The Bahrain Commercial Companies Law (as amended); b) The CBB Law where a violation might have had a material negative effect on the business of the Bank or on its financial position; c) The Regulations and Directives issued by the CBB; and d) The Rulebook of the licensed exchange and associated Resolutions, Rules and Procedures (where applicable).</p> <p>We will check that the annual report disclose the amount of any penalties paid to the CBB during the period of the report together with a factual description of the reason(s) given by the CBB for the penalty.(PD-1.3.44)</p>
	<i>Corporate governance disclosure to shareholders (PD-6)</i>
	<p>We will check whether the Group has made the following disclosures:</p> <p>(a) Names of shareholders owning 5% or more and, if they act in concert, a description of the voting, shareholders' or other agreements among them relating to acting in concert, and of any other direct and indirect relationships among them or with the bank licensee or other shareholders;</p> <p>(b) Information on the directorships held by the directors on other boards;</p> <p>(c) Director's trading of the Group's shares during the year;</p> <p>(d) Audit fees charged by the external auditor;</p> <p>(e) Non-audit services provided by the external auditor and fees;</p> <p>(f) Reasons for any switching of auditor and reappointing of auditor; and</p> <p>(g) Conflict of Interest - any issues arising must be reported, in addition describe any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest. (PD-6.1.1)</p>



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C.R. No. 6700

PRIVATE AND CONFIDENTIAL

13 May 2012

Essa Zainal
Executive Director
Arcapita Bank B.S.C. (c)
P O Box 1406
Manama
Kingdom of Bahrain

Arcapita Bank B.S.C. (c) and its affiliates ("Investment Administrator") Audit of Cayman Structure Companies (the "Companies")

Dear Sir

1. This Engagement Letter, together with the attached General Terms and Conditions, as referred in Appendix I, for Audit Engagements, (collectively, this "Agreement"), confirms the terms and conditions upon which Ernst & Young, Bahrain ("we" or "EY") has been engaged to audit and report on the financial statements, for the Cayman companies in Investment structures (the "Companies") as mentioned in Appendix II. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. The services described in this paragraph may hereafter be referred to as either the "Audit Services" or the "Services."
2. Should conditions not now anticipated preclude us from completing our audit and issuing a report (the "Report") as contemplated by this Agreement, we will advise you and those charged with governance promptly and take such action as we deem appropriate.

Audit Responsibilities and Limitations

3. The objective of our audit is to express an opinion on whether the financial statements of the Companies present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with the policies adopted by the Investment Administrator.
4. We will conduct the audit of financial statements in accordance with International Standards on Auditing (the "ISAs").

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. There are inherent limitations in the audit process, including, for example, the use of judgment and selective testing of data and the possibility that collusion or forgery may preclude the detection of material error, fraud, or illegal acts. Accordingly, there is some risk that a material misstatement of the financial statements may remain undetected. Also, an audit is not designed to detect fraud or error that is immaterial to the financial statements.



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Audit Responsibilities and Limitations (continued)

5. As part of our audit, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the internal control over financial reporting. This consideration will not be sufficient to enable us to express an opinion on the effectiveness of internal control or to identify all significant deficiencies.
6. In addition, we will communicate all relationships and other matters between EY, other member firms of the global Ernst & Young organization ("network firms") and the Investment Administrator that, in our professional judgment, may reasonably be thought to bear on independence (including total fees charged during the period covered by the financial statements for audit and non-audit services provided by us and network firms to the Investment Administrator and other companies controlled by the Investment Administrator) and the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. Further, we will confirm that the engagement team and others in EY as appropriate, EY and, when applicable, network firms have complied with relevant ethical requirements regarding independence.
7. If we determine that there is evidence that fraud or possible non-compliance with laws and regulations may have occurred, we will bring such matters to the attention of the Investment Administrator. If we become aware of fraud involving employees who have significant roles in internal control or others where the fraud results in a material misstatement of the financial statements, we will report this matter directly to those charged with governance. We will communicate with those charged with governance matters involving non-compliance with laws and regulations that come to our attention unless they are clearly inconsequential.
8. We will communicate in writing significant deficiencies in internal control identified, if any, during the audit of the financial statements.
9. We also may communicate our observations as to the potential for economies in, or improved controls over, the Companies' operations, if any.

Investment Administrators' Responsibilities and Representations

10. The Investment Administrator of the Companies is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies adopted. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.



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Fees and Billings

11. For an entity wise detail on our service fee, please refer to Appendix II.

This estimate assumes we will receive appropriate assistance from your staff in preparation of schedules and other matters, and that this assistance is on a timely basis.

Out of pocket expenses will be added to this fee. It is our practice to request an advance payment at the commencement of our work and one or more payments on account during the course of our work.

It is our practice to request a 50% advance payment at the commencement of our work and one or more payments on account during the course of our engagement.

12. All deliverables prepared by us will be presented in English. If you require us to translate deliverables into Arabic, a separate fee will be agreed for this service.
13. Our estimated pricing and schedule of performance are based upon, among other things, our preliminary review of the Companies' records and the representations Companies' personnel have made to us and are dependent upon the Companies' personnel providing a reasonable level of assistance. Should our assumptions with respect to these matters be incorrect or should the condition of records, degree of cooperation, results of our audit procedures, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimates are based, we may adjust our fees and planned completion dates. Fees for any special audit-related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the fees referred to above and will be the subject of other written agreements.

Other Matters

The term of this agreement shall commence on the date of this engagement letter and will be effective for future years unless we agree with you to amend the terms of our engagement in writing.



13 May 2012

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We should be grateful if you would confirm your agreement with the terms of our engagement by countersigning the enclosed copy of this letter and returning it to us.

Yours faithfully

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, stylized script.

Attachment: Appendix I - General terms and Conditions
Appendix II - List of entities

FS:msq
5218

We hereby confirm our agreement to the terms of the above letter and the enclosed terms of business.

A handwritten signature in blue ink, appearing to be 'John', written over a horizontal dashed line.

For and on behalf of Arcapita Bank B.S.C. (c)

Date:

GENERAL TERMS AND CONDITIONS

Appendix I to our letter dated 13 May 2012

Our Relationship with You

- 1 We are a member of the global network of Ernst & Young firms ("EY Firms"), each of which is a separate legal entity.
- 2 We may subcontract portions of the Services to other EY Firms, who may deal with you directly. Nevertheless, we alone will be responsible to you for the Report(s), the performance of the Services, and our other obligations under this Agreement.

Your Responsibilities

- 3 You shall be responsible for your personnel's compliance with your obligations under this Agreement.

Our Reports

- 4 You may not rely on any draft Report.

Limitations

- 5 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, any amount with respect to loss of profit, data or goodwill, or any other consequential, incidental, indirect, punitive or special damages in connection with claims arising out of this Agreement or otherwise relating to the Services, whether or not the likelihood of such loss or damage was contemplated.
- 6 You and any others for whom Services are provided may not recover from us, in contract or tort, under statute or otherwise, aggregate damages in excess of the fees actually paid for the Services that directly caused the loss in connection with claims arising out of this Agreement or otherwise relating to the Services.
- 7 If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.
- 8 You shall make any claim relating to the Services or otherwise under this Agreement no later than within 12 months of the act or omission alleged to have caused the claim.
- 9 The limitations in Sections 6 and 8 will not apply to losses or damages caused by our fraud or wilful misconduct or deceit to the extent such exclusions are prohibited by applicable law or professional regulations.
- 10 You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("EY Persons") to the extent that no direct contractual relationship exists between you and any of the EY Persons. You shall make any claim or bring proceedings only against us on the basis that we are the party with whom you have contracted. The limitations in [Sections 5 through 8 and] this Section 10 are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

Indemnity

- 11 To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, "Claims"), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

Confidentiality

- 12 We follow professional standards of confidentiality and will treat information related to you disclosed to us by you or on your behalf ("Client Information") as set forth in the IFAC Code of Ethics Section 140.
- 13 Either of us may use electronic media to correspond or transmit information and such use will not in itself constitute a breach of any confidentiality obligations under this Agreement.
- 14 Unless prohibited by applicable law, we may disclose Client Information to other EY Firms and EY Persons to facilitate performance of the Services, to comply with regulatory requirements, to check conflicts, or for quality, risk management or financial accounting purposes.
- 15 You agree that, if a regulatory or governmental authority responsible for auditor oversight asks or orders us to produce information or documents in our files relating to your affairs, including our working papers or other work product, we may provide these materials to it. Except where prohibited by law, we will advise you of the request or order.
- 16 You shall cause all of your foreign subsidiaries and affiliates included in your consolidated financial statements to provide any authorization, to the fullest extent permissible under applicable law, to permit compliance with requests from regulatory or governmental authorities for production of documents or information in a foreign public accounting firm's, associated person's or our possession, custody and control that was obtained in the conduct of the Services by such firm or person.

Data Protection

- 17 We may collect, use, transfer, store or otherwise process (collectively, "Process") Client Information that can be linked to specific individuals ("Personal Data"). We may Process Personal Data in various jurisdictions in which we and the other EY Firms operate (which are listed at www.ey.com). We will Process the Personal Data in accordance with applicable law and professional regulations. We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements.
- 18 You warrant that you have the authority to provide the Personal Data to us in connection with the performance of the Services and that the Personal Data provided to us has been processed in accordance with applicable law.

Solicitation and hiring of EY personnel

- 19 Our auditor independence may be impaired if you solicit or hire certain EY personnel. This may either delay the provision of the Services or cause us to resign from the engagement. You shall not, during the term of this Agreement and for 6 months following its termination, for any reason, without our prior written consent, solicit to employ or nominate for a position on your Board of Directors or a financial reporting oversight role, or hire or appoint to your Board of Directors or a financial reporting oversight role, any professional employee of EY or of any other EY Entity who is or has been involved directly or indirectly with the performance of the Services for the current or prior financial year. A person in a financial reporting oversight role exercises, or is in a position to exercise, influence over the financial statements and anyone who prepares the financial statements.

Fees and Expenses Generally

- 20 You shall pay our professional fees and specific expenses in connection with the Services as detailed in the Engagement Letter. You shall also reimburse us for other reasonable expenses incurred in performing the Services. Our fees are exclusive of taxes or similar charges, as well as customs, duties or tariffs imposed in respect of the Services, all of which you shall pay other than taxes imposed on our income generally.
- 21 If we are required by applicable law, legal process or government action to produce information or personnel as witnesses with respect to the Services or this Agreement, you shall reimburse us for any professional time and expenses (including reasonable external and internal legal costs) incurred to respond to the request, unless we are a party to the proceeding or the subject of the investigation.

Force Majeure

- 22 Neither you nor we shall be liable for breach of this Agreement (other than payment obligations) caused by circumstances beyond your or our reasonable control.

Term and Termination

- 23 This Agreement applies to all Services performed at any time (including before the date of this Agreement).
- 24 This Agreement shall terminate on the completion of the Services. We may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.
- 25 You shall pay us for all work-in-progress, Services already performed, and expenses incurred by us up to and including the effective date of the termination of this Agreement. Payment is due within 30 days following receipt of our invoice for these amounts.

Governing Law and Dispute Resolution

- 26 This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of Bahrain applicable to agreements made and fully to be performed therein by residents thereof.
- 27 Any dispute relating to this Agreement or the Services shall be resolved [as set forth in Appendix 2] [subject to the exclusive jurisdiction of the Bahrain courts, to which each of us agrees to submit for these purposes].

Miscellaneous

- 28 This Agreement constitutes the entire agreement between us as to the Services and the other matters it covers, and supersedes all prior agreements, understandings and representations with respect thereto, including any confidentiality agreements previously delivered.
- 29 Both of us may execute this Agreement (and modifications to it) and each of us may sign a different copy of the same document. Both of us must agree in writing to modify this Agreement.
- 30 You represent that the person signing this Agreement on your behalf is expressly authorized to execute it and to bind you and any of your affiliates or others for whom Services are performed to its terms.
- 31 We retain ownership in the working papers compiled in connection with the Services.
- 32 Neither of us may assign any of our rights, obligations or claims under this Agreement.
- 33 If any provision of this Agreement (in whole or part) is held to be illegal, invalid or otherwise unenforceable, the other provisions shall remain in full force and effect.
- 34 If there is any inconsistency between provisions in different parts of this Agreement, those parts shall have precedence as follows (unless expressly agreed otherwise):
- (a) the Engagement Letter,
 - (b) these General Terms and Conditions for agreed-upon procedure Engagements, and
 - (c) other annexes to this Agreement.
- 35 We may use your name publically to identify you as a client, but we may refer to you in connection with the Services only if it is a matter of public knowledge that we are providing them (or have provided them).

Dispute Resolution Procedure

In the event of any controversy or claim arising out of or relating to this Agreement or an Engagement Letter, or a breach thereof, the parties shall consult and negotiate with each other and, recognising their mutual interests, attempt to reach a solution satisfactory to the parties. If the parties fail to settle the controversy or claim at the expiration of thirty (30) days, then, upon notice by any party to the other(s), any unresolved controversy or claim shall be settled by arbitration administered by the International Centre for Dispute Resolution Bahrain ("Dispute Resolution Centre") (www.icdr.org) in accordance with the provisions of its [International Arbitration Rules / Procedures for Cases under the UNCITRAL Arbitration Rules]. The Parties agree that:

- (a) the arbitration shall be heard before one (1) arbitrator appointed in accordance with the procedures of the Dispute Resolution Centre.
- (b) all arbitration proceedings are to take place in Manama, Kingdom of Bahrain;
- (c) except as may be required by law, neither a party nor its representatives may disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties.
- (d) the language of the arbitration shall be English;
- (e) it is the intent of the parties that, barring extraordinary circumstances, arbitration proceedings will be concluded within 120 days from the date the arbitrator is appointed. The arbitral tribunal may extend this time limit in the interests of justice. Failure to adhere to this time limit shall not constitute a basis for challenging the award.
- (f) the decision of such arbitration shall be final and binding upon the parties hereto without appeal to any court or other party(s);
- (g) pending the decision or award, the parties shall continue to perform their obligations pursuant to the Agreement or Statement of Work; and
- (h) this clause shall continue in force notwithstanding the termination of this Agreement.

Appendix II to our letter dated 13 May 2012

Name of Company	Financial Year end	Fee (in BD)
Storapod Holding Co. Inc.	31 December	1,000
Drillbit Holding Co. Ltd.	31 December	1,250
MS Holding Co. Inc.	31 December	1,250
Storapod WCF Ltd.	31 December	1,250
Sortalogic WCF Ltd.	31 December	1,250
Railinvest Funding Ltd.	31 December	1,500
Sortalogic Funding Ltd.	31 December	1,500

EXHIBIT C
Al-Jowder Declaration

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

-----X
In re : **Chapter 11 Case**
ARCAPITA BANK B.S.C.(c), et. al., : **Case No. 12-11076 (SHL)**
Debtors. : **Jointly Administered**
-----X

**DECLARATION OF ESSA AL-JOWDER IN SUPPORT OF DEBTORS' APPLICATION
PURSUANT TO SECTIONS 327(a) AND 328(a) OF THE BANKRUPTCY CODE FOR
AN ORDER EXPANDING THE SCOPE OF THEIR RETENTION OF
ERNST & YOUNG AS AUDITOR *NUNC PRO TUNC* TO THE PETITION DATE**

I, Essa Al-Jowder, hereby declare as follows:

1. I am a partner of Ernst & Young ("***EY Bahrain***"), which has an office at Bahrain Commercial Complex 14th Floor, P.O. Box 140, Manama, Kingdom of Bahrain. I am authorized to execute this declaration on behalf of EY Bahrain.
2. This declaration is being submitted in connection with the proposed expansion of scope of EY Bahrain's retention as auditor for Arcapita Bank B.S.C.(c) ("***Arcapita***") and certain of its subsidiaries and affiliates, as debtors and debtors in possession (collectively, the "***Debtors***" and each, a "***Debtor***") *nunc pro tunc* to the Petition Date to perform services set forth in the engagement letters (collectively, the "***Engagement Letters***") attached to the Debtors' application (the "***Application***") as ***Exhibit B***, under the terms and conditions set forth in the Engagement Letters.¹
3. I submit this Declaration in accordance with sections 327(a) and 328(a) of title 11 of the United States Code (the "***Bankruptcy Code***"), Rule 2014 of the Federal Rules of

¹ Capitalized terms used herein as defined terms and not otherwise defined herein shall have those meanings ascribed to them in the Application or the Engagement Letters, as applicable.

Bankruptcy Procedure (the “*Bankruptcy Rules*”) and Rule 2014-1 of the Local Rules for the United States Bankruptcy Court for the Southern District of New York (the “*Local Rules*”).

4. The facts set forth in this Declaration are based upon my personal knowledge, upon information and belief, or upon client matter records kept in the ordinary course of business that were reviewed by me or other employees of EY Bahrain or its affiliates under my general supervision and direction.

EY Bahrain’s Qualifications

5. EY Bahrain provides clients with a broad array of services relating to audit and risk, business community training, technology and IT security and transaction advisory services. EY Bahrain’s client base includes the Middle East’s leading conventional and Islamic banks and financial institution, major companies in the oil and manufacturing sectors, government departments and organizations, and leading hotels.

6. EY Bahrain has been providing professional services to the Debtors since the Debtors’ inception around November 1996. EY Bahrain understands that the Debtors chose to engage it to perform the auditing services set forth in the Engagement Letters because of the parties’ longstanding advisor/client relationship, and because of EY Bahrain’s general experience and reputation for providing auditing services.

Services to Be Provided²

7. As set forth in further detail in the Engagement Letters, EY Bahrain has agreed to provide certain audit services to the Debtors, subject to this Court’s approval of the

² The summaries of the Engagement Letters contained in the Application and this Declaration are provided for purposes of convenience only. The Engagement Letters themselves describe the Services in greater detail, and EY Bahrain directs parties to the Engagement Letters for a more detailed description of the Services. In the event of any inconsistency between the summaries contained in the Application, herein, and the Engagement Letters, the Engagement Letters shall control.

Application and consistent with the terms and conditions of the Engagement Letters. The services to be rendered under the Engagement Letters include, without limitation, the following (the “*Services*”):

- Annual audit and quarterly reviews of the Debtors’ consolidated financial statements for the year ended June 30, 2012 and the quarters ended September 30, 2011, December 31, 2011 and March 31, 2012 (the “*Annual and Quarterly Audit Engagement*”), pursuant to an Engagement Letter dated September 19, 2011;
 - Assisting the Debtors in complying with applicable guidelines and regulations with respect to Arcapita’s quarterly consolidated prudential information report for Islamic Banks for the year ended June 30, 2012 to be submitted by Arcapita to the CBB (the “*PIRI Engagement*”), pursuant to an Engagement Letter dated September 22, 2011;
 - Assisting the Debtors in complying with applicable anti-money laundering regulations issued by the CBB for the year ended June 30, 2012 (the “*AML Engagement*”), pursuant to an Engagement Letter dated May 2, 2012;
 - Assisting the Debtors in complying with applicable public disclosure regulations issued by the CBB, for (a) the half-year ended December 31, 2011 and (b) the year ended June 30, 2012 (the “*Public Disclosure Engagements*”), pursuant to engagement letters dated January 25, 2012 and May 2, 2012, respectively; and
 - Audits of special purpose financial statements of Cayman Islands special purpose vehicles established for the purpose of holding and funding specialized investment companies (the “ *Holding SPV Engagement*”), pursuant to an engagement letter dated May 13, 2012.
8. As necessary, EY Bahrain will use reasonable efforts to coordinate with

the Debtors’ other retained professionals to avoid the unnecessary duplication of services.

Professional Compensation and Expense Reimbursement

9. Subject to this Court’s approval, EY Bahrain intends to charge the Debtors for the services rendered during the Chapter 11 Cases in accordance with the estimated fees set forth in the Engagement Letters and summarized below (the “*Compensation Arrangement*”).

The Compensation Arrangement is consistent with the practices existing between EY Bahrain and the Debtors prior to the commencement of the Chapter 11 Cases. I also believe that the Compensation Arrangement is consistent with, and typical of, compensation arrangements entered into by EY Bahrain in connection with rendering similar services to its other clients.

10. The estimated fees set forth in the Engagement Letters are summarized below:

- Annual and Quarterly Audit Engagement: BD 277,500 (approximately \$735,375),³ consisting of:
 - Annual audit: BD 240,000 (approximately \$636,000);
 - Three quarterly reviews at BD 12,500 (approximately \$33,125) per review; and
 - The above does not include the translation of the financial statement into Arabic. If such service is requested, it will be separately billed as an additional fee.
- PIRI Engagement: BD 10,000 (approximately \$26,500), which is equal to 4 quarters at BD 2,500 per quarter.
- AML Engagement: BD 6,250 (approximately \$16,563)
- Public Disclosure Engagements: BD 9,250 (approximately \$24,513), consisting of:
 - Compliance for half-year ended December 31, 2011: BD 2,750 (approximately \$7,288);
 - Compliance for one-year ended June 30, 2012: BD 6,500 (approximately \$17,225).
- Holding SPV Engagement: BD 9,000 (approximately \$23,850).

11. The estimated fees set forth above are based on representations made by the Debtors' personnel to EY Bahrain and on the assumptions that (a) EY Bahrain will receive a reasonable level of assistance from the Debtors' personnel, and (b) there would be no significant changes to the Debtors' business (*e.g.*, nature of their business or change in business entities).

³ "**BD**" stands for Bahraini Dinars. The equivalent U.S. dollar amounts, converted from Bahraini Dinars at the rate of BD 1 = \$2.65, are set forth in this Declaration for illustrative purposes only.

To the extent either of those assumptions is not realized, EY Bahrain's fees may require adjustment. Moreover, to the fees described above do not cover "out-of-scope" work that is not covered by the Engagement Letters.

12. In addition to the fees set forth above, the Debtors will reimburse EY Bahrain for expenses incurred in connection with EY Bahrain's performance of the Services, including all applicable taxes, charges, customs, duties or tariffs incurred in connection with the delivery of the Services (except for taxes imposed on EY Bahrain's income). EY Bahrain's expenses may include, but are not limited to, reasonable and customary out-of-pocket expenses for items such as travel, meals, accommodations and other expenses (including any fees or reasonable expenses of EY Bahrain's legal counsel relating to considering or responding to discovery requests or participating as a witness) specifically related to this engagement.

13. Particularly in fixed fee engagements such as this, EY Bahrain does not ordinarily maintain detailed time records in one-tenth hour increments, does not provide or conform to a schedule of hourly rates for its professionals, and does not maintain time records on a "project category" basis. Accordingly, to the extent necessary, based on the foregoing, EY Bahrain respectfully seeks a waiver of the information requirements set forth in the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and any other applicable procedures and orders of the Court.

14. EY Bahrain will not share any compensation to be paid by the Debtors, in connection with services to be performed after the Petition Date, with any other person, other than the partners and regular employees of EY Bahrain, to the extent required by section 504 of the Bankruptcy Code.

Other Notable Terms of the Engagement Letters

15. Included among the terms and conditions set forth in one or more of the Engagement Letters is language substantially similar to the following (as modified by the order approving the Application):

Governing Law. This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of Bahrain applicable to agreements made and fully to be performed therein by residents thereof.

Termination. This Agreement shall terminate on the completion of the Services. We may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.

Indemnity. To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, "*Claims*"), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

Limitation of Liability:

If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.

You shall make any claim relating to the Services or otherwise under this Agreement no later than within 36 months of the act or omission alleged to have caused the claim.

These limitations in Sections 6 and 8 will not apply to losses or damages caused by our fraud or willful misconduct or deceit to the extent such exclusions are prohibited by applicable law or professional regulations.

You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("**EY Persons**") to the extent that no direct contractual relationship exists between you and any of the EY Persons. You shall make any claim or bring proceedings only against us on the basis that we are the party with whom you have contracted. The limitations in these sections are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

16. The foregoing provisions are customary for auditing engagements performed by EY Bahrain. The indemnification provisions of the Engagement Letters were negotiated by the Debtors and EY Bahrain at arm's-length and in good faith, and constitute an integral part of the overall consideration that EY Bahrain seeks to receive in return for providing auditing services to the Debtors.

EY Bahrain's Disinterestedness

17. For the reasons set forth in the June 12, 2012 declaration of Tariq Sadiq that was filed with this Court, I believe that EY Bahrain:

- (a) is not a creditor, equity security holder or insider of the Debtors;
- (b) is not and was not, within 2 years before the commencement of the Chapter 11 Cases, a director, officer, or employee of the Debtors; and
- (c) does not have an interest materially adverse to the interests of the Debtors' estates, or of any class of creditors or equity security holders, by reason of any direct or indirect relationship to, connection with, or interest in, the Debtors, or for any other reason.

18. For the reasons set forth in the June 12, 2012 declaration of Tariq Sadiq that was filed with this Court, I believe EY Bahrain is "disinterested," as defined in section

101(14) of the Bankruptcy Code and does not hold or represent an interest materially adverse to the Debtors or their estates. By reason of the foregoing, I believe EY Bahrain is eligible for employment and retention by the Debtors.

19. Because EY Bahrain has provided post-petition services to the Debtors since March 19, 2012 (the “*Petition Date*”), EY Bahrain respectfully requests that the Court authorize its retention pursuant to the terms of the Engagement Letters, *nunc pro tunc* to the Petition Date.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true
and correct to the best of my knowledge, information and belief.

Dated: Manama, Kingdom of Bahrain
July __, 2012



Essa Al-Jowder