Investment Guide to Islamic Banking in Indonesia

BANK INDONESIA

FOREWORD

The rapid development of Islamic banking in Indonesia and worldwide offers abundant opportunities and potential for growth for investors. A concise guide is therefore needed to provide investors some information on potential investment in Islamic banking in Indonesia and the mechanisms and requirements for entering this industry. For this purpose, Bank Indonesia has prepared the Investment Guide to Islamic Banking.

As the central bank of Indonesia, Bank Indonesia is vested with a mandate for regulation and development of Islamic banking in Indonesia, as stipulated in Act No. 10 of 1998 concerning Banking and Act No. 23 of 1999 amended by Act No. 3 of 2004 concerning Bank Indonesia. As part of this role, Bank Indonesia is internationally active as a member of international organizations concerned with Islamic banking and financial services. Regulation and development of Islamic banking is vital to the creation of a sound Islamic banking system that will contribute to Indonesia's economic development. This is especially important in view of the gap between potential demand and supply-side availability of Islamic banking products and services in Indonesia. This gap represents an opportunity for local and international investors to play a role in the Islamic banking industry.

Beside filling the gap between potential demand and supply side, there are other factors that also attract potential investor to enter into Islamic banking industry in Indonesia which is the growth of Islamic banking industry that has been forging ahead with over 65% growth in the past four years, and number of Muslim populations which is around 85% of Indonesia's 220 million people, which offering enormous market potential.

The Investment Guide to Islamic Banking is envisaged as a useful information tool on Indonesia's potential, investment mechanisms and requirements for potential investors. Bank Indonesia stands ready to provide facilitation for parties interested in seizing the opportunity to enter Indonesia's rapidly expanding Islamic banking industry.

Bank Indonesia
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General Review

CHAPTER I GENERAL REVIEW

The Islamic Banking Investment Guide presents an overview of the prospective growth of Islamic banking in Indonesia and the mechanisms for entering this industry. Chapter I, General Review, describes the general condition, progress and potential of Indonesia, the nation's banking system and Islamic banks in Indonesia.

The subsequent chapters outline key information for investors on the mechanism and requirements for entering the Islamic banking industry. Chapter II describes procedures for investing in Islamic banking: establishment of new banks, opening of foreign bank branch/ representative offices, conversion and acquisition and lastly the opening of sharia branch offices at conventional commercial banks in Indonesia. Chapter III then explains the mechanism for acquiring ownership in sharia commercial banks through purchase of bank shares. After this, Chapter IV discusses the requirements for management, executive officers and Sharia Supervisory Boards in the Islamic banking system and the processing of documents for expatriate bank officers. Finally, Chapter V provides information on placements and channelling of funds in the Islamic banking system in Indonesia.

A. Indonesia: an overview

The Republic of Indonesia is the world's largest archipelagic nation, consisting of over 17,508 islands stretching 5,120 kilometres from east to west and 1,760 kilometres from north to south. Indonesia's islands cover a total of about 2 million square kilometres with territorial waters extending to more than double the land area. To illustrate just how large the country is, the distance from one end of Indonesia to the other is almost that from the west to the east coast of the United States, or in European terms, nearly all way from Great Britain to Turkey.

Indonesia has a population of about 220 million (2006 figures) of which about 85% are Muslims. Indonesia is thus home to the world's largest Muslim population and is the world's fourth most populated country after China, India and the United States.

Indonesia not only has a large population offering a potential market for products and industrial growth, but is blessed with abundant natural resources, including agricultural crops, petroleum, natural gas, tin, coal and gold. Indonesia is also a major exporter of natural gas, producing about 20% of total world volume in 2002, and is one of the world's leading producers of crude palm oil (CPO).

In international trade, Indonesia recorded a US$39.73 billion trade surplus in 2006 on export revenues at about US$100.80 billion and imports at US$61.07 billion.

B. Economy and Banking System

The Indonesian economy has emerged from a gauntlet of formidable challenges in remarkable shape, with 2006 a landmark year in achievement of macroeconomic stability. Against the background of adjustments to global imbalances and weakened purchasing power in the wake of fuel price increases, the Indonesian economy made gradual progress during 2006. The steep inflation in early 2006 progressively eased to 6.6% (yoy), below the inflation target, while a stable rupiah maintained an appreciating trend. Stable macroeconomic conditions have paved the way for more vigorous economic growth. In 2006, real GDP growth came to 5.5% (yoy) or nominal US$370.40 billion, with GDP per capital at US$1,663.

1. Foreign Investment in Indonesia

For the past 40 years, foreign investment has been dominated by 10 major investing countries.

Cumulative investment by these 10 nations over the 40 years totalled 13,100 projects valued at US$ 175.084,7 miliar. This does not include investment in the oil and gas industry and banking and financial services.

Table: Top 10 Investing Nations, 1967-2007*)

	Country	Projects	Value (US$ billions)
1.	Japan	1.777	39.579,2
2.	United Kingdom	1.081	35.654,2
3.	Singapore	2.463	30.104,7
4.	USA	700	24.827,8
5.	Hongkong	565	21.066
6.	Malaysia	1.278	14.368,1
7.	Taiwan	1.179	13.497,4
8.	South Korea	2.940	12.374,3
9.	Australia	751	9.701,6
10.	Germany	366	9.531,4

Source: BKPM (Investment Coordinating Board) *) until Juni 2007

Investment or foreign ownership in Indonesia's banking industry has seen a rising trend, with foreigners expanding their holdings in a number of private domestic banks. In recent years, the government has divested its holdings in some major banks. During the economic crisis, many banks passed into government ownership as a consequence of the issuance of bank recapitalisation bonds to rescue the Indonesian banking system. Over time, however, improving conditions in the banking industry have led to major changes in bank ownership in Indonesia. Foreign ownership in private domestic foreign exchange banks mounted from 31.0% (2005) to 46.4% (2006) and in non-foreign exchange commercial banks from 0.0% (2005) to 3.5% (2006). This trend indicates that Indonesia's banking industry is an attractive target for foreign investment.

However, foreign ownership in Indonesia's Islamic banking has so far involved just 1 of Indonesia's the 3 Islamic commercial banks, PT. Bank Muamalat Indonesia (BMI). In 2006, foreign ownership in BMI climbed past 49%. The largest shareholder is the Islamic Development Bank (IDB) with a 28% interest, followed by Boubyan Bank Kuwait with 21.3%. In addition to the foreign ownership of an Islamic commercial bank, there is one foreign bank branch office offering Islamic banking services under the name of HSBC Amanah Syariah.

2. Outlook for Key Macroeconomic Indicators

Indonesia's economic performance is predicted to improve further in 2007. Domestic demand is forecasted to rise, supported by macroeconomic stability, declining interest rates and implementation of Government policies for improvement of the investment climate and construction of infrastructure projects. Economic growth will be built on a more balanced structure, with investment taking on an expanding role as a source of growth. Surveys and other indicators augur for resurgence in future investment growth. Driving this is the need for expansion in production capacity in 2007. Investment is forecasted mainly in economic sectors marked by increased capacity utilisation: basic metals, iron and steel production, the telecommunications and infrastructure industries.

Alongside this, Indonesia's economic growth in 2007 is forecasted to reach 5.7%-6.3%, up from the 5.5% (yoy) recorded in 2006. This strengthened growth, while initially driven by consumption, will undergo a gradual shift with more support from expansion in private investment. More vigorous improvement is forecasted in economic activity, consistent with the outlook for increased private investment and a higher rate of realised government capital expenditures. Economic activity will not only benefit from the strengthened confidence among economic actors in the economic outlook and the forecasted growth in direct investment by the foreign and domestic private sector. Also important are positive contributions from declining inflation, predicted around the 5.0%-7.0% range, and a stable exchange rate at Rp 9,000.00-Rp 9,500.00 to the USD.

3. The Banking Industry

The banking system in Indonesia plays a strategic role in the smooth operation of the payment system, monetary policy transmission and financial system stability. The legal basis for the operation of the Indonesian banking system is set out in Act No. 7 of 1992 concerning Banking (amended by act No. 10 of 1998). Within the institutional framework, Indonesian banks are divided into commercial banks and rural banks and in regard to the nature of their business are also classified as conventional banks and Islamic banks.

Indonesia currently has a total of 130 commercial banks (including 3 Islamic commercial banks). Among these, 15 major banks hold a dominant position with a market share at over 70% of total national banking assets. Concerning ownership, commercial banks can also be classified into: state-owned banks, private banks, regional development banks, foreign banks and joint venture banks.

Banking policy is focused on structural reinforcement of the banking system, a process that involves building a stronger capital banks and bank consolidation. A reduction in the total number of commercial banks to 60-70 is envisaged over the next 10-15 years.

Maintaining a sound banking system demands a proper system of regulation and supervision. To address the need, Bank Indonesia is working constantly on the development of banking regulation and supervision based on the Basel Core Principles (BCPs). In the effort to improve compliance with the 25 BCPs, Bank Indonesia is reviewing and where necessary making amendments to regulations pertaining to capital, earning assets, debt restructuring, allowance for earning asset losses and the legal lending limit.

The creation of a sound and efficient banking system requires not only regulation and supervision, but also a financial safety net. The financial safety net is vital to financial system stability. Working together, the Government and Bank Indonesia have developed a framework for the financial safety net in which Bank Indonesia functions as lender of last resort.

C. Islamic Banking in Indonesia

1. Policy for Expansion

The legal framework for the Islamic banking system in Indonesia is provided in Act No 7 of 1992 (amended by Act No. 10 of 1998) concerning Banking, which accommodates the existence of a dual banking system in Indonesia. In addition, Act No. 23

of 1999 (amended by Act No. 3 of 2004) concerning Bank Indonesia provides the legal basis for Bank Indonesia to perform the regulation and oversight of the banking system, including Islamic banks, and to issue central bank instruments complying with sharia principles.

This, coupled with the potential market offered by Indonesia's Muslims representing about 85% of the 220 million population, offers opportunity for the rapid expansion of the Islamic banking sector in Indonesia through the provision of alternative financial instruments and banking services to Muslim customers in Indonesia.

To seize this opportunity, Bank Indonesia has worked hard in its capacity as central bank to develop this industry. On the other hand, Islamic banks are also expected to support sustainable economic development and improvement in the welfare of the Indonesian people and the economy. The paradigm adopted in this policy is based on: (i) market driven approach, (ii) gradual and sustainable approach, (iii) fair treatment, and (iv) comply to sharia principles.

Bank Indonesia has taken a strategic step for the long-term development of Islamic banking by preparing the **Islamic Banking Blue Print** (until 2015), which sets out short, medium and long-term initiatives aligned with the Indonesian Banking Architecture for 2004-2015.

The development of the Islamic banking system in Indonesia must uphold prudent banking and compliance with sharia principles. The infrastructure for compliance with sharia principles is now in place. The Indonesian Council of Ulamas (MUI) has established the National Sharia Board (DSN) as the sole institution for issuing fatwas on Islamic financial instruments in Indonesia and appointment of Sharia Supervisory Boards (DPS) at banks. These boards are responsible for ensuring that banks conducting business based on sharia principles comply with these principles in their operations, products and services.

In addition to its active role at home in the development and provision of Islamic banking infrastructure, Bank Indonesia is also active in international Islamic banking organisations such as the Islamic Financial Services Board (IFSB) and Accounting, and Auditing Organization For Islamic Financial Institutions (AAOIFI). Bank Indonesia's involvement includes active participation in working groups for deliberation of the Guidance for Islamic Financial Institutions, some aspects of which have also been applied in the regulations issued by Bank Indonesia.

To support more vigorous promotion of Islamic financial and banking services in Indonesia and attract more foreign investors, the Indonesian Parliament is currently deliberating the draft Islamic Banking Law, the draft Islamic Government Securities Law (SBSN) and the package of draft taxation laws specifying treatment for Islamic financial transactions.

2. Growth and Outlook

The Islamic banking system in Indonesia has charted above 65% growth in the past four years, based on a compounded annual growth rate (CAGR). Market share in 2006 was 1.60% of national banking assets and is targeted to reach 9%-10% by 2011.

In the last year, from 2005 to 2006, Islamic banking assets expanded by a significant 32.8% (yoy, October 2005-October 2006), ahead of the corresponding growth in the national banking system at only 9.8%. Depositor funds held at Islamic banks also mounted significantly with growth at 39.8% (yoy, October 2005-October 2006), compared to the average 11.9% growth in national banking system. While Islamic banking assets in Indonesia came to only 1.56% of total banking assets at end-2006 (October 2006), Islamic bank financing reached about 2.4% (October 2006) of total national bank lending and financing. This indicates that provision of funds by Islamic banks is focused more on credit/financing, rather than other fund placements.

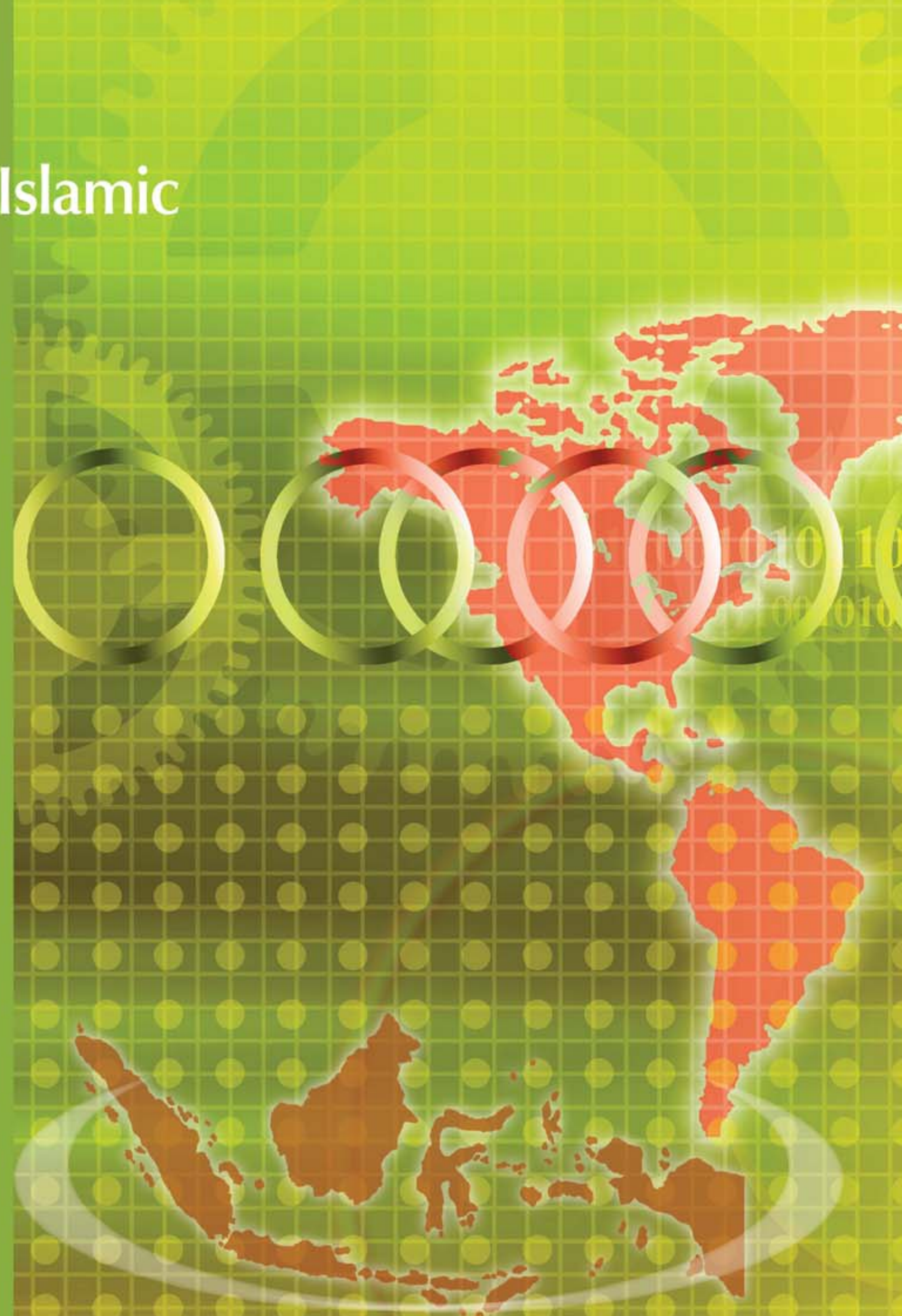
Concerning the future potential and outlook, research by Bank Indonesia in one-third of Indonesia's regencies and municipalities indicates that about 42% of regions have adequate to strong potential for Islamic banking. More than 85% of respondents agreed with the adoption of profit-sharing (sharia principles) in the Indonesian banking system.

3. Acceleration Programme (2007-2008)

In view of the brisk expansion of Islamic banking in Indonesia and potential for growth, Bank Indonesia expects the share of Islamic banking assets to expand to 5% by the end of 2008. To support this objective, Bank Indonesia has launched a programme for accelerated expansion of Islamic banking as follows:

a. More intensive public education on Islamic banking to stimulate public interest and build improved understanding of Islamic banking and financial services.
b. Bank Indonesia will evaluate Islamic banking products and services and promote the expansion of Islamic banking outlets for easier public access to Islamic banking services.
c. Bank Indonesia will participate actively in promoting foreign investment in Islamic financial instruments.

Procedures for Entering The Islamic Banking Industry



CHAPTER II PROCEDURES FOR ENTERING THE ISLAMIC BANKING INDUSTRY

As part of its effort to attract investment to the banking sector and thus provide Indonesians with greater access to Islamic banking services, Bank Indonesia has established the necessary guidelines and requirements for investors and holders of capital. Several different investment alternatives are available: (1) establishment of a new Islamic commercial bank, (2) opening of a branch office or representative office of a foreign bank in Indonesia, (3) conversion of a conventional commercial bank to an Islamic commercial bank, including conversion preceded by bank acquisition, and (4) establishment of a Sharia Division for opening sharia branch offices at a conventional commercial bank.

A. Establishment of Islamic Commercial Banks

- Ownership: Islamic commercial banks may be owned by domestic or foreign interests. Foreign ownership is permitted to a maximum of 99%. In this case, foreigners may refer to foreign citizens and/or foreign legal entities.
- Banks must be incorporated as legal entities in Indonesia and owned by at least 2 parties comprising Indonesian citizens or Indonesian legal entities or foreign citizens/legal entities in partnership with Indonesian citizens/legal entities.
- Minimum paid up capital: Rp. 1 trillion (equivalent to US$110 million).
- Banks must be established with licensing/approval from Bank Indonesia (BI) in a two-stage process:
  - (i) approval in principle, i.e. approval to conduct the preparations for establishment of the bank; and
  - (ii) operating licence, i.e. the licence issued to conduct banking business after the preparations for establishment are completed.
- Application for approval in principle shall be submitted by the proposed owners to the Governor of BI, enclosing the following documents:
  - draft deed of incorporation
  - bank ownership data
  - list of candidates for the Board of Directors, Board of Commissioners and the Sharia Supervisory Board
  - planned organisational structure, including personnel
  - business plan for the first year, containing the following: feasibility study and plan for business lines
  - medium and long-term corporate plan
  - risk management, internal control and IT system guidelines
  - working systems and procedures
  - proof of payment of 30% (thirty percent) of minimum paid up capital
  - personal statements from the proposed bank owners stating that the funds paid up as capital do not originate from any funding sources prohibited under BI regulations
- Approval or rejection of application for approval in principle shall be issued not later than 60 days after receipt of the complete application. Approval shall be effective for 360 days.
- Application for operating licence shall be submitted to the Governor of BI enclosing the following documents:
  - deed of incorporation, including articles of association validated by the competent authority
  - bank ownership data
  - composition of the Board of Directors and Commissioners

- planned organisational structure, including personnel
- business plan for a first year
- medium and long-term corporate plan
- risk management, internal control and IT system guidelines
- working systems and procedures
- proof of payment of the minimum paid up capital
- evidence of operational readiness, including but not limited to: Taxpayer Identification Number (NPWP) and Corporate Registration (TDP)
- personal statements from the bank owners stating that the payment of capital does not originate from any funding sources prohibited by BI

- Approval or rejection of application for operating licence shall be issued not later than 60 days after receipt of the complete application.
- For the purpose of issuing approval, Bank Indonesia shall also require the candidates for the Board of Directors and Commissioners and the Sharia Supervisory Board of the bank to take the Fit and Proper Test.
- A Bank having received an operating license from the Governor of Bank Indonesia shall clearly state the word "Sharia" in the inscription of its name.
- A bank having received an operating licence shall open for banking business not later than 60 days after the date of issuance of the operating licence and shall report the opening of business to Bank Indonesia not later than 10 days after the opening date.

B. Opening of Foreign Bank Branch Offices and Representative Offices

1. Establishment of Branch Office:

- The foreign bank shall be rated sound and reputable by a leading international rating agency.
- The bank shall rank among the 200 largest in the world by total assets.
- The foreign bank shall provide Operating Funds in the rupiah currency or foreign currency to a minimum value of Rp. 3 trillion (about US$330 million).
- A statement is required from the banking authority of the country of origin, indicating no objection to establishment of a Branch Office in Indonesia.
- A Branch Office may only be opened with approval from Bank Indonesia.
- The licence shall be granted in two stages: (i) approval in principle, i.e. approval to conduct preparations for opening the Branch Office, and (ii) operating licence, i.e. the licence issued to conduct business as Branch Office after preparations for opening are completed.
- Approval or rejection of application for approval in principle shall be issued not later than 60 days after receipt of the complete application. Approval shall be effective for 360 days.
- Approval or rejection of application for operating licence shall be issued not later than 60 days after receipt of the complete application.
- For the purpose of issuing approval, Bank Indonesia shall also require the candidate Branch Office management to take the Fit and Proper Test.

- A Branch Office having received an operating licence shall open for banking business not later than 60 days after the date of issuance of the operating licence and shall report the opening of business to Bank Indonesia not later than 10 days after the opening date.

2. Opening of Representative Office:

- The bank shall rank among the 300 largest in the world by total assets.
- A statement is required from the banking authority in the country of origin, indicating no objection to establishment of a Representative Office in Indonesia.
- A Representative Office may only be opened with approval from Bank Indonesia.
- Approval or rejection of application for opening of the Representative Office shall be issued not later than 30 days after receipt by Bank Indonesia of the complete application.
- For the purpose of issuing approval, Bank Indonesia shall also require the candidate Representative Office management to take the Fit and Proper Test.
- Permitted activities include the following:
  - Provision of information to third parties.
  - Assistance to the head office or overseas branch office in monitoring loan/financing collateral in Indonesia.
  - Assistance as authorised representative in dealings with government agencies/ institutions.
  - Oversight of projects partially or wholly financed by the head office or an overseas branch office.
  - Bank promotional activities.

C. Conversion of Conventional Commercial Banks to Islamic Commercial Banks.

- The plan for conversion of business must be disclosed in the bank business plan.
- To apply for approval for conversion from the Governor of Bank Indonesia, the bank must submit the following documents:
  - articles of association of the bank;
  - draft deed of amendment of articles of association affirming that the bank shall conduct business based on sharia principles and specifying the appointment of the Sharia Supervisory Board and its duties;
  - minutes of the general meeting of shareholders;
  - data consisting of:
    (i) list of proposed shareholders and details of each individual shareholding, for a bank incorporated as a Limited Liability Company/Regional Government Enterprise;
    (ii) list of candidate members and details of principal savings, mandatory savings, and a list of endowments, for a bank incorporated as a cooperative;
  - candidates for the Board of Directors, Board of Commissioners and Sharia Supervisory Board;
  - planned organisational structure, including composition of personnel;
  - bank business plan for the first year, stating at least the following:
    (i) feasibility study on market opportunities for Islamic banking and economic potential;
    (ii) planned scope of business and steps to be taken to carry out this plan; and

(iii) projected financial statement for 12 months, commencing from the date that the bank opens business based on sharia principles.

- medium and long-term corporate plan;
- risk management guidelines, plan for internal control system and plan for the information technology system;
- working systems and procedures;
- plan for settlement of all rights and liabilities of the bank towards customers unwilling to be customers of a bank based on sharia principles;
- evidence of operational readiness, including but not limited to : Taxpayer Identification Number (NPWP) and Corporate Registration (TDP).

- For the purpose of issuing approval for conversion, Bank Indonesia shall assess the bank's rating and require the Board of Directors, Board of Commissioners and the Sharia Supervisory Board to take the Fit and Proper Test.
- Approval or rejection of the application for conversion shall be issued not later than 60 days after receipt of the complete application.
- A bank that has received approval for conversion shall settle all rights and liabilities from conventional operations not later than 360 days after the conversion approval date.
- A bank that has received approval for conversion shall clearly state the word "Sharia" after the word "Bank" in the inscription of its name, and the bank shall be prohibited from converting back to conventional business.
- The approval for conversion shall be effective from the date of approval of amendment of the articles of association or deed of incorporation by the competent authority; or shall be effective from the date of registration of the deed for amendment of the articles of association in the company register, if the amendment to the articles of association does not require approval from the competent authority.

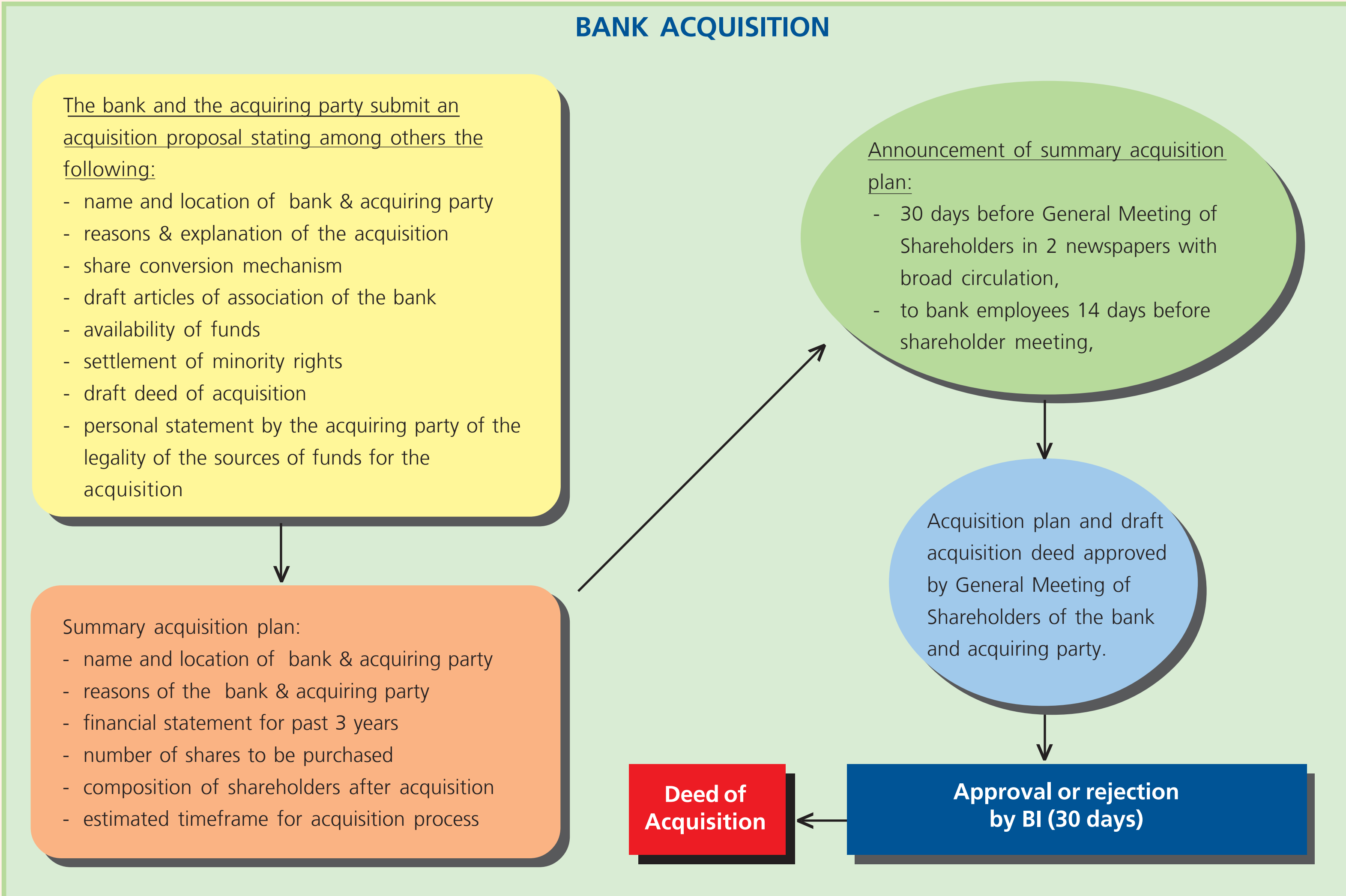
Acquisition of Conventional Commercial Banks for Conversion

In addition, **before proceeding with conversion of a conventional commercial bank to an Islamic commercial bank, investors may also acquire an existing conventional commercial bank**, and in so doing avoid the requirement to pay up the minimum Rp 1 trillion (USD110 million equivalent) paid up capital for a new Islamic commercial bank.

A bank acquisition takes place if the purchase of shares in the acquired bank result in transfer of control to the acquiring party, i.e. if control is exercised of at least 25% of the paid up capital of the bank or of less than 25% but to the extent of determining the management and policies of the bank.

Approval for acquisition shall be issued if the following requirements are met: (1) approval is obtained from the General Meeting of Shareholders of the Bank to be acquired, (2) the acquiring party complies with the requirements for bank owners under Bank Indonesia regulations, (3) if listed on the capital market, the acquired bank shall comply with the capital market regulations on tender offers and information disclosure to certain shareholders.

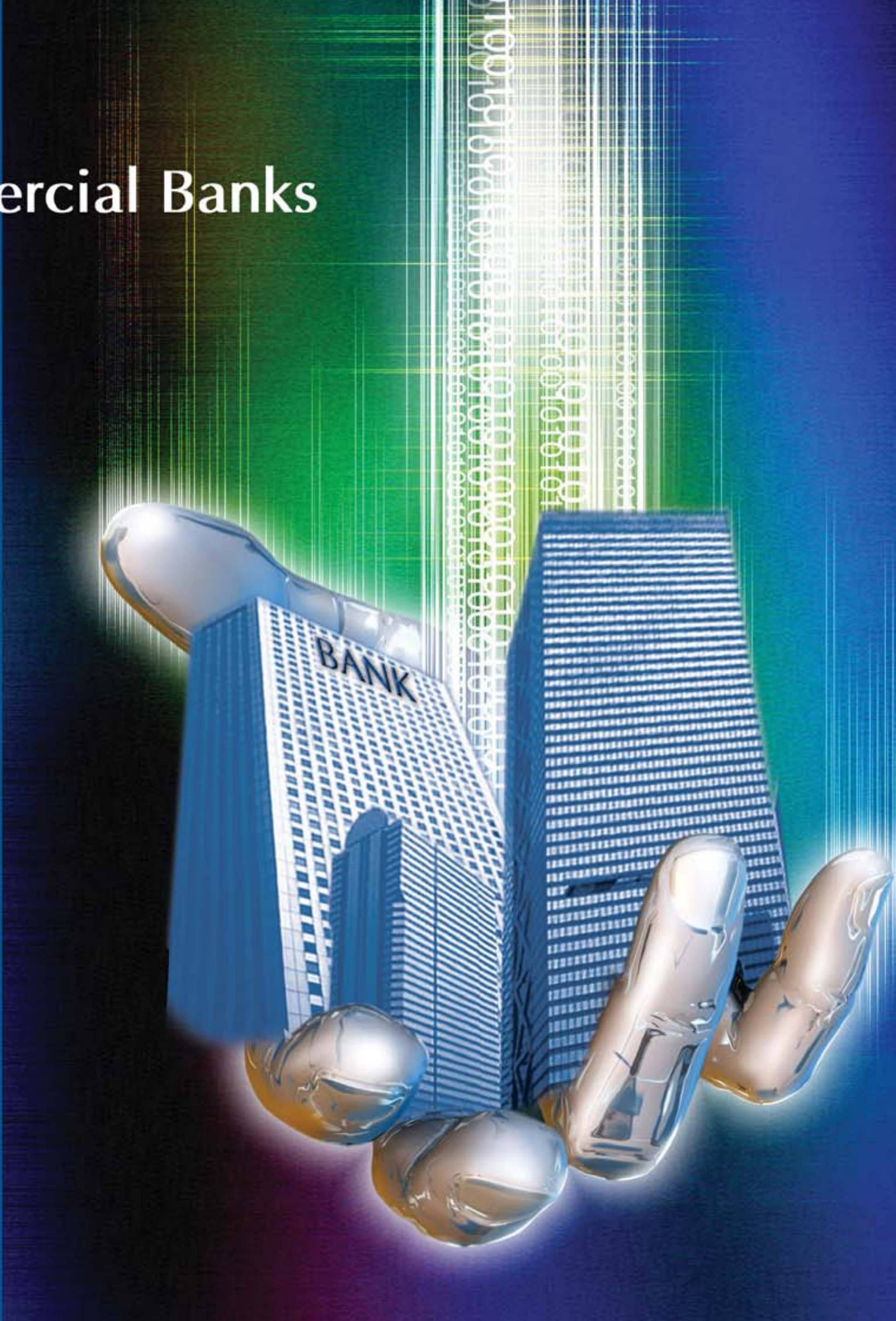
The mechanism for bank acquisition is summarised below:



D. Establishment of Sharia Division and Opening of Sharia Branch Offices at a Conventional Commercial Bank:

- Requires amendment of the articles of association of the bank.
- The opening of Sharia Branch Offices shall be based on the licence/ approval issued by Bank Indonesia. The Bank shall comply with requirement for initial operating funds and thereafter retain the prescribed minimum level of capital.
- Opening of Sharia Branch Offices requires the following:
  - Establishment of a Sharia Division at the head office of the conventional commercial bank functioning as the non-operational head office for Islamic banking activities and reporting to Bank Indonesia.
  - Appointment of the Sharia Supervisory Board.
- For the first-time establishment of a Sharia Branch Office, the licensing process takes place in 2 stages: (1) approval in principle, and (2) operating licence, while each subsequent opening of Sharia Branch Office requires only 1 stage, that of the operating licence.
- Compliance with the prescribed minimum capital of 8% (eight percent) of risk-weighted assets for the Sharia Division.
- Separate records and accounting system for Islamic banking transactions to provide assurance that conventional banking transactions will not be mixed with Islamic banking transactions.
- Sharia Services (Office Channelling) is an option in which the office network of the holding bank is used to provide Islamic banking transactions, including deposit of funds, funds disbursements and other Islamic banking services, by opening Sharia Services (Office Channelling) at conventional branch offices for and on behalf of a Sharia Branch Office, subject to the following requirements:
  - the plan for opening Sharia Services (Office Channelling) shall be disclosed in the bank business plan
  - Sharia Services (Office Channelling) may be opened:
    - (i) within the same region as the supervising Sharia Branch Office within one Bank Indonesia Regional Office working area or one province
    - (ii) through cooperation by the supervising Sharia Branch Office with a conventional Branch Office/Sub-Branch Office
    - (iii) using bank personnel with knowledge of Islamic banking products and operations
    - (iv) with the support of information system technology
    - (v) and an adequate control system from the supervising Sharia Branch Office.

Ownership of Islamic Commercial Banks Through Purchase of Shares



CHAPTER III OWNERSHIP OF ISLAMIC COMMERCIAL BANKS THROUGH PURCHASE OF SHARES

Shares in Islamic commercial banks may be held by individuals and/or legal entities, both domestic and foreign. Share ownership can be acquired through private placements or purchase on the stock exchange. The mechanism and procedure for acquiring bank ownership through purchase of shares is described below.

A. General Provisions

- Foreign citizens and/or foreign legal entities may acquire ownership through private placement and purchase on the stock exchange to a maximum of 99% of a bank's shares.
- Persons eligible to become owners of banks: (i) shall not be listed in the list of disgraced persons in banking as maintained by Bank Indonesia, and (ii) in the opinion of Bank Indonesia are persons of high integrity.
- The criteria for high integrity include the following: (i) good character and strong moral values, (ii) compliance with laws and regulations and (iii) strong commitment to the development of sound bank operations.

B. Procedure for Purchase of Shares

- The following share purchases in banks require prior approval from Bank Indonesia: (i) any purchase resulting in ownership of 25% or more of the total shares in the bank, or (ii) purchase in which ownership remains less than 25% (twenty five percent) of total shares in the bank, but results in transfer of control of the bank.
- Any purchase of bank shares on the stock exchange not intended to be entered into the ownership records of the Bank does not require approval from Bank Indonesia.
- The following documents must be submitted with an application for approval for purchase of bank shares by an individual:
  - identification (photocopy of passport/KIMS)
  - draft agreement for sale and purchase of shares
  - planned composition of bank shareholders
  - personal statement concerning sources of funds
  - personal statement that the person concerned has never been involved in disgraceful acts in the banking, financial, or other business and/or has never been convicted of a felony
- Application for approval for purchase of bank shares by a legal entity shall be submitted by the Board of Directors of the legal entity, enclosing the following:
  - draft agreement for sale and purchase of shares
  - deed of incorporation including articles of association of the legal entity and any amendments thereto, approved by the competent authority
  - identification (photocopy of passport/ID card for all members of the Board of Commissioners and Board of Directors)
  - list of shareholders and size of holdings
  - balance sheet of the Legal Entity audited by a public accountant not later than 6 months prior to the date of application
  - personal statements from the Board of Directors and/or Commissioners concerning the sources of funds for purchase of the bank shares.
  - personal statements that the persons concerned have never been involved in disgraceful acts in the banking, financial, or other business and/or have never been convicted of a felony.

- Approval or rejection of purchase of bank shares shall be issued by Bank Indonesia not later than 30 days after receipt of the complete application.

C. Prohibited Funding Sources for Share Purchases

- Funds originating from borrowing or financing facility in any form extended by a Bank and/or other party in Indonesia.
- Funds obtained from and intended for money laundering, and
- Funds prohibited under Sharia Principles.

Management, Executive Officers and Sharia Supervisory Board: Procedures and Requirements

CHAPTER IV MANAGEMENT, EXECUTIVE OFFICERS AND SHARIA SUPERVISORY BOARD: PROCEDURES AND REQUIREMENTS

The management, executive officers and Sharia Supervisory Board of a bank are crucial to compliance with prudential regulations and sharia principles in the day-to-day operations of the bank. For this reason, there must be adequate assurance of the integrity and competence of management, executive officers and the Sharia Supervisory Board. To address this need, Bank Indonesia has instituted procedures and requirements for persons intending to become managers, executive officers and members of Sharia Supervisory Boards at banks, as described below.

A. Management

- The bank management consists of the Board of Directors and Board of Commissioners or other equivalent organs.
- Candidates for the Board of Directors or Board of Commissioners must be approved by Bank Indonesia prior to appointment by the General Meeting of Shareholders and taking up their position.
- Members of the Board of Directors and Board of Commissioners of a bank must meet the following requirements: (i) not listed in the list of persons banned from becoming shareholders and/or managers in banks, and (ii) are competent persons of high integrity.
- The criteria for competence and high integrity for members of the Board of Directors and Board of Commissioners are: (i) good character and strong moral values, (ii) compliance with laws and regulations, (iii) strong commitment to compliance with the fatwas issued by the National Sharia Board and (iv) capacity to perform the duties and/or supervision of banking business to ensure compliance with sharia principles.
- The Board of Directors and Board of Commissioners of a bank shall each have a membership of at least 3 persons.
- The majority of the Board of Directors shall have at least 2 years operational experience as Executive Officers in Islamic banking.
- Members of the Board of Commissioners are required to possess knowledge and/or experience in banking.
- Members of the Board of Directors and Board of Commissioners involved in a conflict of interest with the bank are prohibited from making decisions.
- The conflict of interest shall be disclosed in the decision.

B. Executive Officers

- Executive Officers are officers exerting influence on bank policy and operations and/or directly responsible to the Board of Directors, including but not limited to Branch Office managers.
- Banks are required to report the appointment or replacement of any Executive Officer to Bank Indonesia not later than 10 days after the effective date.
- Executive Officers involved in a conflict of interest with the bank are prohibited from making decisions.
- The conflict of interest shall be disclosed in the decision.

C. Sharia Supervisory Board

- The Sharia Supervisory Board is a board for oversight of compliance with sharia principles in banking business. Members of the Sharia Supervisory Board are categorised as affiliated parties.

- The Sharia Supervisory Board shall have a membership of at least 2 persons and not more than 5 persons.
- Members of the Sharia Supervisory Board may only hold concurrent positions as Sharia Supervisory Board members at not more than 2 other banks and 2 non-bank sharia financial institutions.
- The bank shall submit an application for the Sharia Supervisory Board candidates to obtain: (i) approval from Bank Indonesia and (ii) a ruling from the National Sharia Board.
- The duties, powers and responsibilities of the Sharia Supervisory Board include the following:
  - monitoring the compliance of bank operations with the fatwas issued by the National Sharia Board
  - evaluating the sharia legal aspects of the operational guidelines and products of the bank
  - issuing a sharia legal opinion on the overall conduct of bank operations in the published bank report
  - assessment of new products and services not covered by existing fatwas in order to request a fatwa from the National Sharia Board
  - submission of at least semi-annual reports on sharia oversight to the Board of Directors, Board of Commissioners, the National Sharia Board and Bank Indonesia.
- Members of the Sharia Supervisory Board involved in a conflict of interest with the bank are prohibited from making decisions.
- The conflict of interest shall be disclosed in the decision.

D. Expatriates

Banks may employ expatriates in the course of their business. The regulations and requirements for employment of expatriates at a bank are as follows:

- The bank is required to submit an Expatriate Personnel Employment Plan (RPTKA) to Bank Indonesia, and this plan shall be disclosed in the bank Business Plan.
- For positions in bank management (Board of Commissioners/ Board of Directors/Management of Foreign Bank Branch Office/ Management of Foreign Bank Representative Office), approval is required from Bank Indonesia.
- For positions as Executive Officer and Expert/Advisor/Consultant or equivalent, the employment must be reported to Bank Indonesia.
- Expatriates are not permitted to take up bank management positions in personnel and compliance.
- The term of employment for expatriates shall be not more than 3 years, extendable once by not more than 1 year.
- Banks with foreign ownership of at least 25% of shares may employ expatriates in the following positions:
  - Commissioners (at least 50% must be Indonesian citizens)
  - Board of Directors (the majority of board members must be Indonesian citizens)
  - Executive Officers (only at the bank head office) and/or experts/ advisors/consultants.
- Banks with foreign ownership of less than 25% of shares in which foreigners are controlling shareholders may employ expatriates only in management or as experts/advisors/consultants.

- Banks with foreign ownership of less than 25% of shares in which foreigners are not controlling shareholders may employ expatriates only as experts/advisors/consultants.
- The employment of expatriates for positions on the Board of Commissioners and Board of Directors is permitted if the foreign ownership of bank shares is registered in the bank administration.
- Application for approval from Bank Indonesia for employment as Executive Officer and/or Expert/ Advisor/Consultant must be submitted with the following documents:
  - 1 passport photograph measuring 4 x 6 cm, taken within the last month.
  - photocopy of passport
  - curriculum vitae
  - photocopy of employment contract
  - photocopy of work permit issued by the competent authority
  - letter of recommendation from the home country bank supervision authority **(additional document for Executive Officers only)**
  - photocopy of evidence/certification of professional qualifications **(additional document for Experts/Advisors/ Consultants)**

Subordinated Invesment/Loans Fund Placements and Funds Channelling at Islamic Banks

CHAPTER V SUBORDINATED INVESTMENTS/LOANS, FUND PLACEMENTS AND FUNDS CHANNELLING AT ISLAMIC BANKS

Investors may become involved in the Islamic banking industry not only by acquiring ownership of bank shares, but also through fund placements and/or channelling of funds. The funds placements and/or channelling may take the form of subordinated investment/loans to augment bank capital, general funds placements at the bank and funds channelling through restricted investment schemes (*mudharabah muqayyadah*).

A. Subordinated Investment/Loans

- Investors may place funds at an Islamic bank in the form of subordinated investment/loans if the bank issues subordinated investment/loans as a component of tier 2 capital.
- The subordinated investment/loan may reinforce the capital structure of the Islamic bank to achieve compliance with the minimum capital adequacy requirement and augment the funding basis for business expansion.
- Banks may issue subordinated investment/loan instruments to a maximum of 50% of tier 1 capital subject to the following criteria:
  - based on the *mudharabah* or *musyarakah* principle
  - a written agreement is made between the bank and investor
  - the subordinated investment/loan has prior approval from Bank Indonesia, for which the bank must submit a repayment programme
  - is not guaranteed by the bank concerned
  - minimum tenor of 5 (five) years
  - early repayment must have prior approval from Bank Indonesia, and following this repayment bank capital shall remain sound
  - right of claim in event of liquidation comes last after settlement of all outstanding loans (equivalent status as for capital).

B. Customary fund placements at banks

- Investors can invest in the fund placements customarily available at Islamic commercial banks, comprising savings and time deposits under the *mudharabah* agreement. Unlike fund placements at conventional commercial banks in which return is fixed in advance in a debt contract arrangement, returns on fund placements at Islamic commercial banks under the *mudharabah* agreement are based on the fund management performance of the bank, akin to an equity contract. These placements are offered in rupiahs and foreign currencies.
- Theoritically, when conventional commercial banks lower their interest rates, fund placements at Islamic commercial banks become more attractive. For example, the onset of declining movement in bank interest rates in the second half of 2006 allowed Islamic banks to capitalise on the increased attractiveness of their fund placements.

  This can be seen in the profit share distribution table for savings and fixed term investment offered by 3 Islamic commercial banks as follows:

Appendices

Appendix 1 – Islamic Banking Data

I. Islamic Banking Indicators

		Dec'03	Dec'04	Dec'05	Dec'06
Institutional Presence: Banks and Office Network	**Islamic Commercial Banks**	2	3	3	3
	Sharia Divisions/ Islamic Banking Unit	8	15	19	20
	Islamic Rural Banks	84	88	92	105
	Total Network	339	443	550	636
Financial Indicators	**Asset**	Rp.7.44Tr	Rp.15.31Tr	Rp.20.88Tr	Rp.26.72Tr
	Depositor Funds	Rp.5.96Tr	Rp.11.67Tr	Rp.15.58Tr	Rp.20.67Tr
	Financing	Rp.7.38Tr	Rp.11.48Tr	Rp.15.23Tr	Rp.20.44Tr
	FDR	105.90 %	96.90 %	97.80 %	98.90 %
	NPF *(gross)*	2.62 %	2.40 %	2.80 %	475 %

Return and Market Share

	December 2006	March 2007
ROA	1.55%	1.76%
ROE	36.90%	46.66%
Market Share of Total Banking System	1.58%	1.69%

Notes :

Bank Indonesia Exchange Rates : - 2006, USD/IDR = 9020, and
- 2005, USD/IDR = 9830

II. Data for Islamic Commercial Banks

Performance: PT.Bank Muamalat Indonesia
December 2006 and 2005 (Audited)

	Dec' 2006	Dec'2005
Assets	Rp. 8.371 trillion	Rp. 7.427 trillion
Depositor Funds	Rp. 6.813 trillion	Rp. 5.750 trillion
Financing	Rp. 6.627 trillion	Rp. 6.107 trillion
FDR	83.60 %	89.08 %
Net Profit	Rp. 108.34 billion	Rp. 106.66 billion
ROA	2.10 %	2.53 %
Efficiency Ratio	84.69 %	81.59 %

Performance: PT.Bank Syariah Mandiri
December 2006 and 2005 (Audited)

	Dec' 2006	Dec'2005
Assets	Rp. 9.555 trillion	Rp. 8.273 trillion
Depositor Funds	Rp. 8.218 trillion	Rp. 7.038 trillion
Financing	Rp. 7.414 trillion	Rp. 5.848 trillion
FDR	90,21 %	83,09 %
Net Profit	Rp. 62,480 billion	Rp. 83,819 billion
ROA	1,10 %	1,83 %
Efficiency Ratio	90,66 %	85,70 %

Performance: PT.Bank Syariah Mega Indonesia
December 2006 and 2005 (Audited)

	Dec' 2006	Dec'2005
Assets	Rp. 2.345 trillion	Rp. 889.910 billion
Depositor Funds	Rp. 2.110 trillion	Rp. 822 billlion
Financing	Rp. 2.157 trillion	Rp. 519 billion
FDR	92,47 %	63,65 %
Net Profit	Rp. 38.298 billion	Rp. 3.202 billion
ROA	3,98 %	0,69 %
Efficiency Ratio	79,44 %	95,01 %

Source : Bank Published Reports

Notes : FDR = Financing to Deposit Ratio
ROA = Return on Assets
Efficiency ratio = operational expense to operational revenue *(BOPO)*

Appendix 2 – Islamic Financial Markets (Capital Market and Money Market)

The Money Market

The Islamic interbank money market recorded significant growth in 2006 over the previous year. Average transaction volume soared from Rp 233.2 billion in 2005 to Rp 1,103.5 billion in 2006. Similar growth also took place for Bank Indonesia *Wadiah* Certificates (SWBIs). Average outstanding SWBIs widened from Rp 682.1 billion in 2005 to Rp 1,381.6 billion in 2006. In 2005, the SWBI position did not exceed Rp 1 trillion at any time (except in December that year), but in 2006, SWBIs were consistently above the Rp 1 trillion mark each month (except in July 2006).

Interbank money market (IMA Certificates) and SWBIs*

Indicator	2005	QI-06	Q2-06	Q3-06	Q4-06	2006
IMA Certif.	233.2	716.3	1,353.7	1,626.7	717.4	1,103.5
SWBIs	682.1	1,666.8	1,150.4	1,011.4	1,698.0	1,381.6

* Average transaction volume in Rp billions
IMA = InterBank Mudharabah Investment
Source: Bank Indonesia

The Capital Market

Convinced of the potential for the Islamic capital market to develop into a pillar of the Indonesian capital market industry, the Capital Market Supervisory Agency (Bapepam) and the Ministry of Finance have formulated the Indonesian Capital Market Master Plan (2005-2009). This plan is designed to accommodate the needs of members of the public motivated for sharia-based investments and is built around a two major strategy: (1) development of a legal framework to facilitate the development of the Islamic capital market, and (2) promote the creation and expansion of sharia-based capital market products.

The Chairman of Bapepam-LK at the Ministry of Finance has issued two new regulations to promote the development of a sharia-based capital market: (1) Regulation No.IX.A.13 concerning Issuance of Islamic (Sharia) Securities, and (2) Regulation No.IX.A.14 concerning Agreements Used in Issuance of Islamic (Sharia) Securities on the Capital Market. After these regulations issued, sharia opinion is not an obligation for Islamic capital market securities (but only optional). For example, if there's an Islamic capital market securities which has scheme and structure that different from the previous one, this matter give an obligation for Bapepam-LK to discuss and evaluate this securities's scheme with Sharia National Board (DSN-MUI) to come to a conclusion whether this securities confirm and fulfill to Sharia principles in capital market or not.

As the next step of Regulation No.IX.A.13 concerning Issuance of Sharia Securities, currently Bapepam-LK together with Sharia National Board (DSN-MUI) and Stock Exchange are intensively working to formulate regulation of criteria and issuing Islamic Capital Market Securities. This list will consist of securities not against sharia principles in capital market, and further will be guidance for securities's portfolio to any party who wants to invest in Islamic capital market, especially for Islamic (sharia) mutual fund, and also will be a guidance to formulate index to any party who wants to issue Islamic (sharia) index.

Islamic Stocks (Jakarta Islamic Index))

The performance of stocks which are included in Jakarta Islamic Index (JII) shows an increasing trend. The JII stocks have recorded significant performance gains reflected in the 54% rise in the JII from 199.7 at end-2005 to 307.6 at end-2006. This also reflected in next period in the 28.6 % rise in the JII from 307.6 at end-2006 to 395.5 at end July 2007. The performance of JII is better compare to LQ45 Index that rise about 27.7% in the same period.

Islamic Bonds (Sukuk)

As of June 2007, Islamic bonds (sukuk) issued in Indonesia consisted of corporate bonds (sukuk) issued under *Mudharabah* or *Ijarah* contracts, as only these contractual forms have been approved in fatwas issued by the National sharia board. Government bonds (sukuk), however, will only be issued after the Islamic Government Securities Law comes into force. This bill is currently being deliberated at the Indonesian Parliament and is expected to be passed in 2007.

As of July 2007, the capital market recorded a total of 21 Islamic bond (sukuk) issues, accounting for 12.2 % of total bonds on the market and represented a total value of Rp 3.2 trillion (equivalent to US$340 million), accounting for 2.5% of total bonds.

Islamic Mutual Funds

The first Islamic mutual funds were launched in 1997. The market subsequently boomed in 2004 and until July 2007 the total number of these funds reached 24. The growth of Islamic mutual fund has reached 14.3% and Net Asset Value reached 75.1% since the end of 2006. As a result of this growth, the percentage of Islamic mutual funds to the overall mutual funds market climbed from 5.23% in 2005 to 5.71% in 2006 (also in July 2007 is around 5.71%). Similarly, Net Assets Value (NAV) mounted from Rp. 559.1 billion (US$55.9 million equivalent) in 2005 to Rp. 723.4 billion (US$72.3 million equivalent) in 2006, and in July 2007 reached Rp. 72.38 trillion (US$ 7.78 billion equivalent)

The investment instruments used in Islamic mutual funds are: JII shares, Islamic deposits, Bank Indonesia *Wadiah* Certificates and Interbank *Mudharabah* Investment (IMA) Certificates.

Analysed by levels of return, two of Indonesia's Islamic mutual fund products ranked among the top 15 mutual funds worldwide in 2005 (data from Bloomberg). These funds were: PNM Syariah, ranking 10th with 12.95% annual return and Danareksa Syariah Berimbang in 12th place with 11.96% return.

These funds may not purchase securities, stocks or bonds for activities prohibited under Islamic law (*haram*), such as food processing and alcoholic beverage companies and interest-based financial services. Furthermore, there is also a sanitising process in which if a company has interest income, that income must be excluded from the earnings of an Islamic mutual fund and set aside for the *zakat* mandatory contributions or charitable purposes.

Appendix 3 – Regulations Concerning Expatriates, Investment Protection/Guarantees and Taxation *)

I. PROCEDURES FOR EXPATRIATES INTENDING TO DO BUSINESS IN INDONESIA

Expatriates and Work Permits

The Ministry of Labour is the competent agency for issuing work permits for expatriates in Indonesia, including those employed in the banking industry. The employment of expatriates is also governed by specific provisions in Bank Indonesia regulations.An expatriate intending to work or continue employment must hold a work permit. The first step to take is for manpower placement plan to be prepared by the employing company.

Expatriate Placement Plan (RPTKA)

Foreign direct investment (FDI) companies intending to employ expatriates must submit the RPTKA document to the Investment Coordinating board. Based on approval of the RPTKA, a **TA-01** document will be issued, and only then is a work permit (IKTA) issued after the expatriate has arrived in Indonesia. This is followed by issuance of the Temporary Residency Card (KITAS) and payment of the annual fee into the annual Manpower Training Fund (DPKK).
Documentary evidence of the expertise of the expatriate is required, given that Indonesian regulations restrict the employment of expatriates in Indonesia to those able to contribute to national development. Because of the high rate of unemployment in Indonesia, evidence is needed to demonstrate that the expatriate offers expertise that cannot be provided by Indonesians. A work permit issued for an expatriate does not automatically grant the right to work to a spouse. A dependent spouse must find her own sponsor and obtain a work permit for employment in Indonesia.

TA-01 Recommendation

After approval of the RPTKA, a TA-01 recommendation must be submitted to obtain a temporary resident visa. The Original Letter of Approval for the TA-01 recommendation will be needed when applying for the VITAS or VBS (Limited Residence Visa).

VITAS or VBS – Limited Residence Visa or Semi-Permanent Residence Visa

After approval of the TA-01 recommendation, a VITAS application must be submitted for the expatriate, spouse and family at the immigration office in the city of destination. After approval, the immigration office will send an authorising telex to the Indonesian embassy where the approval will be collected and the VITAS/VBS stamped in their passports. The VBS allows entry into Indonesia. Within 3-7 days after arrival, the expatriate and his/her family must report to immigration, bringing the required documents. Failure to do so will result in an immigration violation that may be prosecuted in court.

Temporary Residence Card (KITAS) and Blue Book/Foreigner's Registration

When all documents for visa processing are complete, immigration will issue a Limited Residence Card, commonly known as KITAS. In the past, this was the Temporary Residence Permit Card (KIM/S). Besides the KITAS, a blue book (Status Registration Book) will be issued, indicating the immigration status of the holder. These are valuable documents and must be kept securely. The KITAS and blue book allow the bearer to remain in Indonesia for one year with the possibility of two annual extensions without having to leave the country.

II. INVESTMENT GUARANTEE AND PROTECTION AGREEMENT

Some countries offer investment guarantees to other nations as a means of promoting foreign investment. In many cases, these guarantees include compensation in the event of nationalization, loss or damage caused by war or revolution and payment of approved shipments related to the investment in the event that the currency is unconvertible in the country of origin.

To provide security for foreign investment, the Government of Indonesia has signed Investment Guarantee Agreements with other governments in ASEAN. Indonesia has also concluded bilateral investment treaties on investment promotion and protection with 56 nations: Argentina, Algeria, Australia, Bangladesh, Belgium/Luxembourg, Cambodia, Chile, People's Republic of China, Croatia, Cuba, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, India, Italy, Jamaica, Jordan, Democratic People's Republic of Korea, South Korea, Kyrgyzstan, People's Democratic Republic of Laos, Malaysia, Morocco, Mauritius, Mongolia, Mozambique, the Netherlands, Norway, Pakistan, the Philippines, Poland, Qatar, Romania, Singapore, Slovak Republic, Spain, Sri Lanka, Sudan, Suriname, Sweden, Switzerland, Syrian Arab Republic, Thailand, Tunisia, Turkmenistan, Turkey, Ukraine, United Kingdom, Uzbekistan, Vietnam, Yemen and Zimbabwe.

To create a favorable investment climate, Indonesia has also entered into multilateral agreements for promotion of foreign direct investment. Indonesia is now a member of the Multilateral Investment Guarantee Agency (MIGA), which protects investment against political risk.

To support resolution of disputes involving foreign investment, Indonesia is a member of the International Center on the Settlement of Investment Disputes (ICSID).

Intellectual Property Rights

The Government of Indonesia has and will work tireless towards the development of domestically and internationally competitive industry. Indonesia has ratified the agreements for founding the World Trade Organisation, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In regard to this ratification, Indonesia has six regulations governing intellectual property rights as follows: Copyrights, Patents, Trade Marks, Trade Secrets, Industrial Design and Lay-out Design of Integrated Circuits.

Indonesia is also a member of the World Intellectual Property Organisation (WIPO), which is part of the Paris Convention for the Protection of Intellectual Property.

On the investment side, the implementation of these intellectual property regulations reflects the government commitment to provide legal certainty for conducting business within Indonesian jurisdictions.

For example, key elements of the regulations on trademark protection are as follows:

Trademarks

The first law governing trademarks came into force on 1 April 1993 and was subsequently revised in Act No. 15 of 2001. The law is aimed at strengthening protection for well-known foreign trademarks and Indonesian trademarks by prohibiting the use of trademarks with confusing resemblance. The law states that trademark rights are determined on a first file basis rather than first use basis. A trademark is effective for 10 (ten) years from the date of filing, and is extendable. After registration, the trademark must be used in commercial activity. A trademark listed in the general register of trademark may be deregistered at the initiative of the trademark holder or the trademark office if the trademark is not used within a period of 3 years.

III. TAXATION

Since 1984, taxation offices have required individual residents to hold Taxpayer ID Numbers (NPWP). This rule also applies to expatriates except in certain cases, such as those too young to work. In 2000, the taxation authorities took a further step by requiring all expatriate workers to register at tax offices for separate individual Tax ID numbers and to pay monthly taxes.

Tax Rates

1. Tax rates for resident taxpayers and permanent establishments:

Taxable income brackets	Tax rate
Rp. 0 - Rp. 50,000,000	10%
> Rp. 50,000,000.00 - Rp. 100,000,000.00	15%
> Rp. 100,000,000.00	30%

2. Net profits after tax of permanent establishments in Indonesia are levied an additional tax of 20% (twenty percent or as stipulated in tax treaties) unless the net earnings are reinvested in Indonesia and are covered by a ruling by the Minister of Finance.
3. Tax rates for non-resident taxpayers, other than permanent establishments in Indonesia (or as stipulated in tax treaties)

Income	Tax rate
Dividends	*20%.*
Interest : including premiums, discounts, swap premiums and compensation in accordance with a loan guarantee	*20%*
Royalties, rent, and other income connected with the use of property	*20%*

Income	Tax rate
Compensation for services employment activities	*20%*
Gifts and rewards	*20%*
Pensions and other periodic payments	*20%*

4. Tax rates for individual resident taxpayers:

Taxable income brackets	Tax rate
Up to Rp 25,000,000.00	*5%*
> Rp. 25,000,000.00 to Rp. 50,000,000.00	*10%*
> Rp. 50,000,000.00 to Rp. 100,000,000.00	*15%*
> Rp. 100,000,000.00 to Rp. 200,000,000.00	*25%*
> Rp. 200,000,000.00	*35%*

5. Tax rates for bond interest is 20%, or as stipulated in tax treaties
6. Tax on stocks:

Tax on stocks traded on the stock exchange	**0.1% (final)**
Additional tax on shares held by company founders and traded on the stock exchange	0.5% (final)

7. Tax on earnings from bank deposits → *20%* (final)
8. Tax on income from transfer of land and building rights → 5%
9. Tax on earnings from lease of land and buildings → *10%* (final)
10. Value added tax

Value added tax – tax rates (tax rates are adjustable, depending on government rulings, within a range of 5% to 15%)	10%
Value added tax on exports of taxable goods	0%

Avoidance of Double Taxation Agreements

To avoid double taxation on certain forms of income, such as net profit, dividends, licences and royalties, Indonesia has signed tax treaties with 56 nations:

1. *Algeria*
2. *Australia*
3. *Austria*
4. *Belgium*
5. *Bulgaria*
6. *Brunei Darussalam*
7. *Canada*
8. *Czech*
9. *Rep.China*
10. *Denmark*
11. *Finland*
12. *Egypt*
13. *France*
14. *Germany*
15. *Hungary*
16. *India*
17. *Italy*
18. *Japan*
19. *Jordan*
20. *Korea, Republic of*
21. *Korea, Democratic People's Republic of*
22. *Kuwait*
23. *Luxembourg*
24. *Malaysia*
25. *Mexico*
26. *Mongolia*
27. *Netherlands*
28. *New Zealand*
29. *Norway*
30. *Pakistan*
31. *Philippines*
32. *Poland*
33. *Romania*
34. *Russia*
35. *Saudi Arabia*
36. *Seychelles*
37. *Singapore*
38. *Slovakia*
39. *South Africa*
40. *Spain*
41. *Sri Lanka*
42. *Sudan*
43. *Sweden*
44. *Switzerland*
45. *Syria*
46. *Taiwan*
47. *Thailand*
48. *Tunisia*
49. *Turkey*
50. *Ukraine*
51. *United Arab Emirates*
52. *United Kingdom*
53. *USA*
54. *Uzbekistan*
55. *Venezuela*
56. *Vietnam*

**) Source: Investment Coordinating Board (BKPM)*

Appendix 4 – Important Addresses and Websites

Important Addresses

1. Directorate of Islamic Banking – Bank Indonesia
   Jl. MH. Thamrin No. 2 Jakarta 10110
   Tel: 62-21-3817895, 3817778, 3818723
   Fax: 62-21-3501989
   Website: www.bi.go.id
   Email: dpbs@bi.go.id humas@bi.go.id

2. Bank Indonesia Representative Office New YorkOne Liberty Plaza
   165 Broadway, 31st Floor
   New York, N.Y. 10006
   Tel: (212) 732 1958/59, 7324011, 7320467
   Fax: (212) 732 4003

3. Bank Indonesia Representative Office Tokyo
   New Kokusai Building
   Room 906 No. 4-1, Marunouchi
   3-chome Chiyoda-ku,Tokyo 100-0005 Japan
   Tel: (03) 3201 2148, 3271 3415
   Fax: (03) 3285 0783

4. Bank Indonesia Representative Office Singapore
   11 Collier Quay #08-01
   The Arcade, Singapore049317
   Tel: (065) 6223 2700, 6223 2701
   Fax: (065) 6224 4290

5. Bank Indonesia Representative Office London
   10 City Road, LondonEC 1Y 2EH
   Tel: (0044) 2076389043, 2076382408
   Fax: (0044) 2073742051

6. Investment Coordinating Board (BKPM)
   Jl. Jend. Gatot Subroto No. 44Jakarta 12190
   Tel: 62-21-525 2008, 525 2649
   Fax: 62-21-525 4945
   Website: www.bkpm.go.id
   Email: sysadm@bkpm.go.id

7. Ministry of Law and Human Rights
   Jl. HR. Rasuna Said Kav. 6-7, Kuningan, South Jakarta
   Tel: 62-21-525 3004
   Website: www.depkumham.go.id

B. Important Websites

1. BI Homepage:For more detailed information on the Indonesian economy, please visit: www.bi.go.id/web/en/Info+Penting/IRU_NEW

2. BKPM Homepage:
   For more detailed information on guidelines to investment in Indonesia, please visit: www.bkpm.go.id/en/guide/intro.htm

Table: Distribution of profit share/return *)
Average for 3 Islamic banks (BMI, BSM, BSMI)

	Equivalent Rate of Return (%)		
	December 2005	December 2006	March 2007
Mudharabah Savings	6.77%	6.87%	6.17%
Mudharabah Deposits			
- 1 month	8.09%	8.85%	7.66%
- 12 months	8.49%	9.89%	8.78%

Source: Bank Published Reports
*) usually for non-bank customers

C. Funds channelling under the Restricted Investment Scheme (*Mudharabah Muqayyadah*)

- Investors may also channel funds to specific parties and/or projects at their discretion through Islamic commercial banks under the restricted investment scheme (*mudharabah muqayyadah*), which operates on the basis of joint agreement.
- The advantage for investors is the ability to channel funds according to their particular investment preferences regarding business sector, investee or level of risk. The bank receives a fee for channelling the funds under this scheme.
- *Mudharabah muqayyadah* transactions are recorded off-balance sheet in a separate reporting, enabling investors to track the performance of their restricted investment fund management, the amount of invested funds and the projects involved.