REGISTRATION DOCUMENT

KAUPTHING BANK HF.

MARCH 2007

REGISTRATION DOCUMENT

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1. Risk Factors

The Issuer believes that the following factors may affect its ability to fulfill its obligations. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

The Issuer believes that the factors described below represent the principal risks inherent in investing in its debt instruments, but the inability of the Issuer to pay the principal or other amounts on or in connection with any such instruments may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Prior to making any investment decision, prospective investors and their financial and legal advisers should carefully consider all of the information in this document and, in particular, the risks and uncertainties described below should be considered carefully. The matters described below, among other factors, should be carefully considered by any prospective investor.

This document contains forward looking statements that involve inherent risks and uncertainties. Actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such differences include those discussed below.

All references to “we”, “us” and “our” under “Factors that may affect the Issuer’s ability to fulfill its obligations are references to the Issuer.

Factors that may affect the Issuer’s ability to fulfill its obligations

Our financial condition and results of operations may be adversely affected by movements in interest rates. In recent years, our results of operations have depended to a great extent on earnings attributable to net interest income. Net interest income represented approximately 31 % of our operating income in 2006, approximately 32 % in 2005 and approximately 37 % of net operating income in 2004.

Our financial operations are dependent on interest rate and other monetary policies of governments and central banks in the jurisdictions in which we operate as well as changes to such policies. For example, loans with fixed rates will become less profitable if interest rates rise. In particular, the policies of the Economic and Monetary Union of the European Union, the United Kingdom, Iceland, Denmark and Sweden are significant for us and are subject to change. We are currently operating in an increasing interest rate environment. A significant portion of our liabilities are short to medium term and we may have to refinance these obligations at higher rates. As of 31st December, 2006, ISK 32,277 million or 45.3 % of our total financial liabilities matured in one to five years while ISK 184,031 million of our financial assets matured in that period. At the beginning of 2005 the European Central Banks policy rate stood at 2%. The rate remained unchanged until December when it was raised by 25 bp up to

2.25%. The Central Bank raised the rate by another 25 bp in March of 2006 up to 2.5% and then again in June up to 2.75%. At the beginning of August the rate was raised again by 25 bp and stood at 3%. In October the Central Bank raised the policy rate by another 25 bp up to 3.25% and finally there was another hike in December bringing the rate up to 3.5%. The rate has remained unchanged as of this year.

Our net interest margin has declined and we expect it will continue to decline as a result of factors such as rising interest rates, a flattening yield curve, and exposure to increased competition. A significant fall in the average interest rates charged on our loans to customers that is not fully matched by a decrease in interest rates on our funding sources, or a significant rise in interest rates on our funding sources that is not fully matched by a rise in our interest rates charged, could have a material adverse effect on our business, financial condition and results of operations.

Our business, results of operations and financial condition are affected by conditions in Iceland

Our business, results of operations and financial condition are affected directly by economic and political conditions in Iceland. Although the Icelandic economy has experienced high growth rates in recent years, there can be no assurance that these growth rates will continue or that there will not be a downturn in the Icelandic economy. Recently, interest rates and the rate of inflation in Iceland have been rising. The Central Bank of Iceland raised interest rates five times between 31st December 2004 and 31st December 2005 from 8.25% to 10.50%, and five times since then; on 26th January 2006 to 10.75%, on 4th April 2006 to 11.50%, on 23rd May 2006 to 12.25%, on 10th July 2006 to 13.00% and on 16th August 2006 to 13.50% In September the Central Bank raised the policy rate by another 50 bp up to 14% and finally at the end of December the bank raised rates to 14.25%.

Inflation was on average 6.8% in 2006 compared to 4.0% in 2005 and 3.2% in 2004.

Our loan portfolio is concentrated in certain currencies, industries and borrowers

Our loan portfolio is relatively highly concentrated in certain market sectors. As of 31st December 2006, loans to customers in industry (including manufacturing, food and beverage and construction), loans to customers in the service sector (including financial services, public administration and technical services) and loans to individuals comprised 24%, 20% and 17% respectively, of our loan portfolio (excluding loans to banks and off-balance sheet credit related commitments). Furthermore, as of that date, our ten largest borrowers represented 13.5% of our loan portfolio and our 20 largest borrowers represented 19.0% of our portfolio (in each case excluding loans to banks and off-balance sheet credit related commitments), and loans to our single largest borrower represented 2.4% of our total loan portfolio (excluding loans to banks and off-balance sheet credit-related commitments). Following the acquisition of FIH, our exposure to the service sector as a percentage of total loans declined significantly due to the composition of FIH's loan portfolio, while our concentration in the manufacturing, real estate, food and beverage and banking and finance sectors increased. Our total exposure to non-ISK denominated loans comprised approximately 86% of our loan portfolio (excluding loans to banks and off-balance sheet credit related commitments). Although our loan portfolio has recently become more diversified, our financial condition will continue to be sensitive to downturns in certain industries and the consequent inability of clients to meet their obligations to us. Declines in the financial condition of our largest borrowers and adverse currency movements relative to the Icelandic krona also could have a material adverse effect on our business, financial condition and results of operations.

After the merger with Búnadarbanki Islands hf. ("***Búnadarbanki***") in 2003, we wrote off approximately ISK 1.4 billion in non-performing loans in 2003, and have increased our provisions for loans to customers in certain sectors, particularly in the fishing, building and food and beverage industries. There can be no assurance that further unanticipated provisions for non-performing loans through loan losses or write-offs will not be required in the future, particularly with respect to FIH and Kaupthing Singer & Friedlander, which we acquired in 2004 and 2005, respectively, or other banking operations that we may acquire in the future.

We may be unable to adequately assess the credit risk of potential borrowers and may provide advances to certain customers that increase our credit risk exposure

We are exposed to the risk that third parties who owe us money, securities or other assets will not meet, or will be unable to meet, their obligations to us. The availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for small- and medium-sized enterprises ("SMEs") than is the case for large corporate clients, and is even more limited for individuals. SMEs form the majority of our client base. SMEs usually have less capital and business experience than large businesses and are hence more likely to default on their loans. Loans to SMEs and loans to individuals represented 53% and 17%, respectively, of our total loan portfolio as of 31st December 2006.

Therefore, in spite of any credit risk determination procedures which we have in place, we may be unable to evaluate correctly the current financial condition of each prospective borrower and, in the case of SMEs, to determine their long-term financial viability. The failure of any member of our group to accurately assess the credit risk of prospective borrowers and lending to higher risk borrowers could have a material adverse effect on our business, financial condition and results of operations.

Adverse price fluctuations of the securities in our proprietary trading portfolio could have a material adverse effect on our results of operations and financial condition

We have a substantial investment portfolio that includes equity and debt securities of some of the largest issuers of securities in Iceland and northern Europe. As of 31st December, 2006 our equity and debt investment portfolios totaled ISK 159,020 million and ISK 318,264 million, respectively, and accounted for 3.9% and 7.9%, respectively, of our total assets. A fall in the price of our Icelandic or other securities could substantially reduce the value of our securities portfolio and the amount of our other operating income attributable to trading gains.

In addition, we maintain large positions in individual issues of securities or total claims (including but not limited to loans, bank overdrafts, equity holdings or other forms of financial exposures) on one individual counterparty or group of financially connected counterparties, which have sometimes led to material losses, and there can be no assurance that future losses from these holdings will not occur. Furthermore, market liquidity constraints can limit our ability to sell large blocks of these securities at attractive prices. Adverse developments affecting these issuers or liquidity for their shares could have a material adverse effect on our business, financial condition and results of operations.

A decline in the value or illiquidity of the collateral securing our loans may adversely affect our loan portfolios

A substantial portion of our loans to corporate and individual borrowers are secured by collateral such as real estate, securities, ships and, in the case of fishing vessels, together with their non-transferable fishing quotas, receivables, raw materials and inventories. Downturns in the relevant markets or general deterioration of economic conditions in the industries in which these borrowers operate, or in the United Kingdom, Iceland, Denmark or Sweden generally, or other markets in which the collateral is located, may result in declines in the value of collateral securing loans to levels below the outstanding principal balance on those loans. A decline in the value of collateral securing these loans or the inability to obtain additional collateral may, in some cases, require us to reclassify the relevant loans, establish additional provisions for loan losses and increase reserve requirements. In addition, a failure to recover the expected value of collateral in the case of foreclosure may expose us to losses which could have a material adverse effect on our business, financial condition and results of operations.

Liquidity risk may impair our ability to fund our operations and adversely affect our financial condition

Ready access to funds is essential to any banking business, including ours. We rely almost entirely on continuous access to financial markets for short and long-term financing. An inability on our part to access funds or to access the markets from which we raise funds may put our positions in liquid assets at risk and lead us to be unable to finance our operations adequately. A rising interest rate environment compounds the risk that we will not be able to access funds at favourable rates. These and other factors also could lead creditors to form a negative view of our liquidity, which could result in less favorable credit ratings, higher borrowing costs and less accessible funds. In addition, because we receive a portion of our funding from retail deposits, we also are subject to the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strains.

In addition, our ability to raise or access funds may be impaired by factors that are not specific to our operations, such as general market conditions, the sovereign rating of Iceland, severe disruption of the financial markets or negative views about the prospects for the industries to which we provide a large proportion of our loans. Strains on our liquidity caused by any of these factors or otherwise could adversely affect our financial performance and competitive position.

Our income from investment banking activities and investments for our own account is subject to fluctuation

For the year ended 31st December, 2006, we derived approximately 29.5% of our operating income from our investment banking activities. Income from our investment banking activities comprises fee income and gains on investments. Our fee income is in part related to the number and size of the capital market and corporate advisory transactions in which we participate and on underlying market conditions. Fees generated by these transactions are typically not recurring and are subject to volatility. Accordingly, income from our investment banking business tends to be variable, and any reduction in the number and/or size of such transactions will affect our results of operations. In addition, our investment banking unit invests in unlisted and listed companies with a view towards exiting these investments in a limited time from the date of acquisition. We also could be adversely affected by a decline in the value or the illiquid nature of this investment portfolio, which is subject to factors affecting the industries in which the companies in the portfolio operate as well as to general market fluctuations.

Trading and investment activities within our treasury unit are inherently exposed to significant risk

Our treasury unit maintains trading and investment positions in various financial and other assets, including currency and related derivative instruments as both agent and principal. These positions are exposed to a number of risks related to the movement of market prices in the underlying instruments. This includes the risk of unfavorable market price and interest rate movements relative to our long or short positions, a decline in the market liquidity of related instruments, volatility in market prices or foreign currency exchange rates relating to these positions, and the risk that instruments chosen to hedge certain positions do not track the market value of those positions.

A mismatch of our positions in foreign currency could adversely affect our financial condition

Our reporting currency is the Icelandic krona. As of 31st December 2006, approximately 86 %. of our loan portfolio was comprised of non-ISK-denominated loans. In addition, we trade currency on behalf of our clients and for our own account and maintain open currency positions in currencies other than Icelandic krona. We do not fully hedge our foreign currency exposure at all times. Although we have taken steps to limit this exposure, adhere to regulatory limits and establish strict limits aimed at reducing currency risk, there can be no assurance that future mismatches will not occur or that trading limits will not be breached. As a result, fluctuations in exchange rates could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to continue to grow through acquisitions

A significant proportion of our growth in recent years has been driven by acquisitions, including the acquisition of JP Nordiska AB in Sweden in 2002, the merger with Búnadarbanki in Iceland in 2003, the acquisition of FIH in Denmark in 2004 and the acquisition of Singer & Friedlander in the United Kingdom in 2005.

We continue to evaluate potential acquisition and investment opportunities that could further expand our international banking operations and we plan to leverage off our existing client base and banking operations to expand our business through cross-selling our products, especially in the areas of investment banking and acquisition and leveraged finance. These efforts will require significant financial resources and the attention of our board of directors and senior management, which could place a strain on management resources and adversely impact the management of our current operations. Furthermore, no assurance can be given that we will be successful in identifying and acquiring appropriate candidates in the key markets in which we operate, or that other businesses in the future will achieve the return on investments made by us in prior periods.

We have historically financed the majority of our acquisitions through the issuance of shares as well as subordinated bonds. There can be no assurance that we will be able to obtain such financing on favourable terms in the future, or at all. Our failure to successfully realize our strategy could have a material adverse effect on our business, financial condition and results of operations.

We may fail to properly integrate our acquired operations

Since 2000, we have acquired ten financial institutions, primarily in northern Europe. We intend to continue to grow our business through further expansion in northern Europe and through the further penetration of the banking markets in which we currently operate. The expansion of our operations will require significant investment, increased operating costs, greater allocation of management resources away from daily operations, continued development and integration of our financial and information management control systems across multiple banking platforms, continued training of management and other personnel, adequate employee supervision and delivery of consistent client product and service messages. In addition, we continue to integrate some of our recent acquisitions, in particular Kaupthing Singer & Friedlander, into our business, which will involve further challenges and commitment of resources. Our failure to effectively manage these issues as well as our growth, while at the same time maintaining adequate focus on our current operations, could have a material adverse effect on our business, financial condition and results of operations.

Our loan portfolio may not continue to grow at the historical rate

In 2002, our loan portfolio (excluding inter-bank loans and off-balance sheet credit-related commitments) grew by 32% from year end 2001 to ISK 269,333 million and, in 2003, by 30% to ISK 350,995 million (in each case, giving pro forma effect to our acquisition of Búnadarbanki). Part of the growth in 2003 was attributable to the consolidation of the loan portfolio of Bankaktiebolag JP Nordiska, following its acquisition in 2002. In 2004, our customer loan portfolio grew by 203% to ISK 992,400 million, mainly due to the acquisition of FIH. In 2005, our customer loan portfolio grew by 56% to ISK 1,543,700 million, principally due to the acquisition of Kaupthing Singer & Friedlander as well as organic growth in Denmark and Iceland. In 2006, our customer loan portfolio grew by 64% to ISK 2,538,609 million. It is unlikely that, in the absence of other acquisitions in the future, we will be able to achieve similar rates of loan portfolio growth. Furthermore, there are a limited number of high credit quality corporate customers to whom banking services may be provided in our target markets. The pace of our loan portfolio growth may be constrained by, among other factors, our ability to increase lending volumes to customers that meet our credit quality standards. There can be no assurance that our strategy to continue to expand our banking network throughout the Nordic region and to target these corporate customers will succeed. If we are unable to further expand our loan portfolio in general and our corporate customer base in particular, we may not generate sufficient interest income to offset any decline in net interest margins, which could have a material adverse effect on our business, financial condition and results of operations.

The implementation of Basel II may adversely affect our results of operations and financial condition

The risk-adjusted capital guidelines promulgated by the Basel Committee on Banking Supervision, which include guidelines for capital adequacy and implementation, took effect on 1st January 2007. At this time, we are unable to quantify how the revised guidelines will affect our requirements for capital and the impact these changes will have on our capital position. However, it is possible that our deployment and use of capital may have to be altered to ensure that the revised capital adequacy requirements are satisfied. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We face increasing competition in the markets in which we operate

We face challenges from domestic and international competitors in the various markets in which we operate. Some of our competitors, including well-established domestic banks in each of the markets in which we operate, as well as international banks with operations in most of the markets in which we operate, may have better banking relationships with the corporate clients that comprise our target customer bases and may have greater resources and better local market knowledge than we do. These and other factors related to competition could have a material adverse effect on our ability to compete effectively in these markets, and adversely affect our business, financial condition and results of operations.

In addition, we face increased pressure to meet rising customer demands to provide new banking products that are developing rapidly in northern Europe. There is no guarantee that our management and employees will succeed in adopting new work methods and approaches to customer service that will keep up with the pace of change in the current banking environment, which may adversely affect our ability to successfully compete in our primary markets.

Furthermore, the number of banking transactions conducted over the internet in the markets in which we operate has grown in recent years and is expected to grow further. We may be unable to compete with other banks that offer more extensive online services to their customers than we currently offer to our customers. There can be no assurance that some of our clients will not choose to transfer some or all of their business to competitors, which could adversely affect our business, financial condition and results of operations.

Our banking businesses entail operational risks

We are exposed to many types of operational risk, including the risk of fraud by employees or others, operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems or from external events that may affect our operations and reputation. Our business activities require us to record and process a large number of transactions accurately on a daily basis. The recording and processing of these transactions are potentially exposed to the risk of human and technological errors or a breakdown in internal controls relating to the due authorisation of transactions. A failure or delay in recording or processing transactions, or any other material breakdown in internal controls, could subject us to claims for losses and regulatory fines and penalties. Consequently, we could suffer reputational or financial harm, which could have a material adverse affect on our financial condition and results of operations. Given our high volume of transactions, errors may be repeated or compounded before they are discovered and rectified, and there can be no assurance that risk assessments made in advance will adequately estimate the costs of these errors.

We are exposed to unidentified and unanticipated risks

Our risk management strategies may fail under certain circumstances, particularly when confronted with risks that have not been identified or anticipated. Risk methodologies and techniques that we adopt to assess credit risk, market risk and operational risk may be flawed or may not take all risks into account, and it is possible that the methods for assessing these risks are not sound or are based on faulty information, or that they will be misunderstood, not implemented correctly or misapplied by our personnel. In addition, our risk management policies are constantly being re-evaluated and there may be a lag in implementation. A failure of our risk management techniques could have a material adverse effect on our business, financial condition and results of operations.

We may be vulnerable to the failure of our IT systems and breaches of our security systems

We rely on the proper functioning and continuity of our IT systems. Any significant interruption, degradation, failure or lack of capacity of our IT systems or any other systems in our clearing operations or elsewhere could cause us to fail to complete transactions on a timely basis or at all. A sustained failure of our IT systems centrally or across our branches would have a significant impact on our operations and the confidence of our customers in the reliability and safety of our banking systems.

In addition, when we acquire new operations, we need to integrate the IT systems of the acquired business with our existing systems and may experience disruptions or inefficiencies until that integration is complete.

The secure transmission of confidential information is a critical element of our operations. We cannot guarantee that existing security measures will prevent security breaches, including break-ins, viruses or disruptions. Persons that circumvent the security measures could use our or our clients' confidential information wrongfully, which could expose us to a risk of loss, adverse regulatory consequences or litigation.

There are regulatory and legal risks inherent in our businesses

All of our operations entail considerable regulatory and legal risk. Each member of our group is subject to government regulation and inquiry as financial companies in the markets in which they operate, and regulations may be extensive and may change rapidly. In addition, many of our operations are contingent upon licenses issued by financial authorities of the countries in which we operate.

Violations of rules and regulations, whether intentional or unintentional, may lead to the withdrawal of some of these licenses. Any breach of these or other regulations may adversely affect our reputation or financial condition. In addition, existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted, which could adversely affect the way we operate our business and our market reputation.

We are also exposed to legal risks in our role as a financial intermediary and a consultant to third party businesses. These risks include potential liability for our role in determining the price of a company, for advice we provide to participants in corporate transactions and in disputes over the terms and conditions of complex trading arrangements. We also face the possibility that counterparties in complex or high-risk trading transactions will claim that we failed to properly inform them of the associated risks or that they were not authorised or permitted to enter into these transactions with us and that their obligations are therefore not enforceable. We are also exposed to customer claims.

We may also be subject to claims arising from disputes with employees for, among other things, alleged illegal dismissal, discrimination or harassment. These risks may often be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. Liability resulting from any of the foregoing or other claims could have a material adverse effect on our business, financial condition and results of operations.

All northern European countries in which the bank operates are members of the European Economic Area or the European Union. This provides us with regulatory conditions similar to those of other European banks. However, it should be noted that the interpretation and implementation of rules on securities trading may still differ among countries. Moreover, the length of history and volume of trading in the different markets vary and, consequently, so does the legal certainty of the framework within which we operate. Thus, we face a risk of incurring liability from violations of these regulations, which could have a material adverse effect on our business, financial condition and results of operations.

Kaupthing is not engaged in litigation or arbitration that could substantially affect its financial position.

Our businesses are subject to the general economic conditions prevailing in the European Economic Area and elsewhere

The profitability of our businesses could be adversely affected by a decline in general economic conditions in the European Economic Area, western Europe or the United States. These factors could also have a material adverse effect on our business, financial condition and results of operations. An economic downturn in the Nordic region could impact our results and financial position by affecting demand for our products and services. Such a downturn could also impact the credit quality of our counterparties by increasing the risk that a greater number of their respective customers would default on their loans or other obligations, or would refrain from seeking additional credit.

We may be unable to recruit or retain experienced and qualified personnel
Our continuing success depends, in part, on our ability to continue to attract, retain and motivate qualified and experienced banking and management personnel, particularly those individuals who are experienced in investment banking and acquisition finance. Competition for personnel with relevant expertise is intense, due to the relatively small number of available qualified individuals. Competition for qualified personnel, including senior management, is particularly intense in Iceland, where the unemployment rate is currently below 2 %.

The geographical location of employment may also make it less attractive to a large portion of potential applicants. Furthermore, a loss of key employees with institutional and client knowledge could have a material adverse effect on our reputation and our business, financial condition and results of operations.

We rely on certain key members of management
We are highly dependent on our chief executive officer and senior management. The loss of the services of key members of our senior management or staff may significantly delay our business objectives and could have a material adverse effect on our business, financial condition and results of operations. In addition, competition in Iceland to hire qualified personnel could have a material adverse affect on our ability to recruit new senior managers.

Our insurance coverage may not adequately cover losses resulting from the risks for which they are insured
We maintain customary insurance policies for our operations, including insurance for our liquid assets, money transport and directors' and officers' liability, as well as insurance against computer crimes and for employee dishonesty and mistakes. Due to the nature of our operations and the nature of the risks that we face, there can be no assurance that the coverage that we maintain is adequate to cover the losses for which we believe we are insured.

2. Person Responsible

Kaupthing Bank hf., in its capacity as the Issuer, Icelandic ID-No. 560882-0419, registered office at Borgartún 19, 105 Reykjavík, Iceland, hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Bank Registration Document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 2 March 2007
On behalf of the Issuer

Hreidar Már Sigurdsson
CEO

3. Manager

The Manager, Kaupthing Bank hf. – Capital Markets division, Icelandic ID-No. 560882-0419, registered office at Borgartun 19, 105 Reykjavik, Iceland has been the advisor to the Issuer in the preparation of this Bank Registration Document.

Reykjavík, 2 March 2007
On behalf of the Manager

Ingvar Vilhjálmsson
Managing Director

Stefán Ákason
Head of Bond Trading

4. Statutory Auditors

Auditors' statement

KPMG hf., Icelandic ID-number 590975-0449, registered office being Borgartún 27, 105 Reykjavík, Iceland, hereby declares that it has audited and expressed an opinion on the financial statements of the Issuer for the financial years ended 31 December 2005 and 2006 and that they give a true and fair view of the financial position of the Issuer as at 31 December, 2005 and 2006 as applicable, and of the results of the Issuer's operations and cash flows for the years then ended. KPMG hf. furthermore confirms that any information in this Prospectus regarding such financial statements is consistent with the said financial statements.

Reykjavík 2 March 2007
On behalf of KPMG hf.

Sæmundur G. Valdimarsson
State authorized public accountant

Reynir Stefan Gylfason
State authorized public accountant

Sigurdur Jónsson
State authorized public accountant

5. References and Glossary of Terms and Abbreviations

References to the "Debt Securities" shall be construed as referring to any debt instruments, which are issued by the Issuer and listed on ICEX and described in the Prospectus or any Securities Note that refers to this Registration Document.

References to the "Issuer", "Kaupthing Bank" and "the Company" in this Registration Document shall be construed as referring to Kaupthing Bank hf., Icelandic ID-No. 560882-0419, unless otherwise clear from the context, and its subsidiaries and affiliates, unless otherwise clear from the context. Kaupþing banki hf. is the legal Icelandic name of the Issuer.

References to "ICEX" in this Registration Document shall be construed as referring to the Iceland Stock Exchange, i.e. to Kauphöll Íslands hf., Icelandic ID-No. 681298-2829, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on a regulated market" in this Registration Document shall be construed as referring to the admission to trading on the bond market of the Iceland Stock Exchange, unless otherwise clear from the context.

References to "OMXS" in this Registration Document shall be construed as referring to the Nordic Exchange in Stockholm.

References to “ISD” in this Registration Document shall be construed as referring to the Icelandic Securities Depository, i.e. to Verdbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, unless otherwise clear from the context.

References to the “Manager” in this Registration Document shall be construed as referring to Kaupthing Bank hf. – Capital Markets division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

6. Documents Incorporated by reference and for Display

The following documents are incorporated herein by reference to, and form part of, this Registration Document:

(i) the Issuer's articles of association;

(ii) the Issuer's audited financial statements in respect of the years ended 31 December, 2005 and 31 December, 2006, together with the audit reports prepared in connection therewith.

Copies of documents incorporated by reference in this Registration Document can be obtained from the Issuer’s office and websites (www.kaupthing.is and www.kaupthing.net). This Registration Document will be published on the ICEX's News web (http://news.icex.is).

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Registration Document which is capable of affecting the assessment of any Debt Securities, prepare a supplement to this Registration Document or publish a new Registration Document for use in connection with any subsequent issue of such Debt Securities. If a supplement is prepared, statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Registration Document or in a document which is incorporated by reference in this Registration Document. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this document.

7. Notice to Investors

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in any Debt Securities and carefully review the terms and conditions of the Debt Securities described in the relevant Securities Note..

This Registration Document is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference and for Display"). This Registration Document shall be read and construed on the basis that such documents are incorporated and form part of this Registration Document.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Registration Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Manager.

This Registration Document is not (a) intended to provide the basis of any credit or other evaluation; or (b) a recommendation by the Issuer or the Manager that any recipient of this Registration Document should purchase any Debt Securities. Each investor contemplating purchasing any Debt Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Registration Document nor any other information supplied in connection with the Issuer constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase any Debt Securities.

Neither the delivery of this Registration Document nor the sale or delivery of any Debt Securities shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof. Investors should review, inter alia, the most recently published documents incorporated by reference into this Registration Document when deciding whether or not to purchase any Debt Securities.

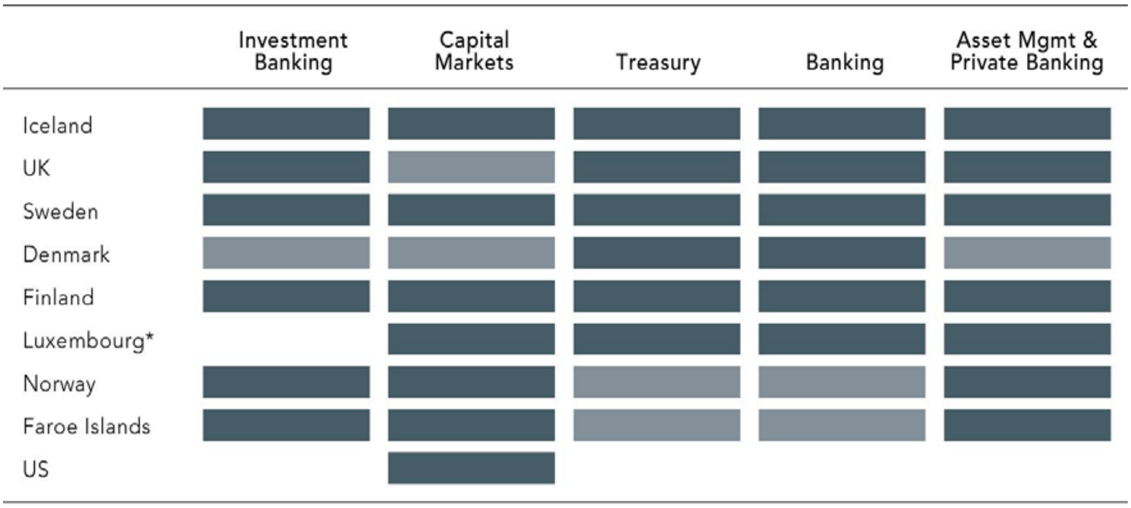
ICEX has scrutinized and approved this Registration Document which is only published in English.

8. Description of the Issuer

Introduction

The Issuer is a Nordic bank offering comprehensive retail, corporate and investment banking services to individuals, companies and institutional investors. The Issuer is the largest bank in Iceland in terms of both total assets and total shareholders' equity. It has the highest market capitalization on the Iceland Stock Exchange. The activities of the Issuer and its subsidiaries (together, the **Group**) in Iceland are divided into retail banking, corporate banking and investment banking but internationally its focus is on corporate and investment banking. The Issuer is one of the ten largest banks in the Nordic countries in terms of its market capitalization.

The following chart illustrates the Issuer's operations by business segment and location at the end of 2006:



*Operations in Switzerland report to office in Luxembourg
Light gray boxes indicate new divisions in 2006

The Issuer was created in its present form by the merger of two of Iceland’s foremost banks, Kaupthing Bank and Bunadarbanki Islands hf., both of which enjoyed a strong market position in Iceland. Búnadarbanki Íslands hf. dates back to 1929, when the Icelandic parliament, the Althing, passed a law on the founding of Búnadarbanki Íslands hf. At the beginning of 1998 Búnadarbanki Íslands hf. became a limited liability company, and the government began to sell its holdings in the bank. The bank was privatised in stages and this process was completed at the beginning of 2003. Búnadarbanki Íslands hf. was listed on the main list of the Iceland Stock Exchange on 17 December 1998.

Kaupthing hf. was established by eight Icelanders in 1982, at the same time as the free capital market was launched in Iceland. Kaupthing hf. later became an investment bank and changed its name to Kaupthing Bank hf. in 2002. In September 2000, Kaupthing Bank hf. was listed on the main list of the Iceland Stock Exchange and on the Stockholm Stock Exchange (Stockholmsbörsen) O-list in December 2002.

In May 2003, Kaupthing Bank hf. and Búnadarbanki Íslands hf. merged under the name Kaupthing Bank hf. Kaupthing Bank hf. took over the assets and liabilities of Búnadarbanki Íslands hf. and shareholders in Búnadarbanki Íslands hf. received 48.23% of the total share capital in Kaupthing Bank hf. in exchange for their shares.

In recent years, the Issuer has strengthened its position abroad by acquiring financial companies and establishing subsidiaries. The most important developments so far have been the acquisitions of the Swedish bank, JP Nordiska AB (now Kaupthing Bank Sverige AB), the Danish bank, FIH which is the holding company of FIH Erhversbank A/S and, mostly recently, the British bank, Singer & Friedlander (see further *Recent Developments* below). JP Nordiska AB was acquired in 2002 which significantly strengthened the Issuer's position in the Nordic countries, an area which the Issuer defines as its home market. FIH is a Danish corporate lending bank which has a 9% market share in lending to corporates in Denmark. FIH was acquired in September 2004 and its acquisition doubled the balance sheet of the Issuer.

The Issuer has five core business areas: Banking; Asset Management and Private Banking; Investment Banking; Capital Markets and Treasury. It also has ancillary divisions such as Risk Management, IT, Finance, and Sales and Marketing.

The principal markets in which the Issuer competes are: Investment Banking; Capital Markets; Banking; Asset Management and Private Banking; and Treasury.

In addition the Issuer operates a number of ancillary divisions such as Risk Management, Information Technology, Finance and Sales & Marketing.

The Issuer has operations in ten countries, including all of the Nordic countries and two of the world's main business centres, London and New York. Its main subsidiaries are Kaupthing Bank Sverige AB in Sweden, Kaupthing Bank Luxembourg S.A. in Luxembourg, Kaupthing Bank Oyj and Norvestia Oyj in Finland, FI-Holding A/S in Denmark, Kaupthing Føroyar Virdisbrævameklarafelag P/F in the Faroe Islands, Kaupthing New York Inc. in the United States, Kaupthing Asset Management LLP in Switzerland, Kaupthing Ltd. in the United Kingdom, Kaupthing Norge AS in Norway, Arion Custody Service hf. and Kaupthing Líftryggingar hf. in Iceland.

The Issuer and its subsidiaries are members of seven stock exchanges in Europe and the United States. As at 31 December 2006, the Group's assets under management totalled ISK 1,403 billion, and its assets in custody amounted to ISK 1,953 billion.

The Issuer is rated Moody's Investor Services, Inc. ("Moody's") and Fitch Ratings, Ltd. ("Fitch"). The ratings from Fitch are as follows: senior long-term debt rating is 'A', Short-term 'F1', Individual 'B/C', and Support '2' and by Moody's the senior long-term debt rating is Aaa, for short-term obligations it is P-1 and for financial strength, C. The ratings from Moody's have recently been updated, see Recent developments.

Employees

As at 31 December 2006, the Group had a total of 2,719 employees, compared to 2,368 in 2005, 1,606 in 2004 and 1,237 in 2003.

The table below sets forth the number of the Issuer's employees, by division, at 31 December 2006:

Division	Employees
Banking	712
Capital Markets	226
Investment Banking	93
Asset Management and Private Banking	380

Division	Employees
Treasury	74
Management and ancillary units	1234
Total	**2719**

Recent developments

Exista

At the beginning of the third quarter 2006 Kaupthing Bank had a 20.9% holding in Exista. During the quarter the bank sold a total of 1,100 million Exista shares, or 10.1% of the total share capital in Exista, in connection with the listing of the company on the Iceland Stock Exchange. The sale of the shares in Exista and the evaluation of the remaining 10.8% holding in Exista at fair value generated a pre-tax profit of ISK 26.1 billion during the third quarter.

On 16 October shareholders in Kaupthing Bank approved the proposal of the bank's Board of Directors to pay out extra dividends to the bank's shareholders in the form of more than 830 million shares in Exista. Dividends were paid out on 26 October and corresponded to 7.7% of the total shares in Exista. The book value of the dividend payment was ISK 18.3 billion. By selling shares in connection with the listing of Exista and by paying an extra dividend, the bank's stake in Exista has been reduced from 20.9% to 3.2% at the end of the year.

Share offering

In November 75.9 million new shares in Kaupthing Bank were offered for sale at a price of ISK 750 or SEK 75 a share. The offering attracted excess demand and shares were placed with a diverse group of international institutional investors. The offering generated proceeds of ISK 55.6 billion which was used to strengthen the bank's capital base and to support the further expansion of Kaupthing Bank. The offering successfully achieved the international diversification of the bank's shareholder base. Citigroup Global Markets Limited and Morgan Stanley & Co. International Limited acted as joint global co-ordinators and joint bookrunners for the offering. Fox-Pitt, Kelton N.V. acted as a co-lead manager for the offering and Kaupthing Bank acted as a selling agent. After the exercising of an over-allotment option, the share capital of Kaupthing Bank amounts to ISK 7,404,530,530 at nominal value, which is divided into 740,453,053 shares.

Kaupthing Singer & Friedlander – merger and name change

The name of Kaupthing Bank's subsidiary Singer & Friedlander was changed in September to Kaupthing Singer & Friedlander. The operations of Bank's UK subsidiary Kaupthing Limited were also merged with Kaupthing Singer & Friedlander. For accounting purposes the merger was effective as of 1 November 2006.

Change in rating by Moody's

Moody's Investors Service announced an upgrade of the Issuer's credit rating on February 24, 2007. The Issuer's long-term deposits and senior debt ratings in local and foreign currencies were upgraded from A1 to Aaa, the highest possible rating assigned by Moody's.

The Issuer's ratings for short-term obligations in local and foreign currencies, P-1, remained unchanged. The Bank's rating for financial strength, C, also remained unchanged.

Moody's upgrade resulted from the implementation of joint default analysis (JDA) methodology, which takes into account potential sources of external support for banks, and its updated bank financial strength rating (BFSR) methodology.

Legal Status and Legislative Background

The Issuer is a public limited company incorporated in Iceland in 1982 for an unlimited duration and operating under Icelandic law. It is registered with the registrar of companies in Iceland and its ID-No. is 560882-0419. The registered office of the Issuer is at Borgartún 19, 105 Reykjavik, Iceland, and the Issuer's telephone number is +354 4446000. The operations of the Issuer are, among other things, subject to the provisions of Act no. 2/1995 on Public Limited Companies, as amended, and Act no. 161/2002 on Financial Undertakings, as amended. The Issuer is subject to the supervision of the Icelandic Financial Supervisory Authority.

Under the Issuer's constitutional documents, its legal name is Kaupthing Bank hf. (Kaupþing banki hf. in Icelandic, previously Kaupþing Búnadarbanki hf.).

SOURCES OF FUNDING

The Issuer's principal sources of funding are customer deposits and borrowing in the capital markets. Other sources of funding include capital markets and financial institutions.

The table below provides a breakdown of the Group's sources of funds as at 31 December 2006 and 31 December 2005:

	31/12/2006	*31/12/2005*
	(ISK millions)	
Equity	323,510	194,183
Minority interest in subsidiaries' equity	11,382	8,329
Subordinated loans	216,030	102,688
Deposits	750,658	486,175
Core funding	1,301,580	791,375
Borrowings	2,399,939	1,556,567
Credit institutions	110,456	69,643
Financial liabilities	71,264	60,273
Other liabilities	172,157	62,953
Finance in the market	2,753,816	1,749,436
....		
Total funds	4,055,396	2,540,811

The composition of the Group's funding has changed significantly in recent years as the Issuer's business has moved from primarily serving individuals, small businesses and clients in the agricultural sector to serving larger corporations in the domestic and Nordic markets. As a result, intermediation of borrowing has grown rapidly.

Equity

At the end of 2006 the Issuer's shares were held by a total of 31,730 shareholders, including 6,112 shareholders in Sweden. Ownership is well distributed as set out in the table below that classifies shareholders by the size of their shareholding.

Shareholding as at 31 December 2006	Number of shares	% of total share capital	Number of shareholders	% of shareholders
1-1,000	6,553,988	0.9	22823	71.9
1,001-10,000	23,391,111	3.2	7578	23.9
10,001-100,000	26,857,759	3.6	1065	3.4
100,001 – 1,000,000	57,001,036	7.7	176	0.6
1,000,001+	626,649,159	84.6	88	0.3

On February 28, 2007 one shareholder held more than 10% of the shares of the Issuer being subsidiaries of Exista hf. holding 23.018%.

The table below sets out the 15 largest shareholders of the Issuer as at 28 February, 2007:

*Shareholder name**	*Shares (ISK)*	*%*
Exista B.V.**	140,214,493	18.94
Kjalar Invest B.V	71,883,352	9.71
Vátryggingafélag Islands hf.**	26,806,419	3.62
Lifeyrissjóður verslunarmanna	21,106,017	2.85
Lifeyrissjóður Bankastræti 7	18,444,859	2.49
Gnúpur fjárfestingarfélag	18,036,191	2,44
Gildi – lifeyrissjóður	17,059,532	2.30
Norvest ehf	11,800,000	1.59
Sund ehf.	9,315,906	1.26
Kaldbakur ehf.	8,000,000	1.08
Fjárfestingasjóður Ìs-15	6,749,330	0.91
Landsbanki Luxembourg S.A..	6,671,155	0.90
Samvinnulífeyrissjóðurinn	6,445,298	0.87
Sigurður Einarsson	6,368,423	0.86
Everest Equities Ltd.	6,328,927	0.85

*Nominee accounts not included
** Subsidiaries of Exista hf.

Capital Adequacy
The Issuer has in place a corporate governance programme to ensure disclosure and transparency, to define the responsibilities of the Board of Directors of the Issuer and the management of the Issuer, to define the rights and role of shareholders and stakeholders, to ensure the equitable treatment of shareholders and to avoid conflicts of interests. An internal control and procedural handbook (the **ICP Handbook**) reflects the most recent rules and procedures in effect at the Issuer. The latest version of the ICP Handbook was issued in December 2006.

According to the provisions of Art. 84 and 85 of the Law no. 161/2002 on Financial Undertakings, a bank's subordinated loans and equity capital, after subtracting the book value of shares held in other financial institutions, may not at any time fall below 8.0% of its risk-adjusted asset base, as defined by law. The risk-adjusted asset base of a bank is comprised of total assets as well as guarantees issued and calculated risk factors after the deduction of various figures in the balance sheet, according to the rules of the Icelandic Financial Supervisory Authority. As at 31 December 2006, the Issuer complied with all statutory ratios in accordance with the provisions of Art. 28 and 83 of the Act on Financial Undertakings.

Equity as at 31 December 2006 equalled ISK 334,892 million. The capital adequacy ratio, calculated in accordance with Article 84 of the Act on Financial Undertakings, was 15.0% Under Icelandic law the ratio may not go below 8.0% The ratio is calculated as follows:

	31/12/2006	
	Book value	*Weighted value*
	(ISK millions)	
Risk base:		
Assets recorded in the Annual Accounts	4,055,396	2,875,539
Assets deducted from capital		(66,922)
Guarantees and other items not included in the Balance Sheet		259,023
		3,067,640
Capital:		
Tier I capital:		
Equity		334,892
Intangible Assets		(65,276)
Assets subtracted from capital		0
Subordinated loans		51,817

Tier II capital:

Subordinated loans	160,717
Investment in credit institutions	(21,324)
Total equity base	460,826
Capital ratio	15.0%
Thereof Tier I ratio	10.5%

Deposits

The deposits from customers are well diversified, with a majority of the customers having relatively low deposits. Deposit accounts bear interest at a floating rate.

The table below sets out a breakdown of the Issuer's other deposits as at 31 December 2006 and 31 December 2005:

	31/12/2006	*31/12/2005*
	(*ISK millions*)	
Deposits by maturity		
On demand	226,966	163,426
Up to 3 months	409,317	253,963
Over 3 months and up to 1 year	86,755	18,156
Over 1 year and up to 5 years	21,459	39,834
Over 5 years	6,161	10,797
Total	750,658	486,176

Other Funding

The majority of the Issuer's funding derives from international capital markets i.e. bond markets and syndicated loans, commercial paper and money markets.

The following table sets out a breakdown of the Issuer's borrowings from bonds and notes issued, as well as borrowings from other credit institutions, as at 31 December 2006 and 31 December 2005. The Group's borrowings in foreign currency, international syndicated loans and private placements generally have maturities from two to five years.

	31/12/2006	*31/12/2005*
	(*ISK millions*)	
Bonds and bills issued	1,918,686	1,323,716
Loans	481,253	232,851
Total	2,399,939	1,556,567

Uses of Funds

The table below sets out a breakdown of the Issuer's uses of funds as at 31 December 2006 and 31 December 2005:

	31/12/2006	*31/12/2005*
	(*ISK millions*)	
Cash and cash balances with central banks	106,961	34,877
Loans to credit institutions and customers	3,023,943	1,739,294
Financial assets measured at fair value	665,129	612,534
Other assets	259,363	154,106
Total assets	4,055,396	2,540,811

The predominant lending activity of the Issuer is making loans to a range of corporate customers and private individuals.

The Issuer provides services to many sectors and has sought to establish a diversified portfolio of marketable securities and loans in order to minimise its lending risks.

The table below sets out the breakdown of the Issuer's loans to customers by category as at 31 December 2006:

	31/12/2006
Industry	24.3%
Services	19.9%
Real estate	15.6%
Individuals	16.6%
Trade	8.5%
Holding companies	13.5%
Transportation	1.6%

The table below sets out a breakdown by remaining maturity of the Group's loans to customers agreements as at 31 December 2006 and 31 December 2005:

	31/12/2006	*31/12/2005*
	(*ISK millions*)	
On demand	202,564	68,712
Up to 3 months	437,861	293,260
Over 3 months and up to 1 year	326,551	159,786
Over 1 year and up to 5 years	796,445	511,101
Over 5 years	775,188	510,841
	2,*538*,609	1,543,700

The Issuer's exposure to market risk in respect of bonds and derivatives amounts to ISK 390,171 million. The bond portfolio predominantly comprises AAA bonds. Kaupthing Bank hf. has entered into derivatives agreements amounting to ISK 8,718 million against its position in shares.

Risk Management

The Issuer faces various types of risks related to its business as a financial institution, which arise from its day to day operations. Management devotes a significant portion of its time to the management of these risks. The mainstays of effective risk management are the identification of significant risk, the quantification of the Issuer's risk exposure, actions to limit risk and the constant monitoring of risk. The most significant of these risks are discussed below. The most important types of financial risk to which the bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

Risk Policy of the Issuer

The assessment of risk, in particular the determination of its true price along with actions aimed at limiting the risk with sensible credit and investments in other assets, is one of the major tasks of banks and other financial institutions. Many risk factors can adversely affect the Issuer. It is the policy of the Board of Directors that the various risks that the Issuer faces in its business are to be constantly monitored and managed. For these purposes the Issuer operates a centralised risk management division. In addition, the Issuer's internal auditor oversees the operations in order to ensure that its rules are implemented in accordance with resolutions made by the Board of Directors.

The Board of Directors determine the Issuer's goals in terms of risk by issuing a risk policy. The risk policy both defines acceptable levels of risk for day-to-day operations, as well as the willingness of the Issuer to incur risk weighed against the expected rewards. The risk policy is detailed in the ICP Handbook.

It is incumbent upon the Risk Management division to enforce the risk policy and report risk to the management and board. Risk management for the bank is centralized and located at the parent company. Some types of risk in subsidiaries are managed directly from central Risk Management. In other cases risk in subsidiaries is handled locally but reported to and managed on a higher level by central Risk Management.

The process for risk management and risk control

Products containing credit risk

The Issuer's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this area is represented by such assets remaining on the balance sheet of the Issuer. The Issuer is also exposed to credit risk by way of other financial assets including derivative instruments used for hedging and debt investments. In addition, the Issuer is exposed to off balance sheet credit risk through commitments to extend credit and guarantees.

Loan portfolio: The main assets of the Issuer are its loans. To maintain and further improve the quality of the Issuer's loan portfolio it is necessary for the Issuer to review all applications and identify potential problem loans as early as possible, as well as constantly monitoring the current loan portfolio. However, it is not the policy of the Issuer to only offer loans that have a very low risk credit but it is important that the cost of the loan to a customer reflects both the credit risk and the costs incurred by the Issuer. This means that a detailed assessment of individual customers, their financial position and the collateral backing the loan is a prerequisite for the Issuer approving loans and advances.

Derivatives trading: Derivative financial instruments used by the Issuer include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices, commodity prices or price indices. Limits on the net open derivative positions on these types of contracts are strictly controlled by the Issuer. These limits are generally client specific and may refer specifically to different categories of contracts. Generally collateral is required to cover potential losses on a contract. Acceptable collateral for such derivative financial instruments is in the form of very liquid assets, for example cash or traded stocks. If the net negative position of the contract falls below a certain level, additional collateral is required. If additional collateral is not supplied the contract is terminated.

Commitments and guarantees: The Issuer commits itself to various forms of extended credit including limits on check accounts, credit cards and credit lines. Potential loss on these accounts can be equal to the amount of the limits although they may only be partly used at any one time. In practice, the potential loss is less severe since many of these commitments can be recalled immediately by the Issuer in cases where the clients do not meet the required credit standards. Guarantees expose the Issuer to credit risk on the full amount of the loan which the relevant guarantee supports as they represent irrevocable assurances that the Issuer will make any payments due to the relevant third party in the event that a customer cannot meet its obligations to such third party.

Master netting agreements

The Issuer frequently reduces its exposure to credit risk by entering into master netting agreements with customers that have significant and/or diverse credit related business with the Issuer. Master netting agreements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by these types of agreements since, following a default by a customer under one transaction, all transactions with such customer are terminated and settled on a net basis.

Credit risk strategy

In recent years the Issuer has aimed to maintain a healthy loan portfolio and improve the quality of the loans it originates. An example of this is the Issuer's entry into the Icelandic mortgage market which began in the latter half of 2004. A large number of customers have opted to refinance their existing consumer loans, which are generally considered as high risk, with mortgage loans. Mortgage loans now constitute more than half of the retail portfolio in Iceland. However, it is not the Issuer's aim to only offer loans that have a very low credit risk but it is important that the cost of a loan to a customer reflects both the credit risk and the costs incurred by the Issuer. Credit analysis is therefore a prerequisite for any positive credit decision and the pricing must take into account the risks and the required return on capital.

Credit process and authority
The Issuer's Credit Committee is at the pinnacle of the credit process and has overruling authority in matters relating to credit approval. The only exception to this is that any loans that would result in 10 % or more of the Issuer's capital being exposed to credit risk also need the approval of the Board Credit Committee. Moreover, the Group Credit Committee covers all large credit tenders, limits the lending authority of personnel, and restricts exposures to certain types of entities. In order to make use of local expertise a large part of the credit and collateral risk is maintained on a local level within the Issuer's subsidiaries. The same or similar credit rules apply to every subsidiary but, in addition, further requirements stipulated by local regulations may apply. To maintain a group-wide overview, the CEO or his deputy is a member of all local board level credit committees.

Credit risk monitoring
Credit risk is monitored within Risk Management. The Research and Development division within Risk Management is responsible for developing and maintaining credit monitoring and reporting systems and maintaining an overview of the work done in this area at the subsidiary level. The Research and Development division also performs numerical analysis of the loan portfolio at a Group level by, for example, estimating expected losses, concentrations within the loan portfolio and defaults within the loan portfolio in a systematic way. These findings are reported to management where possible risk concentrations toward certain counterparties, sectors, countries etc. are highlighted. There are two divisions within Risk Management to respond to specific signs of increased credit risk. Credit Control focuses on distressed clients and, in co-operation with the relevant profit centre, tries to minimise or prevent losses by monitoring clients who have deteriorating credit worthiness. Credit Control also oversees specific provisions and write-offs. Credit Risk Analysis monitors the integrity of the credit process i.e. in regard to data collection, limit compliance, application preparation, documentation and collateral registration and valuation. Local Risk Management divisions monitor, control and analyse credit risk at the subsidiary level and report their findings to the Issuer's Risk Management.

Loan provisioning
An allowance for credit losses is established if there is objective evidence that the bank will be unable to collect all amounts due on a claim, i.e. a loan, commitment, guarantee etc., according to the original contractual terms or the equivalent value. An allowance for credit losses is shown on a balance sheet as either a reduction of the value of a claim on the balance sheet or, for an off-balance sheet item such as a commitment; a provision for credit loss is reported in "Other liabilities". Allowances and provisions for credit losses are evaluated at a counterparty-specific level and collectively based on the following principles:

(a) ***Counterparty-specific***: A claim is considered impaired when there is objective evidence that it is likely that the Issuer will not be able to collect all amounts due according to the original contractual terms or the equivalent value. Individual credit exposures are evaluated based upon a borrower’s character, overall financial condition, resources and payment record, the prospects of support from any financially responsible guarantors and, where applicable, the realizable value of any collateral.

The estimated recoverable amount is the present value, using the loan’s original effective interest rate, of expected future cash flows which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the value of the claim on the balance sheet and the estimated recoverable amount. Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income.

All impaired claims are reviewed and analysed at least every three months. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates will result in a change in the allowances for credit losses and be charged or credited through impairment on loans.

An allowance for impairment is reversed only when the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim agreement.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established allowances for credit losses or directly to credit loss expense and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are credited to credit loss expense.

(b) ***Collectively:*** All loans in respect of which no impairment is identified on a counterparty-specific level are grouped into economically homogeneous portfolios to collectively assess whether impairment exists within a portfolio. Allowances from collective assessment of impairment are recognised as credit loss expenses and result in an offset to the loan position. As the allowance cannot be allocated to individual loans, interest is accrued on all loans according to contractual terms.

(c) ***Credit risk models:*** Emphasis has been placed within the Group on improving credit risk modelling on a group wide scale. Most of this work has been done within the Basel II framework, i.e. emphasis has been placed on models that estimate the probability of default of clients and loss parameters in the case of default. Where applicable, and together with the internal credit rating, the Issuer uses the services of external credit rating agencies and collection services to strengthen the credit process even further. The credit evaluation process is not only dependant upon quantitative numbers but on an array of qualitative factors as well. The general rule is that the larger the exposure the more detailed the analysis that is performed. For smaller exposures the due process is, however, fundamentally the same but requires less scrutiny and data. Guarantors are analysed in a similar manner.

Monitoring and controlling liquidity risk
The bank calculates the Secured Liquidity from a pool of secured liquid assets (secured assets are: deposits, repoable bonds, the securitisation pipeline, and unused revolvers with maturity above 360 days and no MAC clauses) against future liabilities. With the Secured Liquidity the bank has to be able to serve and repay all maturing debts for 360 days without any access to capital markets. Each of subsidiaries quantifies the Secured Liquidity in the same way then the Secured Liquidity is consolidated on a Group level.

At year end the number of days covered by the Secured Liquidity was 427 days.
Secured liquidity at year end in ISK billions is shown in the table below.

ISK billions	0-1M	1-3M	3-6M	6-12M	12-18M	18-24M
Secured Liquidity	856	573	360	121	-136	-237

Monitoring and controlling market risk
The bank's policy is to monitor its Group level market risk closely and to make sure that limits set by the Board of Directors are not exceeded.

Market risk is managed by exposure limits and with limits on risk measures, both monitored on a daily basis.

Derivatives
The Issuer's use of derivatives is mainly through derivative sales, but derivatives are also used in trading portfolios. The type of derivatives used by the Issuer includes swaps, futures, forwards, options and other similar types of contracts.

Derivative sales offers companies and institutional investors foreign exchange and a range of interest rate and currency derivatives for position taking and risk management. The market risk associated with derivatives sales is hedged on a portfolio basis and on a back-to-back basis.

The Issuer's trading portfolios take positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency prices and interest rates, and they also use derivatives to hedge certain market exposures. The level of exposure is controlled using individual trading limits as with other market risk.

Interest rate risk

The Issuer's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Issuer is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate and six-months LIBOR and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Issuer's business strategies. Interest rate risk is monitored centrally with duration reports and yield curve stress testing for each currency.

Interest-rate risk increased quite significantly at the end of 2004 following the introduction of fixed-interest mortgage products, but it remains closely monitored. The table below shows the interest rate risk by currency and maturity.

Trading interest rate risk refers to exposures in trading book where positions are market-to-market and profit or loss is recognised immediately but banking interest rate risk refers to exposure in banking book where profit or loss is realised over the lifetime of the exposure.

Interest Rate Risk by Currency and Maturity

Currency		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
ISK	Trading	(712)	33	535	1,916	(254)	1,518
	Banking	(903)	(109)	(313)	(738)	(15,048)	(17,111)
DKK	Trading	106	1,120	134	103	(2,745)	(1,282)
	Banking	(10)	(37)	(30)	360	(3,673)	(3,390)
EUR	Trading	(40)	135	416	(529)	1,493	1,475
	Banking	55	50	(123)	518	(692)	(192)
GBP	Trading	2	503	(126)	(151)	(2)	226
	Banking	(19)	(87)	(644)	(120)	(853)	(1,723)
USD	Trading	1	(302)	83	828	2	612
	Banking	(8)	(34)	(86)	(72)	(133)	(333)
CHF	Trading	51	89	(56)	3	0	87
	Banking	(2)	(40)	(92)	(21)	(37)	(192)
Other	Trading	(762)	196	(44)	735	(15)	110
	Banking	(9)	(68)	(113)	72	(332)	(450)

In order to ascertain what effect the changing of interest rates will have on the bank's risk exposure, the base yield curve is shifted 1%, e.g. if basic interest rates are 4% they are raised to 5%. Upon shifting the interest rate a profit/loss is made on those interest-earning assets and interest-bearing liabilities which the bank has in its trading book and investment book. The profit/loss which occurs when interest rates are shifted is shown in the graph above. For example, if interest rates in ISK with a duration of more than five years are moved up 1%, the bank will make a loss on its investment book of ISK 15,048 million and a loss of ISK 254 million on its trading book. The profit/loss for other currencies, in other periods and the total interest rate risk for each currency can be estimated in the same way.

Market price risk

Market price risk is the risk of loss due to changes in market prices. The Issuer's main exposures are through equities and bonds, but the management of currency risk is handled separately. Market price risk is measured by Value-at-Risk, and the total Group Value at Risk (99 %, 10 day) was ISK 5.5 billion as of 31 December 2006.

Currency risk
Currency risk is the risk of loss due to adverse movements in foreign exchange rates. The Issuer is exposed to some FX risk, in particular regarding the repatriation of non-ISK results. The Issuer consciously hedges part of the equity base against adverse movements in foreign exchange rates. Net exposures per currency are monitored centrally in the Issuer.

BOARD OF DIRECTORS OF THE ISSUER
The business address of each member of the board of directors is Borgartún 19, 105 Reykjavík, Iceland.

Board
Sigurdur Einarsson – Born 1960 • Executive Chairman of Kaupthing Bank hf. • Appointed Executive Chairman in 2003 • Cand. Polit from the University of Copenhagen • Joined Kaupthing Bank in 1994 • Mr Einarsson has the following holdings in the Issuer: 7,368,423 shares and 1,624,000 call options. Holdings of financially related parties in the Issuer: 14,111 shares.

Hjörleifur Thor Jakobsson – Born 1957 • Vice-Chairman of the Board of Directors of Kaupthing Bank hf. • Elected 2003 • CEO of Oliufelagid ehf., Chairman of the Board of Directors of Iceland Seafood International ehf. and Hafrahlid hf. and member of the Board of Directors of Egla hf. • Mr Jakobsson has the following holdings in the Issuer: 12,788 shares. Holdings of financially related parties in the Issuer: 8,827 shares.

Ásgeir Thoroddsen – Born 1942 • Elected 2003 • Attorney to the Supreme Court of Iceland, Chairman of the Board of Directors of Frjálsi lífeyrissjódurinn and Plastprent hf. and member of the Board of Directors of Bakkavör Group hf. • Mr Thoroddsen has the following holdings in the Issuer: 718 shares. Holdings of financially related parties: 501 shares.

Bjarnfredur H. Olafsson – Born 1967 • Elected 2003 • Attorney to the District Court of Iceland, Attorney to the District Court of Iceland and member of the Board of Directors of Bakkabraedur Holding BV and Fram Foods hf • He has the following holdings in the Issuer: 176 shares. Holdings of financially related parties in the Issuer: 352 shares.

Brynja Halldorsdottir – Born 1957 • Elected 2004 • CEO of Norvik ehf. and CFO in respect of all subsidiaries of Norvik ehf. • Ms Halldórsdóttir has the following holdings in the Issuer: 9,206 shares. Holdings of financially related parties: 14,112,048 shares. Holdings of financially related parties in the Issuer according to forward contracts: 4,817,500 shares.

Finnur Ingolfsson – Born 1954 • Elected 2003 • Mr Ingólfsson currently acts as chairman of the board of Icelandair Group hf., Icelandair ehf., and Bolmagn ehf.; board member of Foldás ehf., Hvanná ehf., Fikt ehf. and Íshestar ehf.; and CEO of Foldás ehf., Hvanná ehf. and Fikt ehf.• Mr Ingólfsson has the following holdings in the Issuer: 0 shares. Holdings of financially related parties in the Issuer: 154,000 shares.

Gunnar Páll Pálsson – Born 1961 • Elected 2001 • CEO of Commercial Workers' Union of Reykjavík (VR) and member of the Board of Directors of Lífeyrissjódur verslunarmanna • Mr Pálsson has the following holdings in the Issuer: 4,310 shares. Holdings of financially related parties in the Issuer: 5,922 shares.

Niels de Coninck-Smith – Born 1956 • Elected 2005 • CEO of Ferrosan A/S and member of the Board of Directors of Copenhagen International School, FVS A/S and Contura A/S • Mr de Coninck-Smith has the following holdings in the Issuer: 5,500 shares. Holdings of financially related parties in the Issuer: 0 shares.

Tommy Persson – Born 1948 • Elected 2002 • CEO of Lansforsakringar AB member of the Board of Directors of Lansforsakringar AB and Eureko BV and chairman of the Swedish

Insurance Employers' Association and EurAPCO AG • Mr Persson has the following holdings in the Issuer: 5,000 shares. Holdings of financially related parties in the Issuer: 0 shares.

Senior Management

Chief Executive Officer

The Issuer has one Chief Executive Officer who is appointed by the Board of Directors.

Hreidar Mar Sigurdsson – Chief Executive Officer (CEO). Born 1970 • Graduated with a degree in business administration from the University of Iceland in 1994. • Joined Kaupthing Bank in 1994. He was appointed Deputy CEO in 1998 and served as Managing Director of Kaupthing New York Inc. from its inception in 2000 until 2001. In 2003, Mr Sigurdsson was appointed as the CEO of Kaupthing Bank. He also served as the CEO of Kaupthing Bank's operations in Iceland until September 2005, when a separate CEO was appointed for Iceland and Mr Sigurdsson's responsibilities shifted focus to directing operations for the Kaupthing Bank group

Mr. Sigurdsson's business address is at Borgartún 19, 105 Reykjavík.

Mr Sigurdsson has the following holdings in Kaupthing Bank: 0 shares, 1,624,000 call options, 0 put options. Holdings of financially related parties: 6,572,039 shares. Related parties' rights according to a forward contract: 205,078 shares.

Managing Directors at Group level
Ásgrímur Skarphédinsson – Chief Information Officer (CIO)
Born 1958 • BS in electrical engineering from Odence Teknikum in Denmark • Joined Kaupthing Bank in 1997.

Gudni Níels Aðalsteinsson – Group Treasurer
Born 1967 • BS in economics from the University of Iceland, MBA from University of Cambridge • Joined Kaupthing Bank in 2005 from Credit Suisse.

Gudny Arna Sveinsdottir – Chief Financial Officer. (CFO)
Born 1966 • A business studies graduate with an MS from the University of Uppsala in Sweden. She has been with Kaupthing Bank since 2001.

Jónas Sigurgeirsson – Chief Communications Officer (CCO)
Born 1968 • BA in history from University of Iceland, studied towards a MBA degree at the University of Tampa, Florida 1999-2000. He has been with Kaupthing Bank since 2000.

Dr. Steingrimur P. Karason – Managing Director of Risk Management. (CRO)
Born 1968, an engineering graduate with a ScD in Mechanical Engineering from MIT Boston. He has been with Kaupthing Bank since 1997.

CEO of the operation unit in Iceland and Managing Directors of Principal Subsidiaries
Ingólfur Helgason – Chief Executive officer (CEO) of Kaupthing Bank in Iceland
Born 1967, a graduate in business administration from the University of Iceland. He joined Kaupthing in 1993 in 2005 he became CEO of Kaupthing Bank in Iceland.

Ármann Thorvaldsson – CEO of Singer & Friedlander (UK)
Born 1968 • BA in history from University of Iceland, MBA from Boston University. He joined Kaupthing in 1994 in 2005 he was appointed CEO of Singer & Friedlander.

Robert Charpentier – CEO of Kaupthing Bank Sverige AB (Sweden)
Born 1965 • M. Sc. (Econ) from Swedish School of Economics and Business Administration ("SSEBA"), Helsinki. Appointed CEO of Kaupthing Bank Sverige AB as of 1st January 2006. He joined Kaupthing from Swedbank Group.

Jan Petter Sissener – Managing Director of Kaupthing Norge (Norway)

Born 1955 • Graduated as an economist from the Institute of Business Administration in Oslo. Appointed Managing Director of Kaupthing Norge in 2005. Joined Kaupthing from Alfred Berg ABN Amro Norway.

Tommi Salunen – Managing Director of Kaupthing Bank Oyj (Finland)
Born 1972 • Graduated with a M.Sc. in economics with a focus on finance from the Helsinki School of Economics. In 2006 he was appointed Managing Director of Kaupthing Bank Oyj.

Lars Johansen – Managing Director of FIH Erhvervsbank A/S (Denmark)
Born 1945 • Graduated from the University of Copenhagen with a Master's in economics and received his PMD from Harvard Business School in 1984. Since 1998 he has served as Managing Director of FIH Erhvervsbank A/S.

Magnús Gudmundsson – Managing Director of Kaupthing Bank Luxembourg
Born 1970 • Business studies graduate from University of Iceland. Joined Kaupthing 1994, in 1998 he went to Luxembourg to set up the bank operation there. Serves as Managing Director together with Johnie W. Brøgger.

Johnie W. Brøgger – Managing Director of Kaupthing Bank Luxembourg
Born1958 • Master in Accounting from Copenhagen School of Economics and Business Administration. Joined Kaupthing in 1999, serves as Managing Director together with Magnús Gudmundsson.

Magnus C. Lejdstrom – CEO of Kaupthing New York
Born 1969 • Magnus graduated from the University of Vermont School of Business in 1991 with a BSc in business administration and a specialization in finance. Joined Kaupthing in 2004 and became President of Kaupthing Securities Inc. and CEO of Kaupthing New York in 2005

Peter Holm – Managing Director of Kaupthing Føroyar (Faroe Islands)
Born 1968 • BSc in computer science and economics and MSc in finance and accounting from the Copenhagen Business School. Has been with Kaupthing since 2000.

No member of any administrative, management or supervisory body of the Issuer has any actual or potential conflict of interest between his or her duties to the Issuer and his or her private interests or other duties.

Internal Auditor
Lilja Steinþorsdottir – Internal Auditor.
Born 1949. Graduated from Technological Institute, Copenhagen, Denmark as a Laboratory technician in 1973 and as a Cand. Oceon from University of Iceland, Reykjavik, (BS plus one year) in Business Administration in 1980. In 1998 Ms Steinthórsdóttir graduated from the University of Edinburgh, UK with MBA degree and has been a Certified Public Accountant since 1984. Joined Kaupthing from The Central Bank of Iceland in 2006.

State Authorised Public Accountants
The state authorised public accountants of Kaupthing Bank are KPMG hf. and on their behalf, Saemundur Valdimarsson and Reynir Stefan Gylfason.

Saemundur Valdimarsson
Born 1963. State Authorised Public Accountant. Accountant of Kaupthing Bank from 2006.
Business address: KPMG hf., Borgartuni 27, 105 Reykjavik, Iceland.

Reynir Stefan Gylfason
Born 1973. State Authorised Public Accountant. Accountant of Kaupthing Bank from 2005.
Business address: KPMG hf., Borgartuni 27, 105 Reykjavik, Iceland.

Sigurdur Jónsson
Born 1956. State Authorised Public Accountant. Accountant of Kaupthing Bank until 2006. Business address: KPMG hf., Borgartuni 27, 105 Reykjavik, Iceland.

Selected financial information

Set out on the following table are a two year summary consolidated profit and loss account, balance sheet and key ratios for the Group prepared in accordance with IFRS. All amounts are in millions ISK except percentages.

	2006	*2005*
Profit and Loss		
Net interest income..	52,362	32,710
Other operating income	114,854	69,488
Net operating income	167,216	102,198
Other operating expenses	-60,006	-35,525
Impairment on loans, advances and other assets	-6,127	-4,389
Taxes	-14,636	-11,228
Net earnings	86,447	51,056
Net shareholders' earnings	85,302	49,260
Minority interest	1,145	1,796
Balance Sheet Assets		
Cash balance with central banks....................................	106,961	34,877
Loans and advances..	3,023,943	1,739,294
Bonds and debt instruments...	318,264	390,575
Shares and equity instruments	159,020	114,355
Derivatives	65,454	21,047
Derivatives used for hedging..	6,453	4,459
Securities used for hedging	115,938	82,098
Investment in associates	5,304	13,888
Intangible assets	68,301	54,943
Investment property...	31,584	24,156
Property and equipment..	30,466	22,433
Current and deferred tax assets......................................	5,834	5,004
Other assets	117,874	33,682
Total assets	4,055,396	2,540,811
Liabilities and equity		
Deposits..	861,114	555,818
Other liabilities	2,643,360	1,679,793
Minority interest	11,382	8,329
Subordinated loans	216,030	102,688
Shareholders' equity..	323,510	194,183
Total liabilities and equity	4,055,396	2,540,811
KEY RATIOS		
Cost/income ratio	35.9%	34.8%
Return on shareholders' equity......................................	42.4%	34.0%
Impairment on loans and advances.................................	0.2%	0.2%

	2006	2005
Total credit reserves	0.6%	0.7%
Earnings per share, (ISK)	127.1	75.2
Earnings per share diluted, (ISK)	123.4	73.9
Average no. of shares outstanding, (million)..................	671	655
Avg. no. of shares outstanding diluted (million)	691	666
No. of shares at end of period, (million).........................	732	664
No. of shares at end of period diluted, (million).............	752	675

9. Material Adverse or Significant Change

Except as disclosed herein, as of the date of this Registration Document there has been no material adverse change in the prospects of the Issuer or the Issuer and its subsidiaries, taken as a whole, since 31 December, 2006.

Except as disclosed herein, as of the date of this Registration Document there has been no significant change in the financial position of the the Issuer or the Issuer and its subsidiaries, taken as a whole, since 31 December, 2006.