KAUPTHING BANK

30 January 2007
Earnings release

Kaupthing Bank's 2006 annual results

Net earnings of ISK 85.3 billion (€971 million)

- **Shareholders' net earnings of ISK 85.3 billion (€971 million) in 2006, compared with ISK 49.3 billion (€659 million) in 2005. Pre-tax earnings of ISK 101.1 billion (€ 1,150 million).**
- **Shareholders' net earnings of ISK 18.1 billion (€191 million) in the fourth quarter of 2006, compared with ISK 14.8 billion (€156 million) for the same period in 2005.**
- **Return on equity in 2006 was 42.4%.**
- **Earnings per share of ISK 127.1 in 2006 (ISK 75.2 in 2005). Earnings per share of ISK 26.1 in fourth quarter (ISK 22.4 for the same period in 2005).**
- **Net financial income of ISK 60.2 billion (€685 million) in 2006 – increasing by 61.4% from 2005.**
- **Net interest and commission income of ISK 26.7 billion (€300 million) in the fourth quarter of 2006 – increasing by 69.5% compared with the same period in 2005.**
- **Operating income of ISK 40.9 billion (€460 million) in the fourth quarter of 2006 – increasing by 25% compared with the same period in 2005.**
- **Total assets of ISK 4,055 billion (€42.9 billion) at the end of December 2006, increasing by 37.1% at a fixed exchange rate during the year and by 59.6% in ISK.**
- **In October the Bank paid out 7.7% of the total share capital of Exista to shareholders in the form of dividends. Dividends amounted to ISK 27.5 per share.**
- **75,900,000 new shares were sold in an offering in November at a price of ISK 750 a share (SEK 75), increasing share capital by 11.4% and generating proceeds of ISK 55.6 billion.**
- **The Board of Directors will submit a proposal to the Annual General Meeting recommending that shareholders will be paid dividends amounting to ISK 10,366 million (€118 million) for the operating year 2006, or ISK 14 per share, which corresponds to 12,2% of net earnings.**

Hreidar Már Sigurdsson, CEO
"Kaupthing performed excellently during the year and 2006 was yet another record year. Most of our subsidiaries delivered record profits and it is pleasing to see the Bank's revenue base go from strength to strength. The growth of both commission and interest income is encouraging and clearly demonstrates that we are taking full advantage of the closer collaboration between different business units and locations. Looking ahead to 2007 we are confident that our growth strategy will continue to create opportunities for our clients, as serving their needs will remain our key focus."

Key figures

ISK billions	2006	2005	Change	Q4 2006	Q4 2005	Change
Operating income	167.2	102.2	64%	40.9	32.7	25%
Operating expenses	60.0	35.5	69%	18.8	11.4	65%
Shareholders' net earnings	85.3	49.3	73%	18.1	14.8	22%
Cost/income ratio	35.9%	34.8%		46.1%	34.9%	
Earnings per share, ISK	127.1	75.2	69%	26.1	22.4	16%
Return on equity	42.4%	34.0%		28.9%	38.7%	

Balance Sheet amounts stated in EUR are converted from ISK at the end of period cross-rate of 94.61. Other YTD amounts stated in EUR are converted from ISK at an average cross-rate of 87.87 and amounts for fourth quarter at an average cross-rate of 88.94.

KAUPTHING BANK

Income Statement

ISK millions	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
Net interest income	14,806	12,687	14,384	10,484	9,529	9,487
Net commission income	11,866	7,632	9,184	8,602	6,203	6,862
Net financial income	12,003	37,256	-2,607	13,505	13,960	4,772
Other income	2,241	2,210	10,102	2,860	2,855	1,997
Operating income	**40,915**	**59,785**	**31,064**	**35,451**	**32,547**	**23,118**
Salaries and related cost	-10,572	-7,315	-8,263	-7,420	-6,840	-5,178
Other administrative cost	-8,274	-6,488	-6,542	-5,133	-4,437	-4,543
Operating expenses	**-18,846**	**-13,803**	**-14,805**	**-12,553**	**-11,277**	**-9,721**
Impairment	-1,637	-2,820	-961	-710	-1,789	-928
Profit before income tax	20,433	**43,163**	**15,299**	**22,188**	**19,481**	**12,470**
Income tax	-1,793	-7,630	-2,618	-2,595	-4,018	-2,429
Net earnings	**18,640**	**35,533**	**12,680**	**19,593**	**15,463**	**10,041**
Shareholders of Kaupthing Bank	18,077	35,393	13,035	18,798	14,786	9,708
Minority interest	564	140	-354	796	678	333
Earnings per share, ISK	26.1	53.4	19.6	28.3	22.4	14.8

Balance Sheet

ISK billions	31/12/06	31/12/05		31/12/06	31/12/05
Cash bal. with central banks	107	35	Credit institutions	110	70
Loans to credit institutions	485	196	Deposits	751	486
Loans to customers	2,539	1,544	Borrowings	2,400	1,557
Bonds and debt instruments	318	391	Subordinated loans	216	103
Shares and equity instruments	159	114	Mortgage funding at FV	11	15
Derivatives	65	21	Insurance liabilities	8	6
Derivatives used for hedging	6	4	Trading liabilities	51	32
Securities used for hedging	116	82	Derivatives used for hedging	9	13
Financial assets AFS	0	0	Provisions	5	3
Investment in associates	5	14	Tax liabilities	23	18
Intangible assets	68	55	Liabilities classified as HFS	1	1
Investment property	32	24	Other liabilities	135	34
Property and equipment	30	22	Minority interest	11	8
Tax assets	6	5	Shareholders' equity	324	194
Non-current assets held for sale	2	2			
Other assets	115	31			
Total Assets	**4,055**	**2,541**	**Total Liabilities and Equity**	**4,055**	**2,541**

Results by division

YTD 2006

ISK millions	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Eliminations and other divisions	Total
Net interest income	-1,513	-3,349	11,492	45,903	817	-988	52,362
Net commission income	7,396	9,577	2,927	5,744	11,230	409	37,284
Net financial income	7,913	42,984	8,411	750	531	-432	60,157
Other income	0	43	25	6,631	962	9,751	17,413
Operating income	**13,795**	**49,256**	**22,856**	**59,028**	**13,541**	**8,740**	**167,216**
Operating expenses	6,205	3,636	3,078	14,969	7,380	24,738	60,006
Impairment	123	-1	5	4,851	1,138	11	6,127
Total expenses	**6,328**	**3,635**	**3,083**	**19,820**	**8,518**	**24,749**	**66,133**
Profit before cost allocation	**7,467**	**45,621**	**19,773**	**39,208**	**5,022**	**-16,009**	**101,083**
Allocated cost	3,206	888	2,015	8,744	3,427	-18,279	0
Profit before income tax	**4,262**	**44,733**	**17,758**	**30,465**	**1,595**	**2,271**	**101,083**

The rounding-up of figures may mean that tables in this earnings release do not tally.

KAUPTHING BANK

Income statement

The effect of the depreciation of the ISK on the Bank's accounts
Kaupthing Bank's functional currency is the Icelandic króna (ISK). The ISK depreciated by 23.1% during 2006. It dropped 28.0% in value during the first half of the year but it recovered to some extent during the second half of the year. This depreciation partly explains the increase in income and expenses as well as assets and liabilities.

Earnings
Kaupthing Bank reported a profit before income tax of ISK 101,083 million in 2006, compared with ISK 62,284 million in 2005. Shareholders' net earnings totalled ISK 85,302 million in 2006, compared with ISK 49,260 million in 2005, an increase of 73.2%. Earnings per share in 2006 were ISK 127.1, compared with ISK 75.2 in 2005.

Kaupthing Bank's profit before income tax for the fourth quarter of 2006 amounted to ISK 20,433 million, compared with ISK 19,481 million for the same period in 2005. Shareholders' net earnings for the fourth quarter totalled ISK 18,077 million, compared with ISK 14,786 million for the same period in 2005, an increase of 22.3% between periods. Earnings per share for the fourth quarter were ISK 26.1, compared with ISK 22.4 during the fourth quarter of 2005.

Income
Operating income in 2006 totalled ISK 167,216 million, an increase of 63.6% compared with 2005. The increase in operating income when deducting financial income from the sale of the Bank's holding in Exista in connection with the listing of the company (ISK 26,084 million) and capital gains from the sale of the Bank's entire holding in VÍS hf. (ISK 7,421 million) is 31.8%

Net interest income in 2006 totalled ISK 52,362 million, an increase of 60.1% compared with 2005. This increase is mainly attributable to the consolidation of Kaupthing Singer & Friedlander (previously Singer & Friedlander) into the Bank's accounts from the third quarter of 2005. Rising inflation in Iceland and the partially depreciation of the ISK during the period also had a considerable impact. Net interest income for the fourth quarter amounted to ISK 14,806 million, an increase of 55.4% compared with the fourth quarter of 2005.

The net interest margin, or interest income less interest expenses as a percentage of average total interest earning assets, was 1.77% during 2006, compared with 1.86% in 2005. Net interest margin decreased as a result of a number of factors, i.e. the Bank's decision to increase its liquidity (with excess liquidity invested in lower interest bearing assets) and less favourable conditions in the funding markets compared with 2005. The table below shows net interest income by country:

ISK Millions	Net interest income
Iceland	16.592
Scandianvia	17.311
UK	12.098
Luxembourg	4.884
Other	1.477
Total	**52.362**

Note that allocation of equity by country is now used when calculating the net interest margin. Consequently the figures published on net interest margin specified by country in the Bank's interim financial statements are not comparable to figures for the year as a whole.

The net interest spread (calculated as the average rate on total interest bearing assets less average cost of total interest bearing liabilities) was 1.80% during 2006, compared to 1.92% in 2005. This decrease was partially due to increased interest expenses related to a higher spread on issued bonds and borrowings, which was offset by increased interest income from inflation-linked Icelandic mortgages as a result of overall higher inflation in 2006 compared with 2005 and from the depreciation of the ISK.

Net commission income in 2006 totalled ISK 37,284 million, an increase of 66.2% compared with 2005. Thereof ISK 4.418 million is attributable to the increase in commission income in Iceland and ISK 2.346 million to the consolidation of Kaupthing Singer & Friedlander into the Bank's accounts from the third quarter of 2005. Net commission income for the fourth quarter amounted to ISK 11,866 million, an increase of 91.3% compared with the fourth quarter of 2005. This increase is due to a general increase in commission income at all the Bank's profit centres.

Net financial income, which includes dividend income, net gain on financial assets/liabilities at fair value, net gain on financial assets/liabilities not at fair value and net foreign exchange difference, totalled ISK 60,157 million in 2006, an increase of ISK 22,875 million from 2005. The main reason for this increase is net financial income from the sale of the Bank's holding in Exista in connection with the listing of the company on the Iceland Stock Exchange. Dividend income was mainly from the Bank's shareholdings in Icelandic and Scandinavian companies.

Net financial income for the fourth quarter amounted to ISK 12,003 million, compared with net financial income of ISK 13,960 million for the fourth quarter of 2005. Net gain on financial assets in 2006 is specified as follows by geographical location:

ISK Millions	Iceland	Scandinavia	UK	Luxembourg	Other	**Total**
Net gain from bonds and fixed income securities	-3,427	-1,437	-1,382	-20	0	**-6,266**
Net gain from equity and variable income securities	29,871	15,559	5,861	1,222	147	**52,659**
Net gain from derivatives	6,275	49	1,422	586	0	**8,331**
Net gain from hedge accounting instruments	0	356	3	0	0	**358**
Total	**32,719**	**14,525**	**5,904**	**1,788**	**147**	**55,082**
Dividend income	2,276	2,655	72	54	18	**5,074**
Net financial income total	**34,995**	**17,181**	**5,975**	**1,842**	**164**	**60,157**

Other income totalled ISK 17,413 million in 2006, compared with ISK 9,779 million in 2005. Thereof ISK 7,421 million was generated by the sale of the Bank's entire holding in VÍS during the second quarter. This item also includes net earnings from associated companies of ISK 1,194 million and income from Kaupthing Singer & Friedlander's operating leases of ISK 4,128 million in 2006.

Expenses

Operating expenses totalled ISK 60,006 million in 2006, an increase of 68.9% from 2005. The increase between years is partly due to the inclusion of Kaupthing Singer & Friedlander in the consolidated accounts from the third quarter of 2005. Furthermore, there has been a sharp increase in the number of employees and a general increase in the Bank's activities. The 23.1% depreciation of the ISK has also raised operating expenses.

The cost-to-income ratio in 2006 was 35.9%, compared with 34.8% in 2005. Operating expenses for the fourth quarter of 2006 amounted to ISK 18,846 million, increasing by 65.4% compared with the fourth quarter of 2005. The cost-to-income ratio for the fourth quarter was 46.1%, compared with 34.9% in the fourth quarter of 2005.

Salaries and related expenses in 2006 totalled ISK 33,570 million, increasing by 65.2% from 2005. This increase is primarily due to the consolidation of Kaupthing Singer & Friedlander into the group from the third quarter of 2005, which at the time employed 519 people. The increase in salary expenses is also partly explained by a general increase in the number of employees and performance related payments made during the year. The Bank also entered a one-off expense of ISK 590 million in connection with the establishment of Capital Markets units at its UK and Danish subsidiaries and the expansion of its Investment Banking unit in Denmark. Salaries and related expenses for the fourth quarter of 2006 totalled ISK 10,572 million, an increase of 54.6% compared with the fourth quarter of 2005. The number of full-time equivalent positions at the Bank was 2,719 on 31 December 2006, compared with 2,368 on 31 December 2005, an increase of 351 or 15%.

Other operating expenses amounted to ISK 26,437 million in 2006, increasing by ISK 11,230 million from 2005, or 73.8%. In addition to costs associated with the consolidation of Kaupthing Singer & Friedlander into the group during the third quarter of 2005 and the UK subsidiary's integration with the group, the rise in costs is a result of a general increase in activities at most of the Bank's offices. Other operating expenses totalled ISK 8,274 million in the fourth quarter, an increase of 81.8% compared with the fourth quarter of 2005.

Impairment on loans amounted to ISK 4,857 million in 2006, compared with ISK 2,450 million in 2005. The main reason behind this increase is a rise in loan losses at Kaupthing Singer & Friedlander. Notwithstanding this impairment, impairments have generally remained stable, reflecting the increased quality of the Bank's loan portfolio, despite a 64.4% increase in the size of the loan portfolio.

Impairment on intangible assets totalled ISK 1,270 million in 2006, all in Kaupthing Singer & Friedlander's asset management business in the UK.

Income tax expense amounted to ISK 14,636 million in 2006, compared with ISK 11,228 million in 2005.

Balance sheet

Assets
The Bank's total assets on 31 December amounted to ISK 4,055 billion, increasing by ISK 1,515 billion or 59.6% since the beginning of the year. Taking into account the 23.1 % depreciation of the ISK in 2006 the Bank's total assets increased by 37.1% in 2006.

Loans to customers increased from ISK 1,544 billion to ISK 2,539 billion, or by 64.4%, in 2006, 39.1% at a fixed exchange rate) whilst loans from credit institutions increased from ISK 195.6 billion to ISK 485.3 billion, an increase of 148.1% (111.8% at a fixed exchange rate). The rise in loans from credit institutions is a result of the Bank's decision to increase liquidity.

Financial assets as of 31 December totalled ISK 665.1 billion, increasing by ISK 52.6 billion from the beginning of the year, or 8.6%. Taking into account the depreciation of the ISK there was a 4.2% decrease. Financial assets held for trading amounted to ISK 297.9 billion at year-end, decreasing by 11.6% from the beginning of the year. Financial assets designated at fair value totalled ISK 360.6 billion, increasing by 33.2% from the beginning of the year. Derivatives used for hedging amounted to ISK 6.5 billion, compared with ISK 4.5 billion at the beginning of the year. Positions in shares and equity instruments amounted to ISK 159.0 billion on 31 December. Furthermore the Bank holds shares as hedge against derivatives amounting to ISK 49.2 billion. The Bank is furthermore not exposed to market risk of ISK 3.5 billion due to minority interests in the Bank's subsidiary Norvestia in Finland. Listed shares amounted to ISK 113.8 billion or 2.8% of the Bank's total assets as of 31 December 2006. Of this total, ISK 40.1 billion is listed on the Iceland Stock Exchange, or 35.3%.

Holdings in unlisted shares totalled ISK 45.2 billion, or 1.1% of the Bank's total assets as of 31 December, compared with 1.6% at the beginning of the year. The Bank’s two largest positions in unlisted shares represented approximately 32% of the value of unlisted shares. The table below shows the Bank's largest positions in unlisted shares:

Company	Country	Sector	Share
Síminn	Iceland	Telecommunication	28%
Somerfield	UK	Retailer	9%
Ferskur Holding 1 B.V	Holland	Consumer retail	21%
LD Equity	Denmark	Investment company	23%

The Bank is now preparing to set up a special fund, *Kaupthing Capital Partners II,* to handle its private equity investments. From the beginning of 2007 all private equity investments will be pooled in this fund. Kaupthing Bank plans to invite institutional investors to invest in the fund during 2007. Assets of the Bank in private equity at the end of 2006 will not be pooled in Kaupthing Capital Partners II.

The Board of Directors agreed during the third quarter that the Bank's holdings in listed and unlisted shares (Shares and equity instruments) should be less than 35% of the Bank's risk capital. As of 31 December the ratio totalled 34.5%. Thereof, the ratio of listed shares was 24.7% and unlisted shares 9.8% of the risk capital.

Over the last ten years a feature of the Bank’s activities has been to invest in unlisted companies with the aim of selling its holdings within a certain timeframe, for example at the same time as a company becomes listed on a stock market. In connection with these investments Kaupthing Bank has been able to advise companies and has been involved in financial restructuring, mergers and acquisitions in order to facilitate stock market listings for companies. Examples of such cooperation in recent years include Össur hf. (prosthetics manufacturer), Bakkavör Group (food producer) and Mosaic Fashions (fashion retailer). Kaupthing Bank thereby plays an active role in the development of companies which engage Kaupthing Bank's Investment Banking division, and it clearly illustrates that the prosperity of the Bank is closely linked with that of its customers.

Other assets totalled ISK 117.9 billion as of 31 December 2006 and increased by 250.0% from the beginning of the year. This increase is mainly due to unsettled transactions.

Liabilities and equity
Liabilities to *credit institutions and central banks* totalled ISK 110.5 billion as of 31 December 2006 and increased by ISK 40.8 billion or 58.6% during the year.

Deposits amounted to ISK 750.7 billion as of 31 December, increasing by ISK 264.5 billion from the beginning of the year, or by 54.4%. Deposits increased by 30.2% taking into account the 23.1% depreciation of the ISK during 2006. Deposits represented 18.5% of the Bank's total assets as of 31 December, compared with 19.1% at the beginning of the year. Deposits as a ratio of loans to customers equalled 29.6% at the end of 2006, compared with 28.0% at the end of 2005.

Borrowings amounted to ISK 2,399.9 billion as of 31 December 2006, compared with ISK 1,556.6 billion at the beginning of the year, an increase of ISK 843,4 billion or 54.2%. Borrowings increased by 48.5% taking into account the 23.1% depreciation of the ISK during 2006. This increase is primarily related to new bonds issued in the US.

Shareholders' equity amounted to ISK 323.5 billion as of 31 December 2006, compared with ISK 194.2 billion at the beginning of the year, an increase of ISK 129.3 billion or 66.6%. This takes into account the dividend payment to the Bank's shareholders in the form of shares in Exista hf. (7.7% of Exista's total share capital) which was paid out at the end of October at a fair value of ISK 18.3 billion.

The Board of Directors decided last autumn not to hedge in full the net investment in the Bank's foreign operations against the exchange rate of the ISK. The 23.1% depreciation of the ISK in 2006 resulted in an increase in equity reserves in accordance with IFRS.

The Bank's equity base was ISK 460.8 billion as of 31 December 2006. The CAD ratio was 15.0% as of 31 December, compared with 12.2% at the beginning of the year. Tier 1 capital was 10.5%, compared with 9.4% at the beginning of the year. It is the objective of the Bank’s management that Tier 1 capital is at least 8.0% and the CAD ratio is at least 11.0%.

As of 31 December the Bank's share capital was ISK 7,404,530,530 at nominal value, which was divided into 740,453,053 shares. The total number of shareholders as of 31 December was 31,730. One shareholder owned more than 10% of share capital: Exista which owned 23.0%. As of 31 December 2006 Kaupthing Bank owned a 3.2% holding in Exista.

Dividend payments

Kaupthing Bank’s policy on dividend payments is to pay out annually 10–30% of net earnings. The amount of dividends declared is subject to applicable restrictions on the payment of dividends under Icelandic law and other such factors, which the Board may deem relevant. At the Bank’s Annual General Meeting the Board of Directors will propose that ISK 10,366 million be paid in dividends to shareholders for the year 2006, which corresponds to ISK 14 per share and represents 12.2% of net earnings for the year 2006.

KAUPTHING BANK

Operating results of Kaupthing Bank's profit centres

Kaupthing Bank divides its operations into five profit centres plus ancillary units. The Bank's profit centres (business units) are: Banking, Capital Markets, Treasury, Investment Banking and Asset Management & Private Banking.

All of the Bank's profit centres made a profit before income tax during the fourth quarter of 2006. The highest profit before income tax during the quarter was reported by Banking, or ISK 6,979 million. Treasury reported a profit before income tax of ISK 5,670 million, Investment Banking ISK 6,048 million, Capital Markets ISK 2,504 million and Asset Management & Private Banking reported a profit of ISK 1,330 million. The table below shows the operating results of the Bank's profit centres for the fourth quarter.

ISK millions - Q4 2006	Capital Markets	Investment Banking	Treasury	Banking	Asset management och Private banking	Eliminations and other divisions	Total
Net interest income	-610	-914	3,652	12,471	254	-48	14,806
Net commission income	2,244	3,792	825	1,662	3,221	122	11,866
Net financial income	4,407	4,592	2,828	320	110	-254	12,003
Other income	0	7	23	1,712	605	-105	2,241
Operating income	**6,041**	**7,477**	**7,328**	**16,165**	**4,190**	**-285**	**40,915**
Operating expenses	-2,513	-1,310	-983	-4,602	-2,037	-7,401	-18,846
Impairment	0	4	0	-1,621	0	-19	-1,637
Total expenses	**-2,513**	**-1,306**	**-983**	**-6,223**	**-2,037**	**-7,420**	**-20,482**
Profit before cost allocation	**3,528**	**6,171**	**6,345**	**9,942**	**2,153**	**-7,705**	**20,433**
Allocated cost	-1,024	-123	-675	-2,963	-823	5,608	0
Profit before income tax	**2,504**	**6,048**	**5,670**	**6,979**	**1,330**	**-2,098**	**20,433**

Banking

Banking provides general banking services to individuals in Iceland as well as services such as advice and assistance in financing to Sees and larger corporates, particularly in Iceland, Sweden, the UK and Denmark.

Banking made a profit before income tax of ISK 6,979 million for the fourth quarter of 2006. Operating income totalled ISK 16,165 million, an increase of 5.6% compared with the third quarter of 2006. Total expenses amounted to ISK 6,223 million, an increase of 17.1% compared with the third quarter of 2006. During the last two quarters impairment on loans has been unusually high in Banking and this is primarily due to certain loans at Kaupthing Singer & Friedlander in the UK. The increase in operating expenses between quarters was chiefly caused by higher salary payments in connection with the Bank's strong results in 2006.

ISK millions	**Q4 2006**	**Q3 2006**	**Q2 2006**	**Q1 2006**	**Q4 2005**	**Q3 2005**
Net interest income	12,471	11,959	11,264	10,208	9,720	8,897
Net commission income	1,662	1,560	1,389	1,133	706	874
Net financial income	320	63	164	203	138	94
Other income	1,712	1,722	1,977	1,220	1,651	1,304
Operating income	**16,165**	**15,305**	**14,794**	**12,764**	**12,215**	**11,169**
Operating expenses	-4,602	-3,630	-3,433	-3,304	-3,757	-3,354
Impairment	-1,621	-1,684	-841	-705	-224	-546
Total expenses	**-6,223**	**-5,313**	**-4,274**	**-4,009**	**-3,981**	**-3,900**
Profit before cost allocation	**9,942**	**9,992**	**10,520**	**8,755**	**8,234**	**7,269**
Allocated cost	-2,963	-1,567	-2,181	-2,033	-1,740	-1,375
Profit before income tax	**6,979**	**8,425**	**8,339**	**6,722**	**6,494**	**5,894**

KAUPTHING BANK

Capital Markets
Capital Markets comprises two separate profit divisions: the Capital Markets division and the Proprietary Trading division. The Capital Markets division handles securities brokerage for the Bank's clients. The Proprietary Trading division handles transactions for the Bank's own account in all major markets, as well as undertaking the Bank's market making for stocks and bonds. An organizational change was introduced on 1 January 2007 whereby Proprietary Trading was moved into Treasury. From that date onwards the results of Proprietary Trading will be included with those of Treasury. At the same time the foreign exchange and derivatives trading units were transferred from Treasury to Capital Markets and will be included in the results of Capital Markets from 1 January 2007. The purpose of these changes was to further demarcate securities brokerage for clients and proprietary trading for the Bank's own account.

Capital Markets made a profit before income tax of ISK 2,504 million for the fourth quarter of 2006. Operating income amounted to ISK 6,041 million, compared with ISK 3,427 million in the third quarter of 2006. This increase is chiefly due to strong growth in commission income resulting from increased activities in the UK and Sweden, and a twofold increase in financial income, which chiefly came from the Bank's Nordic equities portfolio as market conditions were highly favourable for the Bank during the quarter. Total expenses amounted to ISK 2,513 million and increased by 82.4% compared with the third quarter of 2006. This significant increase between quarters is due to higher salary payments connected with the division's strong results during the quarter. The rise in operating expenses between years was due to the fact that the number of employees in the division almost doubled during the year.

ISK millions	**Q4 2006**	**Q3 2006**	**Q2 2006**	**Q1 2006**	**Q4 2005**	**Q3 2005**
Net interest income	-610	-528	16	-392	-434	-37
Net commission income	2,244	1,686	1,594	1,873	1,512	984
Net financial income	4,407	2,269	-6,515	7,752	4,949	2,519
Other income	0	0	0	0	35	0
Operating income	**6,041**	**3,427**	**-4,905**	**9,233**	**6,062**	**3,466**
Operating expenses	-2,513	-1,377	-1,329	-986	-1,022	-667
Impairment	0	0	-123	0	0	0
Total expenses	**-2,513**	**-1,377**	**-1,452**	**-986**	**-1,022**	**-667**
Profit before cost allocation	**3,528**	**2,049**	**-6,357**	**8,247**	**5,040**	**2,799**
Allocated cost	1,024	-643	-901	-638	-585	-390
Profit (loss) before income tax	**2,504**	**1,407**	**-7,258**	**7,609**	**4,455**	**2,409**

Treasury
Treasury is responsible for the Bank's funding, inter-bank trading, derivatives, and foreign exchange trading and brokerage. An organizational change was introduced on 1 January 2007 whereby the foreign exchange and derivatives trading units were transferred from Treasury to Capital Markets and will be included in the results of Capital Markets from 1 January 2007. At the same time Proprietary Trading was moved into Treasury. From 1 January 2007 the results of Proprietary Trading will be included with those of Treasury.

Treasury made a profit before income tax of ISK 5,670 million for the fourth quarter of 2006. Operating income amounted to ISK 7,328 million and increased by 24.6% compared with the third quarter of 2006. Net interest income increased by 55.9% between quarters. This increase is largely due to interest income from cash which the Bank has not disposed of following the share offering which took place at the end of November 2006. Net commission income increased by 77.8% between quarters which is largely a result of an increase in foreign exchange and derivatives trading. Financial income remained stable between quarters and is primarily attributable to financial income from derivatives trading. Total expenses amounted to ISK 983 million, an increase of 22.9% between quarters.

ISK millions	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
Net interest income	3,652	2,343	3,861	1,636	1,729	1,048
Net commission income	825	464	791	847	336	390
Net financial income	2,828	3,072	1,109	1,402	1,010	545
Other income	23	1	2	0	0	0
Operating income	**7,328**	**5,880**	**5,763**	**3,885**	**3,075**	**1,983**
Operating expenses	-983	-799	-742	-554	-552	-392
Impairment	0	-1	2	-6	33	17
Total expenses	**-983**	**-800**	**-740**	**-560**	**-519**	**-375**
Profit before cost allocation	**6,345**	**5,080**	**5,023**	**3,325**	**2,556**	**1,608**
Allocated cost	-675	-386	-491	-463	-261	-212
Profit before income tax	**5,670**	**4,694**	**4,532**	**2,862**	**2,295**	**1,396**

Investment Banking

Investment Banking is responsible for assisting companies in stock offerings and advises on mergers and acquisitions.

Investment Banking made a profit before income tax of ISK 6,048 million during the fourth quarter. Operating income totalled ISK 7,477 million, compared with 31,845 in the third quarter, when profit from the Bank's holding in Exista was entered into the accounts. Net commission income amounted to ISK 3,792 million for the quarter, an increase of 192.9% between quarters. This increase is attributable to the rise in number of completed investment banking deals, particularly in the UK. It should be remembered that commission is generally lower during the third quarter than other quarters owing to the summer holidays. Net financial income amounted to ISK 4,592 million which is related to investments in Scandinavia. Total expenses amounted to ISK 1,306 million, increasing by ISK 744 million compared with the third quarter. This increase is due to performance related payments because of the high commission generated during the quarter.

ISK millions	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
Net interest income	-914	-961	-624	-850	-905	-427
Net commission income	3,792	1,295	2,471	2,019	1,274	2,935
Net financial income	4,592	31,652	2,505	4,235	7,936	1,716
Other income	7	-142	-84	262	-51	135
Operating income	**7,477**	**31,845**	**4,268**	**5,666**	**8,254**	**4,359**
Operating expenses	-1,310	-562	-1,208	-556	-562	-356
Impairment	4	0	-2	-1	0	-22
Total expenses	**-1,306**	**-562**	**-1,210**	**-557**	**-562**	**-378**
Profit before cost allocation	**6,171**	**31,283**	**3,058**	**5,109**	**7,692**	**3,981**
Allocated cost	-123	-203	-340	-222	-178	-138
Profit before income tax	**6,048**	**31,080**	**2,718**	**4,887**	**7,514**	**3,843**

Asset Management & Private Banking

The activities of Asset Management & Private Banking are divided into four main areas: fund management, private banking, institutional asset management and services to institutional investors.

Asset Management & Private Banking made a profit before income tax of ISK 1,330 million for the fourth quarter. Operating income totalled ISK 4,190 million, an increase of 32.6% from the third quarter. The increase in fourth quarter is related to 26,6% increase in commission income, specially from performance related commissions, and increase in other income from proft from associates of the bank. Total expenses amounted to ISK 2,037 million, increasing by 27.2% from the third quarter of 2006. This increase in operating expenses between quarters is largely due to higher salary payments in connection with the strong increase in commission income between quarters. It should be remembered that impairment associated with the Bank's asset management business in the UK was entered into the accounts during the third quarter.

ISK millions	**Q4 2006**	**Q3 2006**	**Q2 2006**	**Q1 2006**	**Q4 2005**	**Q3 2005**
Net interest income	254	167	234	162	223	224
Net commission income	3,221	2,544	2,837	2,628	2,294	1,471
Net financial income	110	91	134	196	65	35
Other income	605	357	0	0	0	0
Operating income	**4,190**	**3,160**	**3,205**	**2,986**	**2,582**	**1,730**
Operating expenses	-2,037	-1,660	-1,745	-1,938	-1,472	-1,573
Impairment	0	-1,138	0	0	0	0
Total expenses	**-2,037**	**-2,798**	**-1,745**	**-1,938**	**-1,472**	**-1,573**
Profit before cost allocation	**2,153**	**361**	**1,460**	**1,048**	**1,110**	**157**
Allocated cost	-823	-766	-873	-965	-835	-450
(Loss) profit before income tax	**1,330**	**-405**	**587**	**83**	**275**	**-293**

Assets under custody at the Bank totalled ISK 1,953 billion as of 31 December 2006, an increase of 36.9% from the beginning of the year. Assets under management totalled ISK 1,403 billion at the end of December, increasing by 30.7% from the beginning of the year.

Highlights of the fourth quarter

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.

Dividends in the form of shares in Exista

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.

Funding and liquidity

In 2006 one of the Bank's key priorities was the diversification of its funding sources, both by type and geography. To this end, and to broaden the Bank's investor base, Kaupthing has systematically worked towards opening new markets and has entered four new markets in 2006. In October, Kaupthing entered the Japanese bond market for the first time by launching its inaugural JPY 50 billion Samurai transaction in Japan.

In December Kaupthing placed a new EUR 530 million syndicated revolving credit facility. The facility has a 3 year tenor with an extension option for a further two years. In total, a group of 26 banks participated in this facility which was heavily oversubscribed.

In October, FIH-Erhvervsbank, Kaupthing's subsidiary in Denmark, launched a EUR 750 million bond issue which was FIH's largest bond issue to date.

FIH has entered into a financial cooperation with ATP, Denmark's largest pension fund, on a newly established subsidiary FIH Kapital Bank. The company which was established in an effort to obtain a more diversified funding strategy will focus solely on business sector lending. The subsidiary bank, which was granted a separate banking license has obtained a nine year credit facility of approximately EUR 2 billion from ATP, acquires a share of FIH loan portfolio. The establishment of the subsidiary bank which should be considered a form of securitization, without removing assets from the balance sheet, has significant impact on FIH liquidity position.

The Bank's liquidity position is strong. At the end of December the Bank had secured liquidity of ISK1,204 billion which enables the Bank to meet all its obligations as well as support a moderate growth over the next 12 months without accessing the capital markets. At the same time this strong liquidity is sufficient to cover all current long-term funding redemptions for 2007, 2008 and 2009, This increased liquidity is in line with the new liquidity measures that were introduced earlier in the year where the minimum targeted liquidity was increased from 6 months to 12 months.

Issuance of stock options

The Board of Directors of Kaupthing Bank hf. (KAUP) decided on the basis of the Bank's stock option plan to grant stock options on shares in the Bank to its employees. The stock options came into effect on 29 December 2006.

Options to buy a total of 0.6 million shares were granted to a total of 564 employees, who began working for the Bank after stock options were granted in November 2005. Stock option holders are entitled to exercise one third of their stock option from 20 January to 25 February each year, for the first time in 2008. The option has an exercise price of ISK 840 per share. (Stock option plan I, 2006.)

In addition to the above-mentioned stock options, the Board granted 383 employees options to buy a total of 21.7 million shares, with the right to exercise one third of the option from 20 January to 25 February each year, for the first time in 2010. The option has an exercise price of ISK 830 per share during the first exercise period, ISK 872 per share during the exercise period in 2011 and ISK 916 per share during the exercise period in 2012. Employees may defer the right to exercise the option during the agreement period, but the exercise price for the deferred shares increases to the exercise price which is valid for the period when the option is eventually exercised. (Stock option plan II, 2006).

The stock option is primarily subject to the condition that the employee remains employed within the group. The purpose of the stock option plan is to tie in the interests of the employees with those of the Bank.

Outlook

Kaupthing Bank performed well in 2006. The Bank's management believes there is a generally positive outlook for the Bank in the near future. The Investment Banking pipeline is strong and the prospects on the markets in which the Bank operates are mostly bright for the activities and services on which the Bank bases its business.

Kaupthing Bank operates in ten countries. Operations have been particularly strong in Luxembourg, Iceland and Denmark and 2006 was a record year in all these countries. The Norwegian business has shown a complete turnaround and results were satisfactory in Sweden and the Faroe Islands. Considerable effort has gone into integrating Kaupthing Singer & Friedlander into the group and the management expects the company to achieve a return on equity of more than 15% in 2007, which is in keeping with Kaupthing Bank's objective of a minimum 15% return on equity at all subsidiaries.

The Bank demonstrated robust growth in 2006 and the management expects this to continue. The year 2006 was used to consolidate the Bank's operations; the number of employees increased by 351 or 15%, mainly outside Iceland; new profit centres were set up, such as Capital Markets at Kaupthing Singer & Friedlander in the UK and Investment Banking and Capital Markets at the Danish subsidiary FIH. These three profit centres are expected to be fully up and running in 2007. The increase in the Bank's commission income during the fourth quarter can partly be attributed to these profit centres.

Impairment on loans increased during the latter half of 2006. This is primarily due to loans at Kaupthing Singer & Friedlander in the UK. In other respects impairment on loans was in line with management's expectations in 2006.

Return on equity in 2006 was 42.4%, which is well above the Bank's target of 15% annualized ROE in the long term. However, it should be kept in mind that the operations of a bank like Kaupthing Bank are contingent upon uncertainties, such as the developments of financial markets and various other factors, which are not under the Bank’s control.

KAUPTHING BANK

Five-year pro forma summary

Income statement

ISK millions	2006	2005	2004	2003	2002
Net interest income	52,362	32,710	18,259	10,124	6,998
Other operating income	114,854	69,488	31,687	21,656	14,414
Operating income	**167,216**	**102,198**	**49,946**	**31,780**	**21,412**
Operating expenses	-60,006	-35,524	-23,625	-18,493	-12,455
Impairment	-6,127	-4,389	-3,825	-3,894	-2,794
Income taxes	-14,636	-11,228	-4,237	-1,486	-764
Net earnings	**86,447**	**51,056**	**18,258**	**7,907**	**5,399**
Net shareholders' earnings	85,302	49,260	17,707	7,520	5,363
Minority interest	1,145	1,796	552	387	36

Balance Sheet

ISK millions	2006	2005	2004	2003	2002
Assets					
Cash bal. with central banks	106,961	34,877	6,290	-	-
Loans to credit institutions	485,334	195,594	174,310		
Loans to customers	2,538,609	1,543,700	980,107	-	-
Bonds and debt instruments	318,264	390,575	202,934	-	-
Shares and equity instruments	158,856	114,188	84,615	-	-
Derivatives	65,454	21,047	13,085	-	-
Derivatives used for hedging	6,453	4,459	3,820	-	-
Securities used for hedging	115,938	82,098	0		
Financial assets Available-for-sale	164	167	1,507	-	-
Investment in associates	5,304	13,888	3,649	-	-
Intangible assets	68,301	54,943	35,098	-	-
Investment property	31,584	24,156	19,155	-	-
Property and equipment	30,466	22,433	6,092	-	-
Tax assets	5,834	5,004	1,092	-	-
Non-current assets held for sale	2,334	2,303	3,631	-	-
Other assets	115,540	31,380	19,069	-	-
Total assets	**4,055,396**	**2,540,811**	**1,554,453**	**558,569**	**432,412**
Liabilities and equity					
Deposits	750,657	486,176	202,193	182,497	164,570
Subordinated loans	216,030	102,688	57,623	10,704	11,010
Other liabilities	2,753,816	1,749,436	1,135,728	308,837	222,339
Minority interest	11,382	8,329	9,539	10,603	1,114
Shareholders' equity	323,510	194,183	149,370	45,928	33,379
Total liabilities and equity	**4,055,396**	**2,540,811**	**1,554,453**	**558,569**	**432,412**

KEY RATIOS					
Cost / income ratio	35.9%	34.8%	47.3%	58.2%	58.2%
Return on shareholders' equity	42.4%	34.0%	25.5%	23.0%	18.7%
Impairment/Loans and advances	0.2%	0.2%	0.4%	1.1%	1.0%
Total credit reserves	0.6%	0.7%	1.4%	2.4%	2.1%
Price / earnings	6.6	9.9	12.4	12.2	8.8
Earnings per share, ISK	127.1	75.2	35.6	18.5	14.8
Earnings per share diluted, ISK	123.4	73.9	35.1	18.4	14.7
Average no. of shares outstanding, million	671	655	497	406	362
Avg. no. of shares outstanding diluted, million	691	666	505	411	364
No. of shares at year end, million	732	664	652	438	409
No. of shares at year end diluted, million	752	675	660	443	411
Share price at year end	841	746	442	225	130

The rounding-up of figures may mean that tables in this earnings release do not tally.

KAUPTHING BANK

Auditors' report
The annual financial statements have been audited by the Bank’s auditors.

Presentation of results
A presentation for shareholders and market participants will be held on Tuesday 30 January at 8:30 a.m. at Kaupthing Bank headquarters, Borgartún 19 in Reykjavík. Hreidar Már Sigurdsson, CEO of Kaupthing Bank, will present the Bank’s results and answer questions. It will be possible to follow events at the meeting in real-time on the Bank’s website: www.kaupthing.net/ir or by calling +44 (0)207 108 6303 or +46 (0)850 626 930 to participate in the meeting and ask questions. Information will be available after the meeting on Kaupthing Bank’s website, www.kaupthing.com, the Iceland Stock Exchange’s website, www.icex.is, and at www.huginonline.com.

Presentation in London
A presentation of the Bank's results will be held by CEO Hreidar Már Sigurdsson in London on 31 January at 11:30 a.m. The presentation will be held at the headquarters of Kaupthing Singer & Friedlander, One Hanover Street, London W1S 1AX.

Presentation in Stockholm
A presentation of the Bank's results will be held by CEO Hreidar Már Sigurdsson in Stockholm on 1 February at 12:00 p.m. The presentation will be held at Kaupthing Bank's Swedish office at Stureplan 19, 107 81 Stockholm.

Further information
For further information on the results please contact Hreidar Már Sigurdsson, CEO, at +354 444 6108 or Jónas Sigurgeirsson, Chief Communications Officer (ir@kaupthing.net), at +354 444 6112.
Information on Kaupthing Bank is also available on the Bank's website www.kaupthing.com

Publication calendar

26 April	First quarter interim financial statement
25 July	Second quarter interim financial statement
26 October	Third quarter interim financial statement
31 January 2008	Fourth quarter interim financial statement and 2007 annual accounts

Annual general meeting of Kaupthing Bank
The annual general meeting of Kaupthing Bank will be held at Borgarleikhus, Reykjavík, at 17 p.m. on 16 March 2007.

Kaupthing Bank offers comprehensive commercial and investment banking services to individuals, companies and institutional investors. The Bank is a leading player in all the main areas of the Icelandic financial market, and in addition to Iceland, the Bank's key markets are Denmark and the United Kingdom. The Bank focuses on the growth and development of its international activities and aims to be one of the leading investment banks in northern Europe.

Kaupthing Bank operates in ten countries with its headquarters located in Reykjavík. The Bank’s main subsidiaries are FIH Erhvervsbank in Denmark, Kaupthing Singer & Friedlander in the United Kingdom, Kaupthing Bank Sverige, Kaupthing Bank Luxembourg, Kaupthing Bank Oyj in Finland, Norvestia in Finland, Kaupthing Føroyar, Kaupthing New York, Kaupthing Asset Management in Switzerland, Kaupthing Norge in Norway, Arion and Kaupthing Líftryggingar hf. in Iceland. As of 31 December 2006 the number of full-time equivalent positions was 2,719 at Kaupthing Bank and its subsidiaries.

KAUPTHING BANK
Borgartún 19
105 Reykjavík
Iceland
Telephone: +354 444 6000
ID-No. 560882-0419