KAUPTHING BANK

31 July 2008
Earnings release

Kaupthing Bank's results for the first half of 2008

Net earnings of ISK 34.1 billion (EUR 313 million)

- **Shareholders' net earnings for the first half of ISK 34.1 billion (ISK 45.8 billion H1 2007)**
- **Annualised return on equity of 19.8% in the first half (32.0% H1 2007)**
- **Core income (net interest income and net fee and commission income) up by 15.3% to ISK 73.4 billion in the first half (ISK 63.6 billion H1 2007)**
- **Deposits increased by ISK 400 billion (EUR 2.7 billion) in the second quarter**
- **Deposit to loan ratio up from 36% to 44% in the second quarter**
- **Shareholders´ equity increased by ISK 78.6 billion in the first half**
- **The Capital Ratio remains strong at 11.2% and the Tier 1 ratio was 9.3%**
- **Total assets of ISK 6,604 billion (EUR 53.1 billion) at the end of June, increasing by 23.5% in ISK but down by 9.0% in euros from the beginning of 2008**
- **Shareholders' net earnings for second quarter of ISK 15.4 billion (ISK 25.5 billion Q2 2007)**
- **Annualised return on equity for second quarter of 16.1% (36.6% Q2 2007)**
- **Core income (net interest income and net fee and commission income) in second quarter up 17.4% to ISK 41.1 billion (ISK 35.0 billion from Q2 2007)**
- **Net interest income covers all costs in second quarter**

Hreidar Már Sigurdsson, CEO
"Kaupthing continues to perform well. Return on equity for the first half of 2008 was 20% and it is satisfying to see the Bank meet its ROE target in the face of the upheaval on the financial markets. Our main achievement has been to successfully protect our equity and liquidity positions. The Bank's equity hedge and indexed assets have protected the Bank against the turmoil in the Icelandic economy. We have made excellent progress in recent months in raising deposits, which are up 28% in the second quarter, and we are confident that the Bank will reach its goal of a 50% deposit/loan ratio by the end of the year. The Bank is therefore well funded and liquidity remains solid. Kaupthing is susceptible to the turbulence on the international markets like other banks, and this is underlined by the lower financial income and higher impairment on loans. However, Kaupthing's business is well diversified geographically, risk management is robust and the quality of assets remains good. We therefore believe our asset portfolio is well able to contend with the continuing market unrest."

Key figures

ISK billions	6M 2008	6M 2007	Change	Q2 2008	Q1 2008	Change	Q2 2008	Q2 2007	Change
Operating income	89.9	95.9	-6%	44.0	45.9	-4%	44.0	51.8	-15%
Operating expenses	47.1	36.7	28%	25.5	21.6	18%	25.5	19.0	34%
Shareholders' net earnings	34.1	45.8	-25%	15.4	18.7	-18%	15.4	25.5	-40%
Cost/income ratio	52.4%	38.3%		58.0%	47.0%		58.0%	36.7%	
Earnings pr. share, ISK	47.7	62.2	-23%	21.5	26.1	-18%	21.5	34.6	-38%
Return on equity	19.8%	32.0%		16.1%	23.7%		16.1%	36.6%	

Balance Sheet amounts stated in EUR are converted from ISK at the end of period cross-rate of 124.39. Other YTD amounts stated in EUR are converted from ISK at an average cross-rate of 108.97.

KAUPTHING BANK

Income Statement

ISK millions	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	26,863	21,332	23,739	20,259	19,849	16,265
Net fee and commission income	14,259	10,948	14,122	13,374	15,189	12,337
Net financial income	927	9,686	-12,429	2,634	10,772	13,456
Other income	1,928	3,934	4,699	3,553	5,996	2,002
Operating income	**43,977**	**45,901**	**30,132**	**39,820**	**51,807**	**44,059**
Salaries and related expenses	-13,672	-12,093	-13,359	-10,921	-11,833	-10,534
Other administrative expenses	-11,831	-9,469	-9,299	-8,428	-7,184	-7,173
Operating expenses	**-25,503**	**-21,562**	**-22,658**	**-19,348**	**-19,017**	**-17,707**
Impairment	-5,591	-4,059	-1,959	-1,723	-1,075	-1,423
Earnings before income tax	**12,883**	**20,280**	**5,515**	**18,748**	**31,715**	**24,929**
Income tax	2,372	-1,492	4,135	-3,962	-5,653	-4,236
Net earnings	**15,254**	**18,788**	**9,650**	**14,786**	**26,062**	**20,694**
Shareholders of Kaupthing Bank	15,365	18,748	9,850	14,406	25,484	20,281
Minority interest	-111	39	-200	380	578	413
Earnings per share, ISK	21.5	26.1	13.4	19.6	34.6	27.4

Balance Sheet

ISK billions	30/6/08	31/12/07		30/6/08	31/12/07
Cash balance with central banks	154	98	Due to credit institutions	671	339
Loans to credit institutions	530	588	Deposits	1.848	1.381
Loans to customers	4,169	3,304	Financial liabilties at FV	231	218
Bonds and debt instruments	676	367	Borrowings	2.883	2.616
Shares and equity instruments	172	161	Subordinated loans	328	267
Derivatives	328	135	Tax liabilities	18	22
Derivatives used for hedging	28	23	Other liabilities	187	147
Securities used for hedging	81	160	Minority interest	13	11
Investment in associates	108	84	Shareholders' equity	424	346
Intangible assets	86	67			
Investment property	37	28			
Property and equipment	39	33			
Tax assets	12	7			
Other assets	183	293			
Total Assets	**6,604**	**5,347**	**Total Liabilities and Equity**	**6,604**	**5,347**

Results by profit centres

January-June 2008

ISK millions	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Eliminations and cost centers	Total
Net interest income	1,128	-1,281	22,001	35,082	794	-9,528	48,195
Net fee and commission income	9,110	5,241	-117	3,863	6,784	327	25,207
Net financial income	-16,120	888	9,681	338	532	15,295	10,614
Other income	113	267	453	3,526	184	1,320	5,863
Operating income	**-5,769**	**5,114**	**32,018**	**42,808**	**8,294**	**7,414**	**89,878**
Operating expenses	8,246	4,037	6,115	13,197	5,912	9,558	47,065
Impairment	3	0	0	9,659	0	-11	9,650
Total expenses	**8,249**	**4,037**	**6,114**	**22,856**	**5,912**	**9,547**	**56,716**
Earnings before cost allocation	**-14,018**	**1,077**	**25,904**	**19,952**	**2,381**	**-2,133**	**33,162**
Allocated cost	853	418	822	2,287	870	-5,249	0
Earnings before income tax	**-14,871**	**659**	**25,082**	**17,665**	**1,512**	**3,116**	**33,162**

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

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 33.7% in the first half of 2008 and 3.2% in the second quarter. The sharp depreciation of the ISK has a significant effect on the Bank's results as it positively affects ISK amounts for income and expenses as well as assets and liabilities.

Earnings
Kaupthing Bank reported earnings before income tax of ISK 33,162 million during the first half of 2008, compared with ISK 56,644 million during the same period in 2007. Shareholders' net earnings totalled ISK 34,114 million during the first half of 2008, compared with ISK 45,765 million in the same period in 2007. Earnings per share for the first half 2008 were ISK 47.7, compared with ISK 62.2 during the same period in 2007.

Kaupthing Bank reported earnings before income tax of ISK 12,883 million for the second quarter of 2008, compared with ISK 31,715 million during the same period in 2007. Shareholders' net earnings for the second quarter amounted to ISK 15,365 million, compared with ISK 25,484 million in the same period in 2007. Earnings per share for the second quarter were ISK 21.5, compared with ISK 34.6 during the same period in 2007.

Income
Operating income for the second quarter of 2008 totalled ISK 43,977 million, down by 15.1% compared with the same period in 2007.

Net interest income for the first half of 2008 amounted to ISK 48,195 million, increasing by 33.5% compared with the same period in 2007. Interest income for the second quarter of 2008 was ISK 26,863 million, increasing by 35.3% compared with the same period in 2007. Interest income increased by 25.9% from the first quarter of 2008 mainly as a result of higher inflation in Iceland.

The net interest margin, or interest income less interest expenses as a percentage of average total interest-bearing assets, was 1.75% in the first half of 2008, compared with 1.87% in the same period of 2007.

The table below shows net interest income by geographical location:

ISK Millions	6M 2008	6M 2007	Change
Iceland	16,397	12,479	31%
Scandinavia	11,139	9,870	13%
UK	15,986	9,698	65%
Luxembourg	4,258	3,240	31%
Other	415	828	-50%
Total	**48,195**	**36,115**	**33%**

ISK Millions	Q2 2008	Q1 2008	Change
Iceland	10,336	6,062	71%
Scandinavia	6,083	5,056	20%
UK	7,891	8,095	-3%
Luxembourg	2,465	1,792	38%
Other	88	327	-73%
Total	**26,863**	**21,332**	**26%**

The net interest spread (calculated as the average rate on total interest-bearing assets less average cost of total interest-bearing liabilities) was 1.81% in the first half of 2008, compared with 1.94% in the same period of 2007.

Net fee and commission income during the first half of 2008 totalled ISK 25,207 million, a decrease of 8.4% compared with the first half of 2007. Net fee and commission income for the second quarter of 2008 totalled ISK 14,259 million, a decrease of 6.1% compared with the second quarter of 2007. This contraction in fee and commission income is due to a decline in business volumes owing to the current downturn on the international financial markets which, amongst other things, is manifested in a decrease in net fee and commission in Investment Banking. It must also be borne in mind that the second quarter of 2007 saw unusually high net fee and commission income.

The table below shows net fee and commission income by geographical location:

ISK Millions	6M 2008	6M 2007	Change
Iceland	12,030	10,668	13%
Scandinavia	4,352	3,626	20%
UK	6,310	9,418	-33%
Luxembourg	2,112	3,163	-33%
Other	403	650	-38%
Total	**25,207**	**27,525**	-8%

ISK Millions	Q2 2008	Q1 2008	Change
Iceland	7,004	5,026	39%
Scandinavia	2,218	2,134	4%
UK	3,934	2,376	66%
Luxembourg	1,016	1,096	-7%
Other	87	316	-72%
Total	**14,259**	**10,948**	30%

Net financial income, which includes dividend income, net gain on financial assets and liabilities at fair value and net foreign exchange gain, totalled ISK 10,614 million for the first half of 2008, down by 56.2% compared with the first half of 2007. Net financial income for the second quarter was ISK 927 million, compared with ISK 10,772 million in the same period of 2007. Lower net financial income is largely attributable to negative financial markets and the fact that the Bank recorded a net financial loss of ISK 7,367 million on its equities portfolio. Net financial income from the Bank's positions in derivatives and foreign exchange totalled ISK 25,873 million, of which ISK 8,209 million was in the second quarter. This is mainly due to hedging of the Bank's capital ratios in excess of what constitutes net investments in foreign subsidiaries.

Net financial income/loss is specified as follows by geographical location:

Q2 2008	Iceland	Scandinavia	UK	Luxembourg	Other	**Total**
Net gain from bonds and fixed income securities	-3 206	- 388	- 189	- 74	0	**-3 858**
Net gain from equity and variable income securities	-1,588	-5,941	413	- 315	64	**-7,367**
Net gain from FX and derivatives	7,085	344	390	404	-13	**8,209**
Net gain from hedge accounting instruments	0	2 222	14	0	0	**2,236**
Total	**2,290**	**-3,764**	**629**	**14**	**50**	**-,780**
Dividend income	224	1,496	-26	13	0	**1,707**
Net financial income total	**2,515**	**-2,268**	**602**	**28**	**50**	**927**

January - June 2008	Iceland	Scandinavia	UK	Luxembourg	Other	**Total**
Net gain from bonds and fixed income securities	-1,944	-1,305	-,258	212	0	**-3,295**
Net gain from equity and variable income securities	-1,167	-10,792	-4,951	- 354	73	**-17,191**
Net gain from FX and derivatives	25,517	1484	-1 232	144	-39	**25,873**
Net gain from hedge accounting instruments	0	2,171	16	0	0	**2,187**
Total	**22,406**	**-8,441**	**-6,426**	**2**	**34**	**7,574**
Dividend income	420	2,590	9	21	0	**3,040**
Net financial income total	**22,825**	**-5,851**	**-6,417**	**23**	**34**	**10,614**

Other income totalled ISK 5,863 million for the first half of 2008, a decrease of 26.7% compared with the first half of 2007. The decrease is largely due to the Bank's sale of the real estate company Eik during the second quarter of 2007, when the Bank realised a gain of ISK 4,262 million. In 2008 this item includes net earnings from associated companies of ISK 1,678 million and income from Kaupthing Singer & Friedlander's operating lease business of ISK 2,919 million. Kaupthing plans to sell this operation later this year. During the second quarter the Bank recognised a loss from its share in the profit of associated companies, primarily due to the adjustment of their estimated results from the first quarter. Calculations of the share in profit of Storebrand are based on market participants' forecast of the company's profit during the period. Any discrepancy between the actual and estimated profit will be recognised as income or expenses, as applicable, in the next financial statement.

Expenses

Operating expenses for the first half of 2008 totalled ISK 47,065 million and increased by 28.2% compared with the same period last year. Operating expenses for the second quarter totalled ISK 25,503 million, increasing by 34.1% compared with the second quarter of 2007. The increase between years is primarily due to the sharp rise in the number of employees, up by 12.6% between periods. Kaupthing has placed a special focus on reducing costs and it expects the decrease of operating costs during the next quarter. The cost-to-income ratio during the first half of 2008 was 52.4%.

Salaries and related expenses during the first half of 2008 totalled ISK 25,765 million, an increase of 15.2% from the same period last year. Salaries and related expenses for the second quarter totalled ISK 13,672 million, an increase of 15.5% compared with the second quarter of 2007. The number of full-time equivalent positions at the Bank was 3,207 on 30 June 2008, compared with 2,847 on 30 June 2007, an increase of 360 or 12.6% between years. The increase in salaries and related expenses from the first to second quarters is primarily due to the depreciation of the ISK and costs associated with staff redundancies. Since the beginning of the year the number of full-time equivalent positions has decreased by 127, of which 117 were in the second quarter On 30 June the number of full-time equivalent positions at the Bank was 3,207, compared with 3,334 at the beginning of the year.

Other operating expenses amounted to ISK 21,300 million for the first half of 2008, increasing by ISK 6,943 million compared with the same period in 2007. Other operating expenses amounted to ISK 11,831 million for the second quarter of 2008, increasing by ISK 4,647 million compared with the second quarter of 2007, or by 64.7% and by 24.9% from the first quarter. This increase is largely a result of the sharp depreciation of the ISK in the first half of 2008 and also the costs associated with launching and operating Kaupthing Edge, the Bank's online deposit bank.

Impairment on loans amounted to ISK 9.650 million and increased by 286.3% compared with the same period of 2007. Impairment on loans for the second quarter totalled ISK 5,591 million, compared with ISK 1,075 million for the same period in 2007. Impairment is related to specific loans totalling ISK 5,864 million and to collective provisions of ISK 3,786 million. The increase in impairments in the group is mainly a consequence of negative market conditions in Iceland and the United Kingdom.

Income tax was positive by ISK 880 million for the first half of 2008, compared with a charge of ISK 9,888 million for the first half of 2007. Income tax for the second quarter of 2008 was positive by ISK 2,372 million. This turnaround is due to a change in tax legislation in Iceland in May which took effect from 1 January onwards. Corporate income tax was lowered from 18% to 15% and capital gains tax on shares was abolished.

Balance Sheet

Assets

The Bank's total assets on 30 June 2008 amounted to ISK 6,603.7 billion, increasing by ISK 1,256.4 billion or 23.5% during the year. The Bank's total assets decreased by 9.0% during the first half in euros.

Loans to customers increased from ISK 3,304.4 billion to ISK 4,169.2 billion, or by 26.2%, from the beginning of 2008 (a decrease of 7.0% in euros). Loans to customers have decreased sharply in most of the Bank's markets. 40% of loans to customers have a contractual maturity of less than 12 months. Housing loans to individuals in Iceland at the end of June represented 4.4% of the total loans to customers, or ISK 181.8 billion, with the average loan to value (LTV) ratio of 58% at the end of the quarter. Loans to credit institutions decreased from ISK 588.4 billion to ISK 529.6 billion, a decrease of 10.0% but a decrease of 33.7% in euros.

The acquisition and leveraged finance portfolio ("ALF portfolio") grew from ISK 541.3 billion to ISK 706.2 billion, or by 30.5%, during the first half and represented 17% of total loans to customers at the end of June. However, the ALF portfolio decreased by 0.2% in euros during the quarter. The five largest loans in the ALF portfolio represent 24% of the total portfolio, compared with 25% at the end of 2007. The portfolio's average debt/EBITDA ratio was 4.8 at the end of the second quarter. The Bank is not exposed to any underwriting risk in connection with its ALF portfolio.

Other financial assets as of 30 June 2008 totalled ISK 1,285.8 billion, increasing by ISK 440.3 billion during the year, or 52.1%. Taking into account the depreciation of the ISK, financial assets increased by 12.1%. Bonds and other interest-bearing assets totalled ISK 676.3 billion on 30 June 2008 and increased by 84.1% during the year. Positions in shares and other variable income assets amounted to ISK 172.3 billion on 30 June 2008. Derivatives contracts totalled ISK 328.2 billion on 30 June and increased by ISK 193.4 billion during the year, primarily due to an increase in currency swaps, interest swaps and a higher volume of transactions involving contracts for differences (CFDs) in the UK. Furthermore the Bank holds shares as hedge against derivatives amounting to ISK 35.9 billion. The

Bank is not exposed to market risk of ISK 7.4 billion due to minority interest in the Bank's subsidiary Norvestia in Finland.

Listed shares amounted to ISK 63.5 billion or 1.0% of the Bank's total assets as of 30 June 2008. Of this total, ISK 15.7 billion is in the form of shares listed on the OMX Nordic Exchange in Iceland, or 24.8%. Holdings in unlisted shares totalled ISK 92.4 billion, or 1.4% of the Bank's total assets as of 30 June 2008, compared with 1.6% at the beginning of the year. The Bank's five largest positions in unlisted shares represented approximately 51% of the value of unlisted shares.

It is Kaupthing Bank's policy that its holdings in listed and unlisted shares (shares and equity funds) should be less than 35% of the Bank's risk capital. As of 30 June the ratio was 25.5%. Of this, the ratio of listed shares was 9.6% and unlisted shares 15.8% of the risk capital.

Other assets totalled ISK 183.2 billion as of 30 June 2008 and increased by 37.4% during the year. This is mainly due to an increase in unsettled transactions.

Liabilities and equity
Liabilities to credit institutions and central banks totalled ISK 670.9 billion as of 30 June 2008 and increased by ISK 331.8 billion or 97.9% since the beginning of the year.

Deposits amounted to ISK 1,848.2 billion as of 30 June 2008, increasing by ISK 466.7 billion since the beginning of the year, or by 33.8%. Deposits decreased by 1.4% in euros. Deposits represented 28.0% of the Bank's total assets as of 30 June 2008. Deposits as a ratio of loans to customers equalled 44.3% at the end of June. See page 10 for a more detailed discussion of deposits.

Borrowings amounted to ISK 2,883.3 billion as of 30 June 2008, compared with ISK 2,616.0 billion at the beginning of the year, an increase of ISK 267.3 billion or 10.2%. Borrowings decreased by 18.8% in euros in the first half of the year.

Shareholders' equity amounted to ISK 424.2 billion as of 30 June 2008, compared with ISK 345.6 billion at the beginning of the year, an increase of ISK 78.6 billion or 22.7%. The 33.7% depreciation of the ISK during the first of 2008 had the effect of increasing shareholders' equity. The effect of translation difference in subsidiaries and hedges totalled ISK 75.8 billion during the period and is recognised directly in equity. Earnings for the period according to the income statement amounted to ISK 34.1 billion, and the total earnings for the year recognised in shareholders' equity were therefore ISK 109.9 billion. The ISK 14.4 billion dividend (ISK 20 a share) paid to shareholders at the end of March reduced shareholders' equity and purchases of treasury stock lowered equity by ISK 14.8 billion.

The Bank's equity base was ISK 582.9 billion as of 30 June 2008. The Capital ratio was 11.2% on 30 June, compared with 11.8% at the beginning of the year. Tier 1 capital was 9.3%, compared with 9.6% at the beginning of the year. It is the objective of the Bank's management that Tier 1 capital should be at least 8.0% and the Capital ratio at least 11.0%.

As of 30 June 2008, the Bank's issued share capital was ISK 7,404,530,530 nominal value, which was divided into 740,453,053 shares. The total number of shareholders as of 30 June 2008 was 30,830. The Bank's largest shareholders are Exista with 24.7% and Kjalar with 9.9%.

Operating results of Kaupthing Bank's business segments

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

Three business segments made a profit before income tax during the second quarter of 2008, whereas two reported a loss. The highest profit before income tax during the quarter was reported by Treasury, or ISK 13,011 million. Banking reported earnings before income tax of ISK 10,582 million and Asset Management & Private Banking ISK 703 million. Capital Markets reported a loss of ISK 5,917 million and Investment Banking ISK 517 million. Net financial income from the Bank's positions in FX in excess of investments in subsidiaries for the purpose of hedging equity are booked under Eliminations and other cost centres.

From the first quarter of 2008 onwards the method of calculating the allocated costs of business units has been changed. The allocated costs for each quarter of 2007 have therefore been changed accordingly.

The table below shows the operating results of the Bank's business segments for the second quarter.

ISK millions - Q2 2008	Banking	Capital Markets	Treasury	Investment Banking	Asset management and Private banking	Eliminations and other cost centers	Total
Net interest income	19,055	1,144	12,134	-598	373	-5,245	26,863
Net fee and commission income	2,842	4,846	-49	3,038	3,392	192	14,259
Net financial income	294	-7,286	4,909	-557	326	3,241	927
Other income	1,862	56	154	156	57	-355	1,928
Operating income	**24,052**	**-1,240**	**17,147**	**2,038**	**4,148**	**-2,168**	**43,977**
Operating expenses	6,763	4,412	3,668	2,336	3,164	5,160	25,503
Impairment	5,594	3	0	0	0	-6	5,591
Total expenses	**12,357**	**4,415**	**3,668**	**2,336**	**3,164**	**5,154**	**31,094**
Earnings before cost allocation	**11,695**	**-5,655**	**13,479**	**-298**	**984**	**-7,322**	**12,883**
Allocated cost	1,113	262	468	219	280	-2,342	0
Earnings before income tax	**10,582**	**-5,917**	**13,011**	**-517**	**703**	**-4,980**	**12,883**

Banking

Banking provides general banking services to individuals, chiefly in Iceland, but also in Norway and Sweden: it also provides services such as advice and assistance in financing to medium-sized and larger corporates, particularly in Denmark, the UK, Sweden and Iceland.

Banking made a profit before income tax of ISK 10,582 million for the second quarter of 2008, an increase of 49.4% compared with the first quarter of 2008. Operating income totalled ISK 24,052 million and increased by 28.2% compared with the first quarter of 2008. Net interest income for the second quarter was 19,055 million, an increase of 18.9% compared with the first quarter. The increase is due to the depreciation of the ISK and the completion of several major refinancing projects. Net fee and commission income increased by 178.3% from the first quarter owing to an increase in business volumes and several major refinancing projects completed during the quarter. Total expenses amounted to ISK 12,357 million, increasing by 17.7% compared with the first quarter of 2008. The increase is particularly attributable to the rise in impairments, which amounted to ISK 5,594 million during the quarter, compared with ISK 4,065 million during the first quarter. Impairment is related to collective provisions of ISK 1,479 million and to specific loans, totalling ISK 4,112 million. The depreciation of the ISK is also partly behind the increase in total expenses.

ISK millions	**Q2 2008**	**Q1 2008**	**Q4 2007**	**Q3 2007**	**Q2 2007**
Net interest income	19,055	16,027	15,897	15,653	15,691
Net fee and commission income	2,842	1,021	2,037	1,835	1,538
Net financial income	294	44	217	-40	122
Other income	1,862	1,664	1,616	1,747	1,620
Operating income	**24,052**	**18,756**	**19,768**	**19,195**	**18,972**
Operating expenses	-6,763	-6,434	-7,092	-6,580	-6,636
Impairment	-5,594	-4,065	-2,012	-1,643	-1,082
Total expenses	**-12,357**	**-10,499**	**-9,103**	**-8,223**	**-7,718**
Earnings before cost allocation	**11,695**	**8,257**	**10,664**	**10,972**	**11,254**
Allocated cost	-1,113	-1,174	-544	-926	-442
Earnings before income tax	**10,582**	**7,083**	**10,121**	**10,046**	**10,812**

Capital Markets

Capital Markets comprises two separate business units: Capital Markets and Proprietary Trading. Capital Markets handles securities brokerage for the Bank's clients. Proprietary Trading 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.

Capital Markets reported a loss before income tax of ISK 5,917 million for the second quarter of 2008, an outcome which reflects the negative performance of the international financial markets. Operating income was negative by ISK 1,240 million, compared with a negative figure of ISK 4,529 million in the first quarter of 2008. The division reported a net financial loss of ISK 7,286 million, decreasing by ISK 1,549 million from the previous quarter. This net financial loss is mainly attributable to the Bank's Nordic and UK equities portfolio. Net fee and commission income totalled ISK 4,846 million, an increase of 13.6% compared with the first quarter of 2008. Net interest income was ISK 1,144 million, which represents a marked improvement from the first quarter of 2008. Net interest income in Capital Markets is primarily derived from bond holdings and derivatives in FX and Derivatives Trading. Operating expenses amounted to ISK 4,415 million and increased by 15.1% between quarters, largely due to the depreciation of the ISK.

ISK millions	**Q2 2008**	**Q1 2008**	**Q4 2007**	**Q3 2007**	**Q2 2007**
Net interest income	1,144	-16	1,600	876	524
Net fee and commission income	4,846	4,264	5,778	4,336	6,717
Net financial income	-7,286	-8,834	-6,920	-452	6,663
Other income	56	57	140	-13	42
Operating income	**-1,240**	**-4,529**	**598**	**4,746**	**13,945**
Operating expenses	-4,412	-3,834	-4,356	-3,129	-3,278
Impairment	-3	0	0	0	1
Total expenses	**-4,415**	**-3,834**	**-4,356**	**-3,129**	**-3,277**
Earnings before cost allocation	**-5,655**	**-8,363**	**-3,758**	**1,617**	**10,668**
Allocated cost	-262	-591	-366	-625	-419
Earnings before income tax	**-5,917**	**-8,954**	**-4,124**	**992**	**10,249**

Treasury

Treasury is responsible for the Bank's funding and inter-bank trading, and FX and derivatives.

Treasury made a profit before income tax of ISK 13,011 million for the second quarter of 2008, a record high for the division. Operating income totalled ISK 17,147 million, increasing by ISK 2,276 million compared with the first quarter of 2008. Net interest income increased by 23.0% in the second quarter of 2008 compared with first quarter. Net financial income totalled ISK 4,909 million and is due to profit on FX and FX swaps and hedge trades. Total expenses amounted to ISK 3,668 million during the second quarter, an increase of 49.9% compared with the first quarter. The rise in expenses is partly explained by the cost of setting up and operating Kaupthing's new online deposit bank, Kaupthing Edge.

ISK millions	**Q2 2008**	**Q1 2008**	**Q4 2007**	**Q3 2007**	**Q2 2007**
Net interest income	12,134	9,867	7,946	5,501	4,884
Net fee and commission income	-49	-67	-225	-555	149
Net financial income	4,909	4,772	-11,650	-6,953	1,251
Other income	154	299	-51	31	44
Operating income	**17,147**	**14,871**	**-3,980**	**-1,976**	**6,328**
Operating expenses	-3,668	-2,446	-1,290	-1,287	-1,786
Impairment	0	0	33	-6	6
Total expenses	**-3,668**	**-2,446**	**-1,257**	**-1,293**	**-1,780**
Earnings before cost allocation	**13,479**	**12,425**	**-5,237**	**-3,269**	**4,548**
Allocated cost	-468	-354	-106	-185	-141
Earnings before income tax	**13,011**	**12,071**	**-5,343**	**-3,454**	**4,407**

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

Investment Banking reported a loss before income tax of ISK 517 million for the second quarter of 2008, a turnaround from the first quarter. Net fee and commission income amounted to ISK 3,038 million for the quarter, an increase of 37.9% compared with the first quarter. The increase is largely due to higher business volumes in the UK and Iceland. Operating income totalled ISK 2,038 million, compared with ISK 3,076 million in the first quarter. There was a net financial loss of ISK 557 million in the second quarter owing to the fall in price of some of the stocks in the Bank's equities portfolio. Total expenses amounted to ISK 2,336 million, increasing by 37.3% compared with the first quarter, partly due to the costs associated with staff redundancies in the division. The downturn in the international financial markets has had an effect on the results of Investment Banking in the last three quarters.

ISK millions	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net interest income	-598	-683	-327	-655	-950
Net fee and commission income	3,038	2,203	2,268	4,196	3,767
Net financial income	-557	1,445	1,362	7,711	1,671
Other income	156	111	22	170	-34
Operating income	**2,038**	**3,076**	**3,325**	**11,422**	**4,454**
Operating expenses	-2,336	-1,701	-2,230	-1,750	-1,209
Impairment	0	0	-24	0	0
Total expenses	**-2,336**	**-1,701**	**-2,255**	**-1,750**	**-1,209**
Earnings before cost allocation	**-298**	**1,374**	**1,070**	**9,672**	**3,244**
Allocated cost	-219	-199	-222	-336	-281
Earnings before income tax	**-517**	**1,176**	**848**	**9,336**	**2,963**

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 703 million for the second quarter of 2008. Operating income totalled ISK 4,148 million, virtually unchanged compared with the previous quarter. Net fee and commission income amounted to ISK 3,392 million, virtually unchanged compared with the previous quarter. Total expenses amounted to ISK 3,164 million, an increase of 15.2% compared with the first quarter of 2008. The increase is partly due to increased salaries following the depreciation of the ISK.

Assets under custody at the Bank totalled ISK 2,470 billion as of 30 June 2008, an increase of 8.5% during the year. Assets under management totalled ISK 1,630 billion as of 30 June 2008, increasing by 4.6% during the year (a decrease of 22.9% in euros). Negative returns on the financial markets also partly explain the real decrease.

ISK millions	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net interest income	373	421	263	389	208
Net fee and commission income	3,392	3,392	4,067	3,245	3,075
Net financial income	326	205	40	119	123
Other income	57	128	76	143	-135
Operating income	**4,148**	**4,145**	**4,445**	**3,896**	**3,271**
Operating expenses	-3,164	-2,748	-2,608	-2,192	-1,874
Impairment	0	0	0	0	0
Total expenses	**-3,164**	**-2,748**	**-2,608**	**-2,192**	**-1,874**
Earnings before cost allocation	**984**	**1,397**	**1,837**	**1,704**	**1,397**
Allocated cost	-280	-589	-886	-707	-733
Earnings before income tax	**703**	**808**	**951**	**997**	**663**

Second quarter 2008 highlights

Boards of Kaupthing and SPRON approve merger schedule
The boards of directors of Kaupthing and the Reykjavik Savings Bank hf. ("SPRON") have agreed on a merger schedule, according to which Kaupthing will take over SPRON's assets and liabilities by means of a merger. The merger will have an insignificant impact on Kaupthing's total size on a consolidated basis.

The merger is subject to the approval of a shareholders' meeting in SPRON and the Icelandic Financial Supervisory Authority. The merger is also subject to the competition authorities not rejecting it or imposing conditions which the boards of directors of the companies consider unacceptable or which would make it inevitable to resubmit the merger proposal to a SPRON shareholders' meeting. The shareholders' meeting in SPRON wil0l be held on 6 August.

Further information on the planned merger can be found in a Kaupthing press release dated 1 July 2008.

Kaupthing exits its asset finance and commodity finance businesses in the UK
In February Kaupthing Singer & Friedlander announced its plans to exit its asset finance business in the UK. This is the final phase of the restructuring of the UK business following Kaupthing's acquisition of Singer & Friedlander in 2005. The Bank is now completing the sale of its insurance premium finance business and expects to divest the remaining asset finance businesses in the next few months. This will have a positive effect on the Bank's cost base and will free up liquidity in excess of £1 billion. The capital released is being invested into the core UK businesses.

Kaupthing terminates its agreement with New Bond Street Asset Management
Kaupthing has made the decision to withdraw from the structured credit business and has given notice that it wishes to terminate its investment advisory agreement with New Bond Street Asset Management LLP (NBSAM) from July 2008 and take over the management of its own assets. Kaupthing remains the corporate partner of NBSAM until May 2009. New Bond Street Asset Management LLP was originally established in 2004.

Funding and credit ratings

Continued focus on customer deposits
One of the measures taken to increase the ratio of deposits at Kaupthing was the concept of Kaupthing Edge, an internet deposit bank. Kaupthing Edge is now operating in ten countries in Europe. By the end of June more than ISK 377.2 billion had been amassed in more than 140,000 Edge accounts. Deposits in Kaupthing Edge have grown steadily in recent months, with ISK 269.0 billion being deposited in the second quarter. Deposits in Kaupthing Edge are well-diversified between countries, originating from individuals and companies, and nearly a quarter of the funds is in the form of term deposits.

Total deposits at the Bank amounted to ISK 1,848.2 billion as of 30 June 2008, increasing by 33.8% from the end of 2007 in ISK terms. Deposits grew by ISK 399.8 billion in the second quarter, or by 27.6% (22.7% in euros). Kaupthing intends to continue to introduce Kaupthing Edge to new markets as the Bank also steps up its efforts to acquire more deposits from existing customers. It is hoped that Kaupthing Edge will propel the Bank towards its stated aim of funding 50% of loans to customers by deposits at the end of 2008. The deposit to loan ratio was 44.3% at the end of June, compared with 36.4% at the end of March 2008.

Funding highlights
The financial markets remained challenging in the first half of the year. Long-term maturities at Kaupthing Bank for the remainder of 2008 only amount to ISK 141.7 billion and the next public bond redemption in the parent company is not until in May 2009. The emphasis will be on reducing the reliance on wholesale funding while using Kaupthing Edge to raise the importance of deposits in the Bank's funding profile. During the first half of the year the wholesale funding of Kaupthing totalled ISK 305.9 billion in a series of private bond placements and bank loans.

Secured liquidity

Secured liquidity is the primary measure of liquidity at Kaupthing Bank. Secured liquidity consists of cash, repo-able bonds and committed alternative liquidity sources. All of these constituents of secured liquidity can be turned into cash within 15 days. The Bank's policy is always to have enough secured liquidity to repay all maturing obligations for at least 360 days and at the same time maintain a stable level of business without accessing the capital markets. At the end of the second quarter of 2008, the secured liquidity of Kaupthing Group was ISK 991 billion, sufficient to cover all short-term and long-term obligations for more than 360 days. Secured liquidity is broken down as follows: cash 30%; repo-able bonds 24%; and committed alternative liquidity sources 46%.

Credit ratings

Kaupthing is currently rated by three rating agencies. Moody's rates the Bank A1/P-1 and has Kaupthing ratings on stable outlook. Fitch rates the bank A-/F2. On 9 May, Fitch downgraded Kaupthing's credit ratings. The Bank's Long-term Issuer Default Rating (IDR) was downgraded one notch from A to A- and the long-term IDR was placed on negative outlook. Kaupthing is also rated by the Japanese agency R&I, which rates the bank A+ with a stable outlook.

Outlook

The main areas of focus for Kaupthing in 2008 will be to continue integrating activities across the Group and to consolidate the profitability of each operating unit and ensure that they meet the Bank's return on equity targets. Priority will also be given to increasing the proportion of deposits in the Bank's overall funding.

In light of the negative conditions on the market, growth in the Bank's loans and balance sheet is expected to slow down in 2008, compared with 2007. The size of the balance sheet will be managed in accordance with the prevailing conditions on the international financial markets. Liquidity is strong and the Bank has secured liquidity for more than 360 days.

Efforts to reduce costs have been redoubled and the effects of these measures are likely to be seen in the Bank's financial results over the next few quarters. The number of employees is expected to continue to decrease over the next few quarters, partly due to the expected sale of the Bank's operating lease business in the UK. The number of full-time equivalent positions at the Bank decreased by 117, or 3.5%, during the quarter.

Management's goal is to increase the level of deposits as a percentage of total loans to more than 50% in 2008. On 30 June the ratio was 44.3%. The online deposit bank Kaupthing Edge is a part of this initiative to increase deposits. So far this year Kaupthing Edge has opened in Norway, the UK, Belgium, Switzerland, Luxembourg, the Isle of Man and Germany. In the coming months Kaupthing Edge will be launched in several more countries. The response from customers has been excellent.

The annualised return on equity for the first quarter of 2008 was 19.8%, whereas the Bank's declared ROE target is 15% per annum in the long term. The Bank expects to reach this target in 2008. One must bear in mind, however, that the operation of a bank such as Kaupthing is subject to uncertain factors, such as financial market developments and other factors beyond the Bank's control.

Four-year summary

Income statement					
ISK millions	**H1 2008**	**2007**	**2006**	**2005**	**2004**
Net interest income	48,195	80,113	52,362	32,710	18,259
Other operating income	41,683	85,705	114,854	69,488	31,687
Operating income	**89,878**	**165,818**	**167,216**	**102,198**	**49,946**
Operating expenses	-47,065	-78,731	-60,006	-35,524	-23,625
Impairment	-9,650	-6,180	-6,127	-4,389	-3,825
Income tax	880	-9,716	-14,636	-11,228	-4,237
Net earnings	**34,042**	**71,192**	**86,447**	**51,056**	**18,258**
Net shareholders' earnings	34,114	70,021	85,302	49,260	17,707
Minority interest	-72	1,171	1,145	1,796	552

Balance Sheet					
ISK millions	**30/6/2008**	**2007**	**2006**	**2005**	**2004**
Assets					
Cash balance with central banks	154,318	97,959	106,961	34,877	6,290
Loans to credit institutions	529,620	588,441	485,334	195,594	174,310
Loans to customers	4,169,181	3,304,408	2,538,609	1,543,700	980,107
Bonds and debt instruments	676,316	367,350	318,264	390,575	202,934
Shares and equity instruments	172,286	160,797	159,020	114,355	86,122
Derivatives	328,217	134,856	65,454	21,047	13,085
Derivatives used for hedging	27,742	22,503	6,453	4,459	3,820
Securities used for hedging	81,207	159,949	115,938	82,098	0
Investment in associates	107,574	83,831	5,304	13,888	3,649
Intangible assets	85,757	66,774	68,301	54,943	35,098
Investment property	37,013	28,155	31,584	24,156	19,155
Property and equipment	39,240	32,714	30,466	22,433	6,092
Tax assets	12,027	6,899	5,834	5,004	1,092
Other assets	183,217	292,708	117,874	33,682	22,700
Total assets	**6,603,715**	**5,347,345**	**4,055,396**	**2,540,811**	**1,554,453**
Liabilities and equity					
Deposits	1,848,155	1,381,457	750,657	486,176	202,193
Subordinated loans	328,153	267,289	216,030	102,688	57,623
Other liabilities	3,989,711	3,342,169	2,753,816	1,749,436	1,135,728
Minority interest	13,490	10,823	11,382	8,329	9,539
Shareholders' equity	424,206	345,607	323,510	194,183	149,370
Total liabilities and equity	**6,603,715**	**5,347,345**	**4,055,396**	**2,540,811**	**1,554,453**

KEY RATIOS					
Cost / income ratio	52.4%	47.5%	35.9%	34.8%	47.3%
Return on shareholders' equity	19.8%	23.5%	42.4%	34.0%	25.5%
Impairment / Loans and advances	0.9%	0.2%	0.2%	0.2%	0.4%
Total credit reserves	0.7%	0.6%	0.6%	0.7%	1.4%
Price / earnings	9.5	9.2	6.6	9.9	12.4
Earnings per share, ISK	47.7	95.2	127.1	75.2	35.6
Earnings per share diluted, ISK	46.9	93.3	123.4	73.9	35.1
Average no. of shares outstanding, million	714	736	671	655	497
Avg. no. of shares outstanding diluted, million	725	751	691	666	505
No. of shares at the end of the period, million	719	737	732	664	652
No. of shares at the end of the period diluted, mil	730	751	752	675	660
Share price at the end of the period	763	880	841	746	442

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

Auditors' review report

The Interim Consolidated Financial Statements have been reviewed by the Bank's auditors.

Presentation in Reykjavík

A presentation for shareholders and market participants will be held on Thursday 31 July at 8:30 a.m. at the headquarters of Kaupthing Bank at Borgartún 19, Reykjavik. 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.com/ir or by calling (in the UK) +44 (0)203 043 24 36, (in the US) +1 866 458 40 87 or (in Sweden) +46 (0)8 505 598 53 to participate in the meeting and ask questions. Information will be available after the meeting on Kaupthing Bank's website, www.kaupthing.com, the OMX Nordic Exchange's website, www.omxgroup.com, and at www.huginonline.com.

Further information

For further information on the results please contact Frída Filipina Fatalla, Investor Relations, on +354 444 6192. Information on Kaupthing Bank is also available on the Bank's website www.kaupthing.com

Publication calendar

30 October 2008	Third quarter interim financial statement
5 February 2009	Fourth quarter interim financial statement and 2008 annual accounts

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. As of 30 June 2008 the number of full-time equivalent positions was 3,207 at Kaupthing Bank and its subsidiaries.

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