



KAUPTHING BANK

Condensed Consolidated Interim Financial Statements
1 January - 30 June 2008

Kaupthing Bank hf.
Borgartún 19
105 Reykjavík
Iceland

Reg. no. 560882-0419

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Endorsement and Statement by the Board of Directors and the CEO

Net earnings, according to the Condensed Consolidated Interim Income Statement, amounted to ISK 34,042 million for the period from 1 January to 30 June 2008. Total equity, according to the Consolidated Interim Balance Sheet, amounted to ISK 437,696 million at the end of the period, including share capital amounting to ISK 7,187 million. The equity ratio of the Bank, calculated according to the Act on Financial Undertakings, was 11.2%. This ratio may not be lower than 8.0%.

Registered shareholders at 30 June 2008 numbered 30,830 compared to 32,264 at the beginning of the year. At the end of the period, one shareholder held more than 10% of the shares in the Bank, Exista, which owned 24.7% of the shares.

The Condensed Consolidated Interim Financial Statements of Kaupthing Bank hf. for the six months ended 30 June 2008, have been prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34). The Condensed Consolidated Interim Financial Statements include the Interim Financial Statements of Kaupthing Bank hf. and its subsidiaries, together referred to as "the Bank".

Statement by the Board of Directors and CEO

To the best of our knowledge the Condensed Consolidated Interim Financial Statements give a true and fair view of the consolidated financial performance of the Bank for the period 1 January to 30 June 2008, its assets, liabilities and consolidated financial position as at 30 June 2008 and its Condensed Consolidated Interim Statement of Cash Flows for the period.

Further, in our opinion the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Bank's operations and its financial position and fairly describes the principal risks and uncertainties faced by the Bank.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Kaupthing Bank hf. for the six-month period ended 30 June 2008 and confirm them by means of their signatures.

Reykjavík, 30 July 2008

Board of Directors

Sigurður Einarsson

Chairman

Lýður Gudmundsson

Ásgeir Thoroddsen

Bjarnfredur H. Ólafsson

Brynja Halldórsdóttir

Gunnar Páll Pálsson

Hjörleifur Thór Jakobsson

Niels de Coninck-Smith

Tommy Persson

CEO

Hreidar Már Sigurdsson

Independent Auditors' Review Report

To the Board of Directors of Kaupthing Bank hf.

Introduction

We have reviewed the accompanying Condensed Consolidated Interim Balance Sheet of Kaupthing Bank hf. as of 30 June 2008 and the related statements of income, changes in equity and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 June 2008, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavik, 30 July 2008

KPMG hf.

Sigurður Jónsson

Reynir Stefán Gylfason

Consolidated Interim Income Statement

for the Period from 1 January to 30 June 2008

	Notes	2008 1.4.-30.6.	2007 1.4.-30.6.	2008 1.1.-30.6.	2007 1.1.-30.6.
Interest income		115,402	72,136	207,522	134,183
Interest expense		(88,539)	(52,286)	(159,327)	(98,068)
Net interest income.....		<u>26,863</u>	<u>19,850</u>	<u>48,195</u>	<u>36,115</u>
Fee and commission income		16,396	18,696	29,714	34,110
Fee and commission expense		(2,138)	(3,508)	(4,508)	(6,585)
Net fee and commission income.....		<u>14,258</u>	<u>15,188</u>	<u>25,206</u>	<u>27,525</u>
Net financial income	8-13	927	10,772	10,614	24,228
Share of profit of associates	28	(323)	613	1,678	757
Other operating income	14	2,251	5,383	4,184	7,241
Operating income.....		<u>43,976</u>	<u>51,806</u>	<u>89,877</u>	<u>95,866</u>
Salaries and related expenses		(13,672)	(11,833)	(25,765)	(22,367)
Administration expense		(8,802)	(5,469)	(16,136)	(11,012)
Depreciation and amortisation		(2,285)	(1,465)	(4,227)	(2,999)
Other operating expense		(744)	(250)	(937)	(346)
Impairment on loans	23	(5,591)	(1,075)	(9,650)	(2,498)
Earnings before income tax.....		<u>12,882</u>	<u>31,714</u>	<u>33,162</u>	<u>56,644</u>
Income tax expense	15	2,372	(5,652)	880	(9,888)
Net earnings.....		<u><u>15,254</u></u>	<u><u>26,062</u></u>	<u><u>34,042</u></u>	<u><u>46,756</u></u>
Attributable to:					
Shareholders of Kaupthing Bank hf.		15,365	25,484	34,114	45,765
Minority interest		(111)	578	(72)	991
Net earnings.....		<u><u>15,254</u></u>	<u><u>26,062</u></u>	<u><u>34,042</u></u>	<u><u>46,756</u></u>
Earnings per share:					
Basic earnings per share (ISK)	17	21.5	34.6	47.7	62.2
Diluted earnings per share (ISK)	17	21.2	33.6	46.9	60.4

The notes on pages 9 to 25 are an integral part of these Condensed Consolidated Financial Statements.

Consolidated Interim Balance Sheet

as at 30 June 2008

	Notes	30.6.2008	31.12.2007
Assets			
Cash and balances with central banks	18	154,318	97,959
Loans to credit institutions	19	529,620	588,441
Loans to customers	20-23	4,169,181	3,304,408
Bonds and debt instruments	24	676,316	367,350
Shares and instruments with variable income	24	172,286	160,797
Derivatives	24,39	328,217	134,856
Derivatives used for hedging	24,39	27,742	22,503
Securities used for hedging	24	81,207	159,949
Investments in associates	28	107,574	83,831
Intangible assets	29	85,757	66,774
Investment property	30	37,013	28,155
Property and equipment		39,240	32,714
Tax assets	15	12,027	6,899
Other assets	31	183,217	292,709
Total Assets	41	6,603,715	5,347,345
Liabilities			
Due to credit institutions and central banks	24	670,930	339,088
Deposits	24	1,848,155	1,381,457
Financial liabilities measured at fair value	24,32-34	230,663	217,945
Borrowings	35	2,883,261	2,615,960
Subordinated loans	36	328,153	267,289
Tax liabilities	15	18,099	22,478
Other liabilities	37	186,758	146,697
Total Liabilities	41	6,166,019	4,990,914
Equity			
Share capital		7,187	7,371
Share premium		148,362	162,221
Other reserves		61,196	(14,627)
Retained earnings		207,461	190,643
Total Shareholders' Equity		424,206	345,608
Minority interest		13,490	10,823
Total Equity		437,696	356,431
Total Liabilities and Equity		6,603,715	5,347,345

The notes on pages 9 to 25 are an integral part of these Condensed Consolidated Financial Statements.

Consolidated Interim Statement of Changes in Equity for the Period from 1 January to 30 June 2008

	Share capital and share premium	Other reserves	Retained earnings	Total Share- holders' equity	Minority interest	Total equity
Changes in equity from 1 January to 30 June 2008:						
Equity at the beginning of the year	169,592	(14,627)	190,643	345,608	10,823	356,431
Translation difference from foreign operations		75,770		75,770	3,667	79,437
Net earnings according to the Income Statement			34,114	34,114	(72)	34,042
Total recognised earnings for the period		75,770	34,114	109,884	3,595	113,479
Dividends paid to shareholders, ISK 20 per share			(14,025)	(14,025)	(615)	(14,640)
Purchases and sales of treasury stock	(14,844)			(14,844)		(14,844)
Exercised stock options	(49)			(49)		(49)
Stock option expense	850			850		850
Other changes		53	(3,271)	(3,218)	(313)	(3,531)
Equity 30 June 2008	155,549	61,196	207,461	424,206	13,490	437,696
Changes in equity from 1 January to 30 June 2007:						
Equity at the beginning of the year	171,349	17,220	134,941	323,510	11,382	334,892
Translation difference		(32,985)		(32,985)	(1,434)	(34,419)
Fair value changes in financial assets available-for-sale		21		21		21
Net loss recognised directly in equity		(32,964)		(32,964)	(1,434)	(34,398)
Net earnings according to the Income Statement			45,765	45,765	991	46,756
Total recognised earnings for the period		(32,964)	45,765	12,801	(443)	12,358
Dividends paid to shareholders, ISK 14 per share			(10,272)	(10,272)		(10,272)
Purchases and sales of treasury stock	2,853			2,853		2,853
Exercised stock options	551			551		551
Restating the initial investments in shares			(5,111)	(5,111)		(5,111)
Other changes			29	29	(565)	(536)
Equity 30 June 2007	174,753	(15,744)	165,352	324,361	10,374	334,735

The notes on pages 9 to 25 are an integral part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Interim Statement of Cash Flows

for the Period from 1 January to 30 June 2008

	Notes	2008 1.1.-30.6.	2007 1.1.-30.6.
Net cash provided by operating activities.....		73,008	145,130
Net cash flow used in investing activities.....		(4,195)	(22,833)
Net cash flow used in financing activities.....		(39,491)	(12,364)
Net increase in cash and cash equivalents.....		29,322	109,933
Cash and cash equivalents at beginning of the year.....		295,199	202,789
Effect of exchange rate changes on cash held.....		76,139	(21,506)
Cash and cash equivalents at end of the period.....		400,660	291,216
Cash and cash equivalents:			
Cash in hand and demand deposits.....	18	154,318	145,011
Due from credit institutions.....	19	246,342	146,205
Total cash and cash equivalents.....		400,660	291,216

The notes on pages 9 to 25 are an integral part of these Condensed Consolidated Financial Statements.

Notes to the Consolidated Interim Financial Statements

Accounting Policies

General information

1. Reporting entity

Kaupthing Bank hf. is a company incorporated and domiciled in Iceland. The address of the Bank's registered office is Borgartún 19, Reykjavík, Iceland. The Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2008 comprise Kaupthing Bank hf. (the parent) and its subsidiaries (together referred to as "the Bank"). The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Kaupthing Bank hf. on 30 July 2008.

2. Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting* as adopted by the EU. They do not include all of the information required for full annual Financial Statements, and should be read in conjunction with the Consolidated Financial Statements of the Bank as at and for the year ended 31 December 2007.

3. Significant accounting policies

The accounting policies applied by the Bank in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Bank in its Consolidated Financial Statements as at and for the year ended 31 December 2007.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic króna (ISK) which is the Bank's functional currency, rounded to the nearest million.

Segment Reporting

4. Segment information is presented in respect of the Bank's business and geographical segments. The primary format, business segments, is based on the Bank's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis. Business segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital and funding cost.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets other than goodwill.

Business segments

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

Capital Markets delivers high quality research and advice, distribution, and trading services to its clients. There are four primary roles across the various business lines: Sales, Trading/Execution, Proprietary Trading and Research.

Investment Banking offers mid-market clients a full range of financial services, including M&A advisory and capital markets advisory, together with comprehensive debt and equity financing solutions across the entire capital structure.

Treasury is responsible for managing the Bank's funding, liquidity, interest rate exposure and trading in foreign currencies and derivatives, which includes warehousing of risk arising from financial products sold to the Bank's clients. Group Treasury is a central coordination unit responsible for the overall Treasury strategy of the Bank with a presence in both Iceland and the UK. The internet deposit bank, Kaupthing Edge, is also part of Treasury.

Banking is divided into two distinct units: Corporate Banking and Retail Banking. Corporate Banking offers a range of financing services and products for its corporate clients, from smaller businesses to larger companies operating in complex international environments. The Retail Banking unit is responsible for traditional retail banking operations, with a focus on individual and smaller businesses. The vast majority of retail banking activity takes place in Iceland. In addition, the Banking unit also provides banking services to Private Banking customers, primarily through the offices in Luxembourg, Iceland and the UK.

Asset Management & Private Banking are divided into four main areas: fund management, private banking, institutional asset management and services to institutional investors. Asset Management offers customised asset allocation strategies and managed accounts, designed to meet the diverse needs of corporate, institutional and private clients, in addition to a variety of mutual funds, alternative investments vehicles and pension plans schemes. Private Banking entails wealth management services, as well as discretionary and non-discretionary portfolio management.

Cost Centres are: Overhead, Back Office, Risk Management, Finance, Legal Department, Information Technology, Human Resources and Marketing.

Geographical segments

The Bank operates in four main geographical regions, being: Iceland, Scandinavia, the United Kingdom and Luxembourg.

Notes to the Consolidated Interim Financial Statements

5. Summary of the Bank's business segments:

1.1.-30.6.2008	Capital Markets	Investment Banking	Treasury	Banking	Asset		Total
					Managem. and Private Banking	Elimination and Cost Centres	
Net interest income	1,128	(1,281)	22,001	35,082	794	(9,529)	48,195
Net fee and commission income	9,110	5,241	(117)	3,863	6,784	325	25,206
Net financial income	(16,120)	888	9,681	338	532	15,295	10,614
Other income	113	267	453	3,526	184	1,319	5,862
Operating income	(5,769)	5,115	32,018	42,809	8,294	7,410	89,877
Operating expense	(8,246)	(4,037)	(6,115)	(13,197)	(5,912)	(9,558)	(47,065)
Impairment	(3)	-	-	(9,659)	-	12	(9,650)
Total expense	(8,249)	(4,037)	(6,115)	(22,857)	(5,912)	(9,546)	(56,715)
Earnings before cost allocation	(14,018)	1,078	25,903	19,952	2,382	(2,135)	33,162
Allocated cost	(853)	(418)	(822)	(2,287)	(870)	5,250	-
Earnings before income tax	(14,871)	660	25,081	17,665	1,512	3,114	33,162
Net segment revenue from external customers	825	9,293	(72,630)	136,542	3,828	12,019	89,877
Net segment revenue from other segments	(6,594)	(4,178)	104,648	(93,733)	4,466	(4,609)	-
Operating income	(5,769)	5,115	32,018	42,809	8,294	7,410	89,877
Depreciation and amortisation	84	25	70	2,320	51	1,677	4,227
Total assets 30.6.2008	348,968	190,496	3,407,841	3,983,940	83,603	(1,411,133)	6,603,715
Total liabilities 30.6.2008	305,550	158,385	3,377,697	3,659,911	68,863	(1,404,387)	6,166,019
Allocated equity 30.6.2008	43,418	32,111	30,144	324,029	14,740	(6,746)	437,696
Total liabilities and equity 30.6.2008	348,968	190,496	3,407,841	3,983,940	83,603	(1,411,133)	6,603,715
1.1.-30.6.2007							
Net interest income	(41)	(2,045)	9,313	29,114	532	(758)	36,115
Net fee and commission income	10,843	7,250	73	2,796	6,489	74	27,525
Net financial income	16,441	5,652	809	216	151	959	24,228
Other income	98	30	111	3,176	(54)	4,637	7,998
Operating income	27,341	10,887	10,306	35,302	7,118	4,912	95,866
Operating expense	(6,275)	(1,997)	(3,119)	(12,917)	(4,194)	(8,222)	(36,724)
Impairment	1	-	6	(2,507)	-	2	(2,498)
Total expense	(6,274)	(1,997)	(3,113)	(15,424)	(4,194)	(8,220)	(39,222)
Earnings before cost allocation	21,067	8,890	7,193	19,878	2,924	(3,308)	56,644
Allocated cost	(997)	(632)	(244)	(948)	(1,485)	4,306	-
Earnings before income tax	20,070	8,258	6,949	18,930	1,439	998	56,644
Net segment revenue from external customers	36,206	10,673	(47,601)	92,534	3,666	388	95,866
Net segment revenue from other segments	(8,865)	214	57,907	(57,232)	3,452	4,524	-
Operating income	27,341	10,887	10,306	35,302	7,118	4,912	95,866
Depreciation and amortisation	36	13	10	2,007	36	897	2,999
Total assets 31.12.2007	289,634	177,278	2,580,162	3,209,018	49,197	(957,944)	5,347,345
Total liabilities 31.12.2007	253,004	135,857	2,517,943	3,006,550	38,451	(960,891)	4,990,914
Allocated equity 31.12.2007	36,630	41,421	62,219	202,468	10,746	2,947	356,431
Total liabilities and equity 31.12.2007	289,634	177,278	2,580,162	3,209,018	49,197	(957,944)	5,347,345

Direct expenses from other divisions are now included in operating expenses within business segments, which were included in allocated cost. Comparative figures has been changed according to this.

Notes to the Consolidated Interim Financial Statements

Geographical analysis

6. Operating income specified by location of its markets and customers.

1.1.-30.6.2008	Iceland	Scandi- navia	UK	Luxem- bourg	Other	Total
Net interest income	16,397	11,139	15,986	4,258	415	48,195
Net fee and commission income	12,030	4,352	6,310	2,112	402	25,206
Net financial income	22,825	(5,851)	(6,417)	23	34	10,614
Other income	1,962	653	2,785	445	17	5,862
Operating income	53,214	10,293	18,664	6,838	868	89,877

1.1.-30.6.2007

Net interest income	12,479	9,870	9,698	3,240	828	36,115
Net fee and commission income	10,668	3,626	9,418	3,163	650	27,525
Net financial income	7,311	12,740	3,405	810	(38)	24,228
Other income	4,996	1,203	1,799	-	-	7,998
Operating income	35,454	27,439	24,320	7,213	1,440	95,866

7. Assets specified by location of its markets and customers.

30.6.2008	Iceland	Scandi- navia	UK	Luxem- bourg	Other	Total
Cash and balances with central banks	9,515	19,469	123,595	1,290	449	154,318
Loans to credit institutions	208,944	112,218	76,153	94,126	38,179	529,620
Loans to customers	1,254,618	1,495,338	905,574	372,043	141,608	4,169,181
Financial assets measured at fair value	517,020	546,232	128,703	82,930	10,883	1,285,768
Other assets	110,200	211,122	113,485	23,006	7,015	464,828
Total assets	2,100,297	2,384,379	1,347,510	573,395	198,134	6,603,715

31.12.2007

Cash and balances with central banks	1,034	14,632	79,719	2,156	418	97,959
Loans to credit institutions	198,079	118,112	82,715	71,881	117,654	588,441
Loans to customers	884,885	1,160,486	662,132	382,342	214,563	3,304,408
Financial assets measured at fair value	506,135	262,092	10,662	63,886	2,680	845,455
Other assets	118,164	286,088	81,791	22,080	2,959	511,082
Total assets	1,708,297	1,841,410	917,019	542,345	338,274	5,347,345

Notes to the Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

Net financial income

8. Net financial income is specified as follows:	Q1-Q2 2008	Q1-Q2 2007
Dividend income	3,039	5,067
Net (loss) gain on financial assets and liabilities at fair value through profit or loss	(36,707)	16,246
Net foreign exchange gain	28,207	2,881
Net gain on financial assets and liabilities not at fair value through profit or loss	16,075	34
Net financial income	10,614	24,228

Dividend income

9. Dividend income is specified as follows:		
Dividend income on trading assets	2,699	4,769
Dividend income on assets at fair value through profit or loss	340	298
Dividend income	3,039	5,067

Net (loss) gain on financial assets and liabilities at fair value through profit or loss

10. Net (loss) gain on financial assets and liabilities at fair value through profit or loss are specified as follows:		
Net (loss) gain on trading portfolio	(18,464)	12,636
Net (loss) gain on assets designated at fair value through profit or loss	(20,430)	3,218
Fair value adjustments on hedge accounting	2,187	392
Net (loss) gain on financial assets and liabilities at fair value through profit or loss	(36,707)	16,246

11. Net (loss) gain on trading portfolio are specified as follows:

Net (loss) gain on equity instruments and related derivatives	(17,033)	14,468
Net gain on interest rate instruments and related derivatives	902	1,198
Net loss on other derivatives	(2,333)	(3,030)
Net (loss) gain on trading portfolio	(18,464)	12,636

12. Net (loss) gain on assets designated at fair value through profit or loss are specified as follows:

Net loss on interest rate instruments designated at fair value	(20,272)	(415)
Net (loss) gain on equity instruments designated at fair value	(158)	3,633
Net (loss) gain on assets designated at fair value through profit and loss	(20,430)	3,218

Net gain on financial assets and liabilities not at fair value through profit or loss

13. Net gain on financial assets and liabilities not at fair value through profit or loss are specified as follows:		
Net realised gain on loans and finance leases	45	27
Net realised gain on available-for-sale assets	78	7
Gain on financial liabilities measured at amortised cost	15,952	-
Net gain on financial assets and liabilities not at fair value	16,075	34

Notes to the Consolidated Interim Financial Statements

Other operating income

14. Other operating income is specified as follows:	Q1-Q2 2008	Q1-Q2 2007
Income from operating leases	2,920	2,268
Fair value adjustments on investment property	(173)	(121)
Other income	1,437	5,094
Other operating income	4,184	7,241

Income tax

15. The effective income tax rate of the Bank in the first six months of the year 2008 was positive compared to 17.5% in the same period of the year 2007. The difference between the expected and effective income tax rate for the period is attributable to two major factors:

In May 2008 the Icelandic Parliament approved a decrease in the income tax rate from 18% to 15% as of 1 January 2008. Due to this the deferred tax liability at year-end 2007 has decreased by ISK 1,407 million. The decrease is recognised as a part of income tax in the income statement.

Further amendments to Icelandic taxation legislation, adopted in May 2008, include that capital gains on equities will be tax exempt under certain conditions. The amendments take effect as of 1 January 2008. Due to this, the deferred tax liability has decreased by ISK 2,462 million compared to 31 December 2007. The decrease was recognised in the current period, ISK 3,233 million as income in the income statement and ISK 770 million as a decrease in equity due to items previously recognised in equity.

Personnel

16. The Bank's total number of employees is as follows:	30.6.2008	31.12.2007
Average number of full time equivalent positions during the period	3,256	3,109
Full time equivalent positions at the end of the period	3,207	3,334

Earnings per share

17. Earnings per share are specified as follows:	Q1-Q2 2008	Q1-Q2 2007
Net earnings attributable to the shareholders of Kaupthing Bank hf.	34,114	45,765
Weighted average share capital:		
Weighted average of outstanding shares for the period	715.4	735.9
Effects of stock options	11.0	21.8
Weighted average of total shares for the period, diluted	726.4	757.7
Basic earnings per share	47.7	62.2
Diluted earnings per share	46.9	60.4
Number of outstanding shares at the end of the period, million	718.7	737.4
Number of total shares at the end of the period, million, diluted	729.6	759.2
Average number of own shares, million	25.0	4.6
Number of own shares at the end of the period, million	21.8	3.1

Notes to the Consolidated Balance Sheet

Cash and balances with central banks

18. Cash and balances with central banks are specified as follows:	30.6.2008	31.12.2007
Cash and cash balances	82,371	50,269
Cash equivalent	71,947	47,690
Cash and balances with central banks	154,318	97,959

Notes to the Consolidated Interim Financial Statements

Loans to credit institutions

19. Loans to credit institutions specified by types of loans:	30.6.2008	31.12.2007
Money market loans	60,653	228,348
Bank accounts	246,342	197,240
Overdrafts	7,798	3,855
Reverse repos	13,417	18,869
Other loans	201,410	140,129
Loans to credit institutions	529,620	588,441

Loans to customers

20. Loans to customers specified by types of loans:		
Overdrafts	31,316	24,759
Finance leases	101,043	73,597
Reverse repos and related agreements	37,703	41,971
Subordinated loans	53,869	38,328
Other loans	3,978,471	3,145,156
Provision on loans	(33,221)	(19,403)
Loans to customers	4,169,181	3,304,408

21. Loans to customers specified by sectors:

Individuals	14.5%	17.1%
Holding companies	16.8%	14.7%
Industry	18.0%	17.1%
Real estate	21.2%	20.7%
Service	17.9%	18.3%
Trade	8.3%	10.1%
Transportation	3.3%	2.0%
Loans to customers	100.0%	100.0%

22. Specification of subordinated loans:

Loans to customers	53,577	38,104
Bonds and other fixed income securities	292	224
Subordinated loans	53,869	38,328

23. Changes in the provision for losses are specified as follows:

Q1-Q2 2008 Q1-Q2 2007

	Collective	Specific	Total	Total
Balance at the beginning of the year	6,004	13,399	19,403	16,582
Impairment on loans during the period	3,786	5,864	9,650	2,498
Exchange rate difference on translation	1,128	3,772	4,900	(1,044)
Write-offs during the period	(24)	(519)	(543)	(1,513)
Payment of loans previously written-off	-	(189)	(189)	133
Provision on loans at the end of the period	10,894	22,327	33,221	16,656

Non-performing loans are classified as aggregated exposures for which the Bank has made specific provisions in part or in full. Non-performing loans amounted at the end of June 2008 to ISK 47,450 million (31.12.2007: ISK 32,503 million), 1.14% of total loans to customers (31.12.2007: 0.98%).

Notes to the Consolidated Interim Financial Statements

Financial assets and liabilities

24. Financial assets and liabilities are specified as follows:

30.6.2008	Loans and receivables	Trading	Designated at fair value	Available for sale	Derivatives used for hedging	Financial liabilities at amort. cost	Total
<i>Loans and receivables</i>							
Cash and balances with central banks	154,318	-	-	-	-	-	154,318
Loans to credit institutions	529,620	-	-	-	-	-	529,620
Loans to customers	4,169,181	-	-	-	-	-	4,169,181
Loans and receivables	4,853,119	-	-	-	-	-	4,853,119
<i>Bonds and debt instruments</i>							
Listed	-	13,936	576,802	-	-	-	590,738
Unlisted	-	32,198	43,847	-	-	-	76,045
Mortgage loans	-	-	9,533	-	-	-	9,533
Bonds and debt instruments	-	46,134	630,182	-	-	-	676,316
<i>Shares and instruments with variable income</i>							
Listed	-	49,995	13,524	-	-	-	63,519
Unlisted	-	12,700	79,428	224	-	-	92,352
Bond funds with variable income	-	6,908	9,507	-	-	-	16,415
Shares and instruments with variable income	-	69,603	102,459	224	-	-	172,286
<i>Derivatives</i>							
OTC derivatives	-	225,453	-	-	-	-	225,453
Other trading derivatives	-	102,764	-	-	-	-	102,764
Derivatives	-	328,217	-	-	-	-	328,217
<i>Derivatives used for hedging</i>							
Fair value hedge	-	-	-	-	20,432	-	20,432
Portfolio hedge of interest rate risk	-	-	-	-	7,310	-	7,310
Derivatives used for hedging	-	-	-	-	27,742	-	27,742
<i>Securities used for hedging</i>							
Bonds and debt instruments	-	45,276	-	-	-	-	45,276
Shares and equity instruments	-	35,931	-	-	-	-	35,931
Securities used for hedging	-	81,207	-	-	-	-	81,207
Other financial assets	148,892	-	-	-	-	-	148,892
Financial assets	5,002,011	525,161	732,641	224	27,742	-	6,287,779
<i>Liabilities at amortised cost</i>							
Due to credit institutions and central banks	-	-	-	-	-	670,930	670,930
Deposits	-	-	-	-	-	1,848,155	1,848,155
Borrowings	-	-	-	-	-	2,883,261	2,883,261
Subordinated loans	-	-	-	-	-	328,153	328,153
Liabilities at amortised cost	-	-	-	-	-	5,730,499	5,730,499
<i>Financial liabilities measured at fair value</i>							
Short position in equity held for trading	-	5,198	-	-	-	-	5,198
Derivatives held for trading	-	161,738	-	-	-	-	161,738
Repos and related agreements held for trading	-	33,894	-	-	-	-	33,894
Derivatives used for hedging	-	-	-	-	20,578	-	20,578
Mortgages funding	-	-	9,255	-	-	-	9,255
Financial liabilities measured at fair value	-	200,830	9,255	-	20,578	-	230,663
Other financial liabilities	-	-	-	-	-	118,513	118,513
Financial liabilities	-	200,830	9,255	-	20,578	5,849,012	6,079,675

Notes to the Consolidated Interim Financial Statements

24. con'd

31.12.2007	Loans and receivables	Trading	Designated at fair value	Available for sale	Derivatives used for hedging	Financial liabilities at amort. cost	Total
<i>Loans and receivables</i>							
Cash and balances with central banks	97,959	-	-	-	-	-	97,959
Loans to credit institutions	588,441	-	-	-	-	-	588,441
Loans to customers	3,304,408	-	-	-	-	-	3,304,408
Loans and receivables	3,990,808	-	-	-	-	-	3,990,808
<i>Bonds and debt instruments</i>							
Listed	-	18,859	317,004	-	-	-	335,863
Unlisted	-	15,506	8,070	-	-	-	23,576
Mortgage loans	-	-	7,911	-	-	-	7,911
Bonds and debt instruments	-	34,365	332,985	-	-	-	367,350
<i>Shares and instruments with variable income</i>							
Listed	-	52,033	15,256	-	-	-	67,289
Unlisted	-	4,130	78,436	165	-	-	82,730
Bond funds with variable income	-	5,132	5,646	-	-	-	10,778
Shares and instruments with variable income	-	61,294	99,338	165	-	-	160,797
<i>Derivatives</i>							
OTC derivatives	-	110,052	-	-	-	-	110,052
Other trading derivatives	-	24,804	-	-	-	-	24,804
Derivatives	-	134,856	-	-	-	-	134,856
<i>Derivatives used for hedging</i>							
Fair value hedge	-	-	-	-	16,617	-	16,617
Portfolio hedge of interest rate risk	-	-	-	-	5,886	-	5,886
Derivatives used for hedging	-	-	-	-	22,503	-	22,503
<i>Securities used for hedging</i>							
Bonds and debt instruments	-	68,051	-	-	-	-	68,051
Shares and equity instruments	-	91,898	-	-	-	-	91,898
Securities used for hedging	-	159,949	-	-	-	-	159,949
Other financial assets	263,993	-	-	-	-	-	263,993
Financial assets	4,254,801	390,464	432,323	165	22,503	-	5,100,256
<i>Liabilities at amortised cost</i>							
Due to credit institutions and central banks	-	-	-	-	-	339,088	339,088
Deposits	-	-	-	-	-	1,381,457	1,381,457
Borrowings	-	-	-	-	-	2,615,960	2,615,960
Subordinated loans	-	-	-	-	-	267,289	267,289
Liabilities at amortised cost	-	-	-	-	-	4,603,794	4,603,794
<i>Financial liabilities measured at fair value</i>							
Short position in equity held for trading	-	2,305	-	-	-	-	2,305
Derivatives held for trading	-	100,273	-	-	-	-	100,273
Repos and related agreements held for trading	-	96,865	-	-	-	-	96,865
Derivatives used for hedging	-	-	-	-	10,815	-	10,815
Mortgages funding	-	-	7,687	-	-	-	7,687
Financial liabilities measured at fair value	-	199,443	7,687	-	10,815	-	217,945
Other financial liabilities	-	-	-	-	-	72,212	72,212
Financial liabilities	-	199,443	7,687	-	10,815	4,676,006	4,893,951

Notes to the Consolidated Interim Financial Statements

25. Bonds and debt instruments designated at fair value specified by issuer:	30.6.2008	31.12.2007
Financial institutions	571,674	293,845
Governments	14,001	11,375
Corporates	41,664	25,373
Other	2,843	2,392
Bonds and debt instruments designated at fair value	630,182	332,985

Pledged assets

26. Pledged assets are specified as follows:		
Mortgage loans in Kaupthing mortgages Fund	122,528	88,374

In the ordinary course of business, the Bank enters into transactions that result in the transfer of financial assets to third parties or special entities. The Bank has transferred retail mortgage loans to the Kaupthing mortgages Fund, but has retained substantially all of the credit risk associated with the transferred assets, and continues to recognise these assets within loans to customers.

27. Financial assets that may be repledged or resold by counterparties:	30.6.2008	31.12.2007
Bonds	187,925	194,695
Shares	53,946	125,278
Margin accounts	30,725	-
Pledged assets	272,596	319,973

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as an intermediary.

Investments in associates

28. Investment in associates are specified as follows:	30.6.2008	31.12.2007
Carrying amount at the beginning of the year	83,831	5,304
Additions during the period	115	26,329
Sold during the period	(470)	(512)
Transferred from financial assets at fair value due to step acquisition	-	44,111
Share of profit	1,678	3,459
Dividend received	(4,897)	(149)
Exchange rate difference	27,317	5,289
Carrying amount at the end of the period	107,574	83,831

Notes to the Consolidated Interim Financial Statements

28. con'd

Main associates are specified as follows:

	Functional currency	Owner- ship	Book value in ISK
Storebrand ASA, Norway	NOK	20.0%	98,638
Kaupthing Capital Partners, United Kingdom	GBP	40.0%	4,631
Valitor hf., Iceland	ISK	39.5%	1,768
Drake Management LLC, USA	USD	20.0%	558
FMS Holding af 2004 A/S, Denmark	DKK	25.0%	430
FiNoble Advisors Private Ltd., India	USD	20.0%	377
Reiknistofa Bankanna, Iceland	ISK	17.3%	263
Other associates			909
Associates			<u>107,574</u>

Kaupthing holds around 20% share in Storebrand ASA a Norwegian insurance and financial services company. The 20% share was at end of June valued at NOK 6,353 or around 71 NOK a share which is in agreement with the latest embedded valuation, released with the 2007 Storebrand annual report.

Intangible assets

29. Intangible assets are specified as follows:

	Goodwill	Other intangible assets	30.6.2008	31.12.2007
Balance at the beginning of the year	60,014	6,760	66,774	68,301
Exchange rate difference	17,389	737	18,126	(3,198)
Additions during the period	13	1,510	1,523	2,654
Sold during the period	-	-	-	(77)
Impairment	-	-	-	(75)
Amortisation	-	(666)	(666)	(831)
Intangible assets	<u>77,416</u>	<u>8,341</u>	<u>85,757</u>	<u>66,774</u>

Investment property

30. Investment property are specified as follows:

	30.6.2008	31.12.2007
Balance at the beginning of the year	28,155	31,584
Exchange rate difference	9,230	(30)
Additions during the period	1,473	1,586
Sold during the period	(1,392)	(13,473)
Accrued interests	15	-
Fair value adjustments	(466)	(219)
Transferred to investment property	(2)	8,707
Investment property at the end of the period	<u>37,013</u>	<u>28,155</u>

Notes to the Consolidated Interim Financial Statements

Other assets

31. Other assets are specified as follows:	30.6.2008	31.12.2007
Unsettled securities trading	107,737	239,988
Accounts receivables	41,156	24,005
Accrued income	14,840	15,808
Prepaid expenses	6,136	2,879
Non-current assets and disposal groups classified as held for sale	5,735	1,842
Sundry assets	7,613	8,187
Other assets	183,217	292,709

Unsettled securities trading was settled in less than three days from the reporting date.

Financial liabilities measured at fair value

32. Financial liabilities measured at fair value are specified as follows:

Trading liabilities	200,830	199,443
Derivatives used for hedging - portfolio hedge of interest rate risk	20,578	10,815
Mortgage funding measured at fair value	9,255	7,687
Financial liabilities measured at fair value	230,663	217,945

33. Trading liabilities are specified as follows:

Short position in equity instruments held for trading	5,198	2,305
Derivatives held for trading	161,738	100,273
Repos and related agreements held for trading	33,894	96,865
Trading liabilities	200,830	199,443

34. Derivatives used for hedging are specified as follows:

Fair value hedge	4,106	1,859
Portfolio hedge of interest rate risk	16,472	8,956
Derivatives used for hedging	20,578	10,815

Borrowings

35. Borrowings are specified as follows:

Bonds issued	1,897,650	1,638,113
Bills issued	111,160	136,813
Money market loans	484,442	555,606
Other loans	390,009	285,428
Borrowings	2,883,261	2,615,960

Included are Repurchase agreements with banks amounting to ISK 261,863 million at the end of the period compared to ISK 178,014 million at year end 2007.

As a part of its hedging strategy, the Bank entered into funding arrangements where the interest payments are related to indices with inverse relation to capital markets. During the six-month period ending 30 June 2008 the Bank revised its estimates of future interest payments on interest bearing liabilities which are measured at amortised cost and whose interest payments are linked to changes in the indices. In accordance with the effective interest method, the Bank recalculated the carrying amount of the liabilities by computing the present value of the revised estimated future payments at the liabilities' original effective interest rate. The adjustment resulted in a decrease in the carrying amount of the liabilities by ISK 15,952 million which has been recognised as income in the income statement in the line item Net financial income, as shown in note 8 and 13.

Notes to the Consolidated Interim Financial Statements

Subordinated loans

36. Subordinated loans are specified as follows:	30.6.2008	31.12.2007
Tier I - Non-innovative hybrid capital	94,630	74,403
Tier I - Innovative hybrid capital	33,422	26,427
Tier II	200,101	166,459
Subordinated loans	<u>328,153</u>	<u>267,289</u>

Other liabilities

37. Other liabilities are specified as follows:		
Unsettled securities trading	104,454	64,560
Provisions	3,621	2,303
Accounts payable	14,059	7,652
Sundry liabilities	64,624	72,182
Other liabilities	<u>186,758</u>	<u>146,697</u>

Unsettled securities trading was settled in less than three days from the reporting date.

Equity

38. Capital management and allocation

Equity at the end of the period amounts to ISK 437,696 million. The equity ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 11.2%. According to the law the ratio may not be lower than 8.0%.

The ratio is calculated as follows:

	30.6.2008		31.12.2007	
	Book value	Weighted value	Book value	Weighted value
Risk base:				
Assets recorded in the Financial Statements	6,603,715	5,003,963	5,347,345	3,917,079
Assets deducted from equity		(179,878)		(135,600)
Guarantees and other items not included in the Balance Sheet		391,690		331,953
		<u>5,215,775</u>		<u>4,113,432</u>
Equity:				
Tier I capital:				
Equity		437,696		356,431
Intangible assets		(79,472)		(61,757)
Subordinated loans		128,052		100,830
Tier II capital:				
Subordinated loans		197,079		164,483
Investment in credit institutions		(100,406)		(73,843)
		<u>582,949</u>		<u>486,144</u>
Equity ratio		11.2%		11.8%
Thereof Tier I ratio		9.3%		9.6%

Notes to the Consolidated Interim Financial Statements

Derivatives

39. Derivatives remaining maturity date of principal and book value are specified as follows:

30.6.2008	Principal			Total	Book value	
	Up to 3 months	Over 3 months and up to a year	Over 1 year		Assets	Liabilities
Currency and interests rate derivatives, agreements unlisted:						
Forward exchange rate agreements	2,262,138	153,941	15,535	2,431,614	60,786	28,264
Interest rate and exchange rate agreements	1,097,887	1,991,332	3,672,130	6,761,349	154,002	95,069
Options - purchased agreements	52,165	14,414	162,689	229,268	8,411	945
Options - sold agreements	50,028	12,222	106,769	169,019	1,064	8,426
	<u>3,462,218</u>	<u>2,171,909</u>	<u>3,957,123</u>	<u>9,591,250</u>	<u>224,263</u>	<u>132,704</u>
Equity derivatives:						
Equity swaps, agreements unlisted	67,776	2,537	-	70,313	22,294	83
Equity options, purchased unlisted agreements	14,747	2,830	-	17,577	858	949
Equity options, sold unlisted agreements	9,643	4,247	234	14,124	-	234
Futures, agreements listed	2,326	-	-	2,326	-	-
Contracts for differences	300,748	-	-	300,748	96,287	16,787
	<u>395,240</u>	<u>9,614</u>	<u>234</u>	<u>405,088</u>	<u>119,439</u>	<u>18,053</u>
Credit derivative contracts:						
Corporate Synthetic CDOs	-	-	43,537	43,537	65	23,283
	<u>-</u>	<u>-</u>	<u>43,537</u>	<u>43,537</u>	<u>65</u>	<u>23,283</u>
Bond derivatives:						
Bond swaps, agreements unlisted	24,813	9,776	26,578	61,167	3,453	656
Options - purchased agreements	-	5,189	9,465	14,654	8,739	-
Options - sold agreements	-	5,189	9,465	14,654	-	7,620
	<u>24,813</u>	<u>20,154</u>	<u>45,508</u>	<u>90,475</u>	<u>12,192</u>	<u>8,276</u>
Derivatives	<u>3,882,271</u>	<u>2,201,677</u>	<u>4,046,402</u>	<u>10,130,350</u>	<u>355,959</u>	<u>182,316</u>

Notes to the Consolidated Interim Financial Statements

39. con'd

31.12.2007	Principal			Total	Book value	
	Up to 3 months	Over 3 months and up to a year	Over 1 year		Assets	Liabilities
Currency and interests rate derivatives, agreements unlisted:						
Forward exchange rate agreements	2,329,301	136,964	24,394	2,490,659	20,269	15,946
Interest rate and exchange rate agreements	764,533	515,492	2,728,407	4,008,432	65,957	44,733
Options - purchased agreements	59,555	20,344	45,670	125,569	5,679	-
Options - sold agreements	44,911	23,813	48,762	117,486	29	4,127
	<u>3,198,300</u>	<u>696,613</u>	<u>2,847,233</u>	<u>6,742,146</u>	<u>91,934</u>	<u>64,806</u>
Equity derivatives:						
Equity swaps, agreements unlisted	131,682	12,217	211,076	354,975	19,506	3,953
Equity options, purchased unlisted agreements	12,064	601	-	12,665	598	-
Equity options, sold unlisted agreements	9,762	4,386	-	14,148	-	2,091
Futures, agreements listed	2,484	-	-	2,484	-	-
Contracts for differences	90,345	-	211,075	301,420	30,716	19,264
	<u>246,337</u>	<u>17,204</u>	<u>422,151</u>	<u>685,692</u>	<u>50,820</u>	<u>25,308</u>
Credit derivative contracts:						
Corporate Synthetic CDOs	-	-	32,081	32,081	96	13,304
Total rate of return swaps	-	-	48,052	48,052	1,786	-
	-	-	80,133	80,133	1,882	13,304
Bond derivatives:						
Bond swaps, agreements unlisted	39,792	18,373	22,828	80,993	6,128	765
Options - purchased agreements	600	3,122	6,850	10,572	6,595	-
Options - sold agreements	600	3,122	6,850	10,572	-	6,905
	<u>40,992</u>	<u>24,617</u>	<u>36,528</u>	<u>102,137</u>	<u>12,723</u>	<u>7,670</u>
Derivatives	<u>3,485,629</u>	<u>738,434</u>	<u>3,386,045</u>	<u>7,610,108</u>	<u>157,359</u>	<u>111,088</u>

The objective of the above-mentioned agreements is to control currency and interest rate risk of the Bank. The credit risk is valued at ISK 122,137 million when calculating the capital ratio of the Bank at 30 June 2008 and ISK 71,379 million at 31 December 2007.

Notes to the Consolidated Interim Financial Statements

Other Information

40. Breakdown of assets and liabilities by currency:

Assets	ISK	EUR	DKK	GBP	USD	Other	Total
Cash and balances with central banks	9,409	9,096	10,251	123,596	487	1,479	154,318
Loans to credit institutions	16,966	203,458	60,972	111,217	43,390	93,617	529,620
Loans to customers	477,706	909,684	832,079	1,014,753	338,163	596,796	4,169,181
Bonds and debt instruments	36,104	162,997	415,696	30,658	25,249	5,612	676,316
Shares and instruments with variable income	33,185	48,234	21,034	16,939	24,342	28,552	172,286
Derivatives	13,982	141,303	40,410	91,092	23,113	18,317	328,217
Derivatives used for hedging	1,912	4,279	7,310	-	13,379	862	27,742
Securities used for hedging	49,686	2,014	1,631	22,779	794	4,303	81,207
Investments in associates	2,396	168	808	4,625	936	98,641	107,574
Intangible assets	7,742	905	42,420	33,195	186	1,309	85,757
Investment property	1,303	18,376	13,274	4,060	-	-	37,013
Property and equipment	8,690	5,232	390	23,892	88	948	39,240
Tax assets	1,492	897	-	6,270	47	3,321	12,027
Other assets	30,071	27,218	44,434	44,014	8,105	29,375	183,217
Total assets 30.6.2008	690,644	1,533,861	1,490,709	1,527,090	478,279	883,132	6,603,715
Liabilities							
Due to credit institutions and central banks	33,665	225,591	301,682	19,112	46,185	44,695	670,930
Deposits	294,949	339,954	272,877	733,302	100,613	106,460	1,848,155
Financial liabilities measured at fair value	19,815	83,422	74,368	41,240	-	11,818	230,663
Borrowings	194,315	1,523,730	102,259	220,830	559,108	283,019	2,883,261
Subordinated loans	11,813	147,045	-	-	164,789	4,506	328,153
Tax liabilities	983	5,302	4,788	6,782	-	244	18,099
Other liabilities	13,952	22,881	67,583	39,526	6,391	36,425	186,758
Equity and minority interest	424,206	12,780	137	573	-	-	437,696
Total liabilities and equity 30.6.2008	993,698	2,360,705	823,694	1,061,365	877,086	487,167	6,603,715
Net on-balance sheet position	(303,054)	(826,844)	667,015	465,725	(398,807)	395,965	
Net off-balance sheet position	(183,335)	927,902	(483,149)	(354,207)	448,603	(355,815)	
Net position 30.6.2008	(486,389)	101,058	183,866	111,518	49,796	40,150	
Net position 31.12.2007	(364,075)	140,877	112,707	72,329	(2,633)	40,795	

Notes to the Consolidated Interim Financial Statements

41. The breakdown by contractual maturity of assets and liabilities.

Assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with central banks	154,318	-	-	-	-	154,318
Loans to credit institutions	366,012	116,575	26,194	11,555	9,284	529,620
Loans to customers	440,677	679,726	549,287	1,412,652	1,086,839	4,169,181
Bonds and debt instruments	54,684	6,451	289,152	157,793	168,236	676,316
Shares and instruments with variable income	69,602	102,459	-	-	225	172,286
Derivatives	46,727	124,232	43,953	85,488	27,817	328,217
Derivatives used for hedging	-	935	686	16,811	9,310	27,742
Securities used for hedging	81,207	-	-	-	-	81,207
Investments in associates	-	-	-	-	107,574	107,574
Intangible assets	-	-	-	-	85,757	85,757
Investment property	-	-	-	-	37,013	37,013
Property and equipment	-	-	-	-	39,240	39,240
Tax assets	-	-	3,922	8,105	-	12,027
Other assets	107,705	-	75,512	-	-	183,217
Total Assets 30.6.2008	1,320,932	1,030,378	988,706	1,692,404	1,571,295	6,603,715
Total Assets 31.12.2007	1,090,909	1,205,538	534,820	1,307,456	1,208,622	5,347,345
Liabilities						
Due to credit institutions and central banks	138,843	472,888	22,862	33,899	2,438	670,930
Deposits	805,203	552,515	394,519	35,279	60,639	1,848,155
Financial liabilities measured at fair value	56,098	34,872	30,622	89,215	19,856	230,663
Borrowings	26,225	403,036	422,507	1,598,518	432,975	2,883,261
Subordinated loans	-	-	-	92,769	235,384	328,153
Tax liabilities	-	-	8,211	9,888	-	18,099
Other liabilities	104,454	-	78,685	3,619	-	186,758
Total Liabilities 30.6.2008	1,130,823	1,463,311	957,406	1,863,187	751,292	6,166,019
Total Liabilities 31.12.2007	670,778	1,566,488	567,575	1,594,188	591,885	4,990,914
Assets - liabilities 30.6.2008	190,109	(432,933)	31,300	(170,783)	820,003	437,696
Assets - liabilities 31.12.2007	420,131	(360,950)	(32,755)	(286,732)	616,737	356,431

Assets under management and under custody

42. Assets under management and assets under custody are specified as follows:	30.6.2008	31.12.2007
Assets under management	1,629,584	1,557,395
Assets under custody	2,470,277	2,276,875

The Bank provides asset custody, asset management, investment management and advisory services to its clients. These services require the Bank to make decisions on the treatment, acquisition or disposal of financial instruments. Assets in the Bank's custody are not reported in its accounts.

Notes to the Consolidated Interim Financial Statements

Related parties

43. The Bank has a related party relationship with its subsidiaries, associates, the Board of Directors of the Parent Company, the Managing Directors of the Bank, the Managing Directors of the largest subsidiaries, close family members of individuals referred to above and entities with significant influence as the largest shareholders of the Bank which are Exista (24.7%) and Eglá Invest BV. (9.9%). Information regarding related parties are as follows:

Significant related companies:

Loans:	30.6.2008	31.12.2007
Balance at the beginning of the year	106,725	109,556
Additions	40,290	54,810
Reductions	(22,965)	(54,405)
Exchange rate difference	21,954	(3,236)
Balance at the end of the period	146,004	106,725

The Bank has issued a contingent guarantee to a related party regarding exposure to a market price of equity shares with a maximum potential exposure of EUR 300 million. At the end of the period the condition for the guarantee was not met. The related party has also issued a guarantee to Kaupthing Bank for the same maximum potential amount.

The Bank has granted loans to board members and its key management. The outstanding balance of loans to board members, management and close family members amounted to ISK 36,823 million at 30 June 2008 and ISK 34,408 million at 31 December 2007. The terms and conditions are similar for the board members and key management as loans granted to other customers of the Bank. The aforementioned amounts do not include loans related to the business activities of the board members and key management.

No unusual transactions took place with related parties in first half of 2008.

Transactions with related parties have been conducted on arm's length basis.

Off Balance Sheet Information

Obligations

44. The Bank has granted its customers guarantees, overdraft permissions and loan commitments. These items are specified as follows:

	30.6.2008	31.12.2007
Financial guarantees	514,108	471,645
There of credit default swaps	346,379	319,065
Unused overdrafts	70,378	73,844
Loan commitments	241,003	278,481

The credit risk is valued at ISK 244 billion at the end of the period (31.12.2007: ISK 235 billion) for guarantees, credit default swaps, unused overdrafts and loan commitments when calculating the capital ratio of the Bank.

Events after the Balance Sheet date

45. On 30 April 2008 the board of directors of Kaupthing Bank hf. and SPRON hf. agreed to enter into negotiations on the merger of the two companies. On 1 July 2008 an agreement was signed on the acquisition by Kaupthing Bank hf. of all shares in SPRON hf. and the merger of the companies. The purchase price was ISK 3.83 per share in SPRON hf. and the payment will be structured so that 60% of the purchase price will be paid for with shares in Exista hf. and 40% with shares in Kaupthing Bank hf. A shareholders' meeting in SPRON hf. to be held on 6 August will vote on whether to approve the merger with Kaupthing Bank hf. The merger is also subject to the approval of the Icelandic Financial Supervisory Authority and the Icelandic Competition Authority.