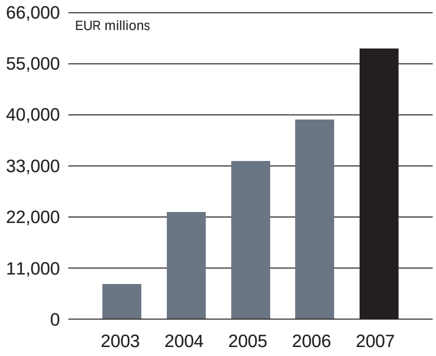
ANNUAL REPORT 2007

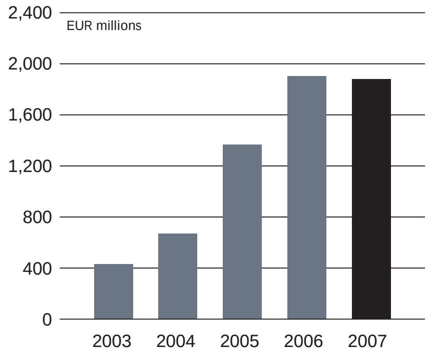
KAUPTHING BANK

KEY FIGURES

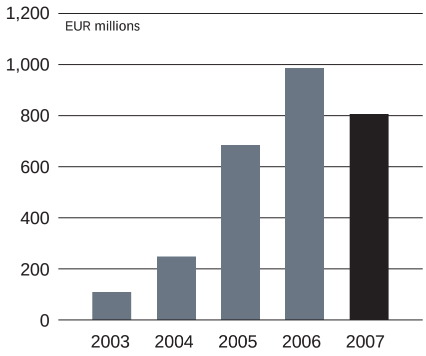
Total assets



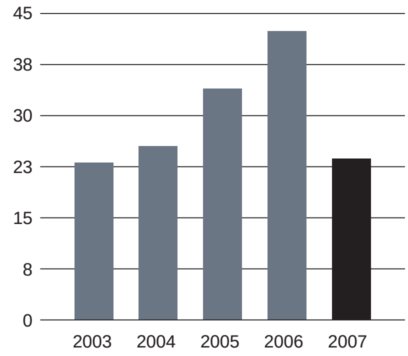
Operating income



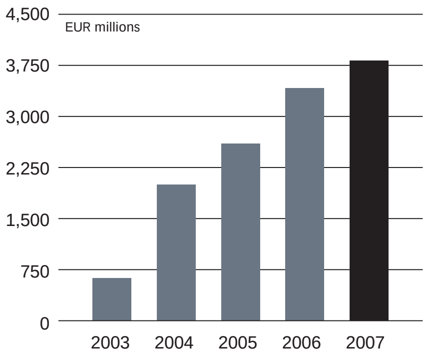
Net earnings



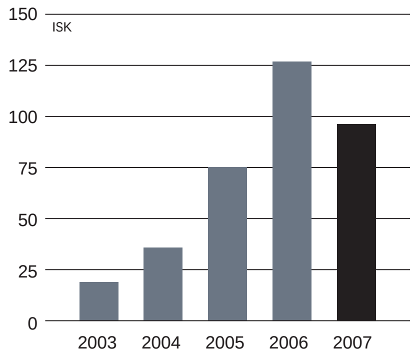
Return on equity (%)



Equity



Earnings per share



KEY FIGURES

EUR millions*	2007	2006	Change
Income Statement			
Net interest income	913	595	53%
Net fee and commission income	627	426	47%
Net financial income	166	687	-76%
Other income	186	194	-5%
Operating income	1,891	1,902	-1%
Operating expenses	-897	-683	31%
Impairment	-70	-68	3%
Income tax	-112	-165	-32%
Net earnings	812	986	-18%
Attributable to:			
Shareholders of Kaupthing Bank	799	972	-18%
Minority interest	13	14	-4%
Net earnings	812	986	-18%
Balance Sheet			
Assets			
Cash and cash balances with central banks	1,069	1,131	-5%
Loans to credit institutions	6,420	5,130	25%
Loans to customers	36,051	26,832	34%
Financial assets	9,224	7,030	31%
Intangible assets	729	722	1%
Other assets	4,847	2,019	140%
Total assets	58,339	42,864	36%
Liabilities and equity			
Credit institutions and central banks	3,699	1,167	217%
Deposits	15,072	7,934	90%
Borrowings	28,540	25,367	13%
Subordinated loans	2,916	2,283	28%
Other liabilities and minority interest	4,342	2,693	61%
Shareholders' equity	3,771	3,419	10%
Total liabilities and equity	58,339	42,864	36%

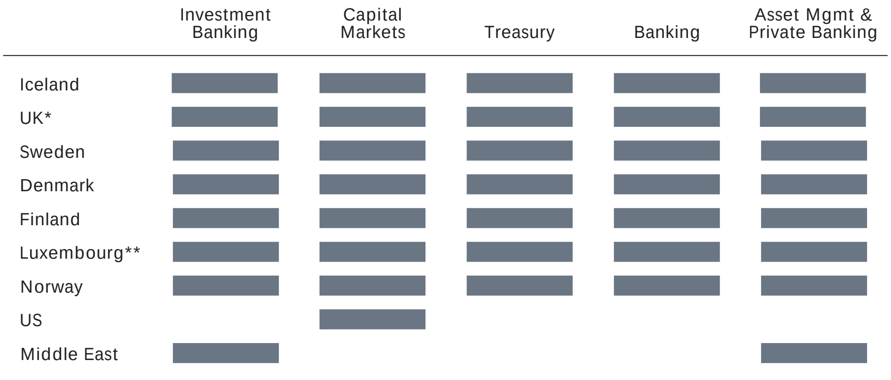
Key ratios	2007	2006
Cost / Income ratio	47.5%	35.9%
Return on shareholders' equity	23.5%	42.4%
Loan-loss ratio	0.2%	0.2%
NPL / Loans to customers	0.98%	1.00%
Total credit reserves	0.6%	0.6%
CAD ratio	11.8%	15.0%
Tier 1 ratio	9.6%	10.5%
Earnings per share, ISK	95.2	127.1

*All amounts in the Annual Report are in ISK except on this page and where otherwise stated.

OPERATIONS & ORGANISATION

Kaupthing Bank is a Northern European bank operating in thirteen countries, including all the Nordic countries, Luxembourg, Belgium, Switzerland, the UK, Isle of Man, the US, United Arab Emirates (Dubai) and Qatar.

Kaupthing Bank offers integrated financial services to companies, institutional investors and individuals. These services include Corporate Banking, Investment Banking, Capital Markets, Asset Management and comprehensive wealth management for Private Banking clients. In addition, the Bank operates a retail franchise in Iceland, where it is headquartered, and to a lesser extent in Norway and Sweden. The Bank employed 3,334 people at the end of 2007. The diagram below illustrates the services offered in each of the countries Kaupthing Bank operates in:



* Operations in the Isle of Man report to the office in the UK
** Operations in Belgium and Switzerland report to the office in Luxembourg

Through sound organic growth and a number of strategic acquisitions, such as the UK bank Singer & Friedlander in 2005 and FIH Erhvervsbank in Denmark in 2004, Kaupthing Bank has fortified its position to provide outstanding services to its clients. Even though the Bank’s focus remains on Northern Europe, Kaupthing recognises the need to be present in key markets such as the Middle East, Asia and the US to enable the Bank to better service its Northern European clients. Thanks to its strong cross-border platform, Kaupthing Bank is in an excellent position to meet clients’ local and international needs in financial services.

Kaupthing Bank is listed on the OMX Nordic Exchange in Stockholm and Iceland and is currently among the seven largest banks in the Nordic region in terms of market capitalisation. The Bank focuses on shareholder value, meaning the expansion of the Group has not been achieved at the expense of profitability. The year 2007 has proven to be another successful period of solid organic growth and strong earnings.

GLOBAL OPERATIONS

FINANCIAL CALENDAR 2008

2008 Annual General Meeting – 7 March
Q1 2008 Results – 30 April
Q2 2008 Results – 31 July
Q3 2008 Results – 30 October
2008 Annual Results – 29 January 2009

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KAUPTHING BANK

THE TIMES THEY ARE A-CHANGIN'

Sigurdur Einarsson, Executive Chairman

Kaupthing Bank delivered a strong performance in 2007. Our return on equity was 23.5% and all our core businesses gave solid returns. Our CAD ratio was 11.8% and our Tier 1 capital ratio was 9.6% and compare favourably with our peers. Our liquidity is strong; at the end of 2007 the Bank had secured liquidity for more than 440 days and our funding profile has never been longer. Now when the global outlook in financial markets looks uncertain, Kaupthing occupies a strong position and is ready to take advantage of new opportunities arising from market disruptions.

Sigurdur Einarsson, Executive Chairman

Flexible business model

Kaupthing offers comprehensive investment and corporate banking services to small and medium-sized companies and entrepreneurs in Northern Europe. Our focus is on providing our customers with a wide and ever-broadening range of services, through cross-selling rather than competing solely on execution or price. We aim to establish long-term relationships with our customers, and in fact many of our largest transactions are made on behalf of our increasing roster of repeat customers. A testament to this success is that our Net fee and commission income rose by 47.6% in 2007 from the previous year.

Our business model is robust and one of its key strengths is its flexibility. Even though our principles remain the same, we have the flexibility to adapt our tactics and execution to changes in the environment. John Maynard Keynes was once reproached for changing his mind. His reply was "When the facts change, I change my mind. What do you do, sir?" This year we see Kaupthing adapting its strategy in numerous ways.

It was regrettable that we could not finalise the acquisition of NIBC, but both we and the seller acknowledged that circumstances had changed and agreed not to finalise the deal. I would like to say that all our negotiations with the sellers, led by JC Flowers, were cordial and enjoyable.

In 2006 we changed our goals for secured liquidity from 180 days to at least 360 days and by the end of 2007 our secured liquidity was for more than 440 days. At the end of 2007 we had funded our acquisition of NIBC. When we decided not to complete that acquisition, our liquidity position became extremely strong.

Kaupthing Capital Partners II

We decided to decrease our limit for equity positions to no more than 35% of the Bank's risk capital and at the end of 2007 our equity positions were 30.3% of risk capital. Another step we took to adapt our business model was establishing Kaupthing Capital Partners II, a private equity fund of approximately GBP 500 million. Kaupthing Capital Partners

II will have the first right of refusal on all private equity proposals offered to the Bank. This new structure enables us to continue to co-invest with our clients, who have invested in the fund, even though the Bank is reducing its exposure to equity. It also enables the Bank to lever its expertise and excellent track record in private equity and share in its returns through our GBP 200 million investment in the fund.

Changed funding profile

On the funding side, we have increased the share of Deposits to customer loans. In 2007 we set the goal of increasing Deposits from 29% of customer loans to 40%. By the end of the year we had reached 42%, a commendable effort from our dedicated team. This year we raised the bar yet again, and our goal is to increase the ratio of Deposits to customer loans to 50% by the end of the year. We also continued to diversify our funding last year. Kaupthing was the first Nordic bank to issue public bonds in Mexico and we entered the Canadian market with an inaugural issue.

We enhanced our Northern European profile last year by launching our first global retail product - Kaupthing Edge. This is a part of the Bank's long-term funding strategy, which has been in preparation since 2006 and is already beginning to bear fruit. The strategy is expected to change the profile of the Bank by catapulting its brand from a niche market into a retail brand. This strategy is well suited for the paradigm shift that has occurred in the market in the aftermath of the sub-prime crisis in the US. In spite of the year having been good for Kaupthing, the Bank recognises that a re-pricing of capital has occurred and calibrated its strategy accordingly.

Focus on risk

Our values call for intelligent risk taking. Being an international bank, we had exposure, albeit limited, to international credit markets which hurt us, but true to our principles of efficient decisions and welcoming change, we quickly restructured our structured credit portfolio and expensed our loss. Investments are, by their very nature, prone to risk and subject to the law of probabilities. The possibility of losses can therefore never be excluded; what we can do, however, is respond to them in a timely manner. Banking is not about eliminating risks, but monitoring and controlling them by acting in a timely manner.

Our people

Our business is about people. In order to position our services and prevent them from being commoditised, we have to hire and retain the best people. The Bank remains true to its principle of rewarding talent and offering our employees opportunities to grow and develop their skills. At the same time we are alert to the fact that as new people enter the Bank we have to actively preserve and spread our culture.

Our functional currency

Kaupthing is waiting for the Icelandic minister of finance to reach a decision on when Kaupthing can change its functional currency to euros. The reason why we want to change our functional currency is to be able to present the users of our financial statements with a more representative picture of our accounts, and we believe the most effective way of doing that is with an internationally recognised unit of account. Just as road signs normally indicate distances in kilometres or miles, even though it would be possible, though not as useful, to indicate them in leagues, we believe it is more useful to present our accounts in euros. However, people should not exaggerate the influence of the ISK on the Bank's fortunes. We have fully hedged our equity in foreign currencies so that fluctuations in the ISK will not influence our strong capital ratios.

Opportunistic strategy

The world is a smaller place than it used to be and in 2007 we began cautiously to explore opportunities in some of the hotspots outside Europe. We entered, India, one of the world's fastest growing markets, with our 20% investment in FiNoble, a leading financial advisory firm in India, with an option to buy the remaining 80%. We also opened offices in the Middle East, with an eye on the rapidly growing market in the Middle East and North Africa. This signals the Bank's intention of participating in rapidly growing and large markets, true to our belief that international finance is not a spectator sport.

Dividends

At the Bank's Annual General Meeting, the Board of Directors will propose that ISK 14,809 million be paid as dividends to shareholders for 2007, which corresponds to ISK 20 per share and represents 21% of last year's net earnings. This is consistent with Kaupthing Bank's dividend policy of paying out dividends, which represent between 10% and 30% of annual net earnings.

In conclusion, I would like to extend my thanks to my fellow board members for their hard work over the year. To our 32,000 shareholders, who once again demonstrated their confidence in Kaupthing Bank in 2007, I would like to express my thanks and gratitude. Nothing satisfies a banker more than keeping customers and shareholders' invaluable trust during turbulent times. After all, when it comes down to it, banking is all about trust.

Sigurdur Einarsson

ANOTHER SOLID YEAR FOR KAUPTHING BANK

Hreidar Már Sigurdsson, CEO

Kaupthing Bank enjoyed a good year in 2007. After a very bright start to the year, the downturn on the international financial markets inevitably left its mark on the second half of 2007. Nevertheless, the Bank experienced a year of strong growth and profitability in which all of the core business areas performed well. During the year we also took many important steps towards our goal of making Kaupthing a leading Northern European bank, including by launching our global internet deposit bank.

Hreidar Már Sigurdsson,
Chief Executive Officer

Kaupthing reported net earnings of ISK 70 billion (EUR 799 million) in 2007, a decrease of 18% from the previous year which was a record year for the Bank. Earnings per share amounted to ISK 95.2 and return on shareholders' equity was 23.5% in 2007, which is above the Bank's long-term target of 15%. Kaupthing Bank's capital base is strong with the CAD ratio at 11.8% at the end of 2007 and Tier 1 ratio at 9.6%.

Business building

The year 2007 left the Bank in a strong position, with good diversification in terms of income streams, geography and strong asset quality. Concerted efforts were made to develop and reinforce core activities. We continued to build up the Bank's profit centres, while intensifying our focus on cross-sales and closer collaboration between divisions and countries. We brought on board a host of outstanding individuals during the year; the total number of employees grew by 23%, and the Bank's fee and commission income certainly bears testament to the success of that.

The focus of recent years to increase interest income and commission income has clearly succeeded and is one of the most satisfactory achievements in 2007. Core income, i.e. Net interest income and Net fee and commission income increased by 51% year-on-year. This demonstrates that we are no longer as dependent on positive Net financial income in order to achieve superior return on equity. In fact, interest income has grown to such an extent that it is now sufficient to cover the Bank's entire Operating expenses.

In August we announced the planned acquisition of the Dutch bank NIBC. However, we later reached a mutual agreement with the sellers not to go ahead with the transaction. The reason was that the synergies we had expected when we agreed on the transaction in August were no longer possible due to the downturn in financial markets. It was a disappointment that we did not complete the acquisition of NIBC; however, this was a logical decision in view of market conditions.

During the year Kaupthing strengthened its operations through a number of small acquisitions and by setting up new businesses. We entered the Belgian market with the acquisition of a small bank, Robeco Bank Belgium, which provides us with a good platform there. We also acquired an offshore deposit-taking business in the Isle of Man, which we have already integrated into our existing operation there.

Even though we have stated many times that Kaupthing is first and foremost a European bank we have nevertheless been exploring opportunities in Asia. In 2007 we strengthened our Investment Banking operations by acquiring a 20% stake in a small investment banking firm in India, FiNoble Advisors, with an option to acquire the company. We were also granted a licence to operate branches in the Dubai International Financial Centre (DIFC) and the Qatar Financial Centre (QFC) where our initial focus will be on providing Investment Banking services and arranging Wealth Management services.

Funding and liquidity

It is a key focus for Kaupthing's management to maintain abundant liquidity for the Bank. We benefit from having been active in the wholesale funding market when market conditions were positive in the first half of 2007. The average maturity of newly-issued senior unsecured debt was four years at the end of 2007 and has never been as long. During the year we also continued to broaden the base of debt investors and to diversify our funding base by further public issues in those markets previously open to us, and by debut transactions in some new regions.

Our conservative liquidity policy is 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 having to access the capital markets. At the end of 2007, the secured liquidity of Kaupthing Group was sufficient to cover all obligations for more than 440 days.

Kaupthing Edge

We launched our first global retail product, Kaupthing Edge, an internet deposit bank, in Finland and Sweden in the fourth quarter of 2007. In January 2008 Kaupthing Edge was also introduced in Norway, the UK and Belgium and the aim is to open in several more countries later in the year. We have already seen that customers welcome this product with open arms and so far the response has exceeded our expectations.

Kaupthing Edge, which has been in development since mid 2006, represents a strategic shift for the Bank. In the years to come we expect to be able to change the funding structure of the Bank by using Kaupthing Edge and other initiatives in deposit gathering. Our goal is to increase the ratio of Deposits to customer loans from 42% to 50% in 2008.

Unsettled international financial markets

It is clear that the turbulence in the financial markets emanating from the sub-prime crisis in the US affects the financial sector, and thereby Kaupthing. The Bank had to charge EUR 210 million in the second half of the year due to its structured credit portfolio. This was the greatest setback of 2007. In order to prevent or reduce potential write-downs, similar to those that have already materialised, we have greatly reduced our positions in structured credit and asset-backed securities.

Challenges and opportunities

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. We have also made efforts to reduce costs, which should already be evident in our Q1 results, and then increasingly so as the year unfolds.

Our prudent growth strategy will continue, but not at the expense of profitability. We should bear in mind that the current market turmoil does not only present us with challenges but also with opportunities. Those who are first to adapt to this new environment will be able to take full advantage of such opportunities.

The coming year is exciting, and at the moment there is little to suggest anything other than that the Bank will meet its goal of 15% return on equity. Our core operations are solid and now we have to prove our adaptability in a changed market environment.

In conclusion I would like to thank our customers for their confidence in our ability to help them realise their ambitions. I am grateful to our shareholders for their belief in the value of our business. I would like to express my appreciation for the united efforts of our employees, who performed commendably in the face of difficult conditions. Finally, I extend a warm welcome to the new members of the Kaupthing team who will add new skills and knowledge to our company. The Bank faced a host of challenges in 2007, but by playing to our strengths and building on the robust foundations already in place we are well equipped to tackle the demands ahead.

Hreidar Már Sigurdsson

YEAR IN REVIEW

Results 2007

- Good performance in challenging environment.
- Shareholders' net earnings of ISK 70 billion (EUR 799 million).
- Earnings per share amounted to ISK 95.2 compared with ISK 127.1 in 2006.
- Return on equity was 23.5%.
- Core income, Net interest income and Net fee and commission income, increased by 50.7% from 2006.
- The CAD ratio was 11.8% and the Tier 1 ratio was 9.6% at year end, above the Bank's target of 11% and 8%, respectively.
- Total assets amounted to ISK 5,347 billion (EUR 58.3 billion) at year end 2007, growing by 31.9% during the year.

Transforming the funding

- The main focus within the Bank was to continue the diversification of its funding sources. The Bank successfully issued a mixture of senior debt and tier 1 hybrid instruments, re-visiting Europe and Asia, and opening markets in Canada and Mexico.
- At the beginning of 2007, increasing customer deposits in the Bank was highlighted as a key priority. The Bank set itself the target of raising the ratio of Deposits to Loans to customers from 30% to 40% within 18 months. This was achieved much earlier than expected, and at the end of 2007, it stood at 42%.
- A large part of the increase in Deposits in 2007 was achieved through cross-selling deposit products to the existing client base.
- The successful launch of Kaupthing Edge in Finland and Sweden, as well as the establishment of an internet bank in Norway, have helped drive the customer deposits initiative. In January 2008, three new markets were entered with Kaupthing Edge and the plan is to enter further markets.

Business building

- During the year Capital Markets operations in the UK and Denmark were fully established. The institutional footprint in the Nordic equity markets was strengthened by hiring more than half a dozen top three rated analysts, in addition to high level industry professionals. Capital Markets offered several new products in 2007, such as Contracts for Difference (CFDs) and derivatives on shipping freight rates.
- During the year Investment Banking operations were set up in Luxembourg and the Middle East. The geographical presence was strengthened further with the Bank's acquisition of a 20% stake in FiNoble Advisors in India.

- In the third quarter, Kaupthing was granted a licence to operate a branch in the Dubai International Financial Centre (DIFC) and Qatar Financial Centre (QFC). The Bank will initially focus on Investment Banking and Wealth Management.
- In the fourth quarter, Kaupthing Bank Luxembourg acquired Robeco Bank Belgium, changing its name to Kaupthing Bank Belgium shortly afterwards. Robeco represented a good strategic fit for Kaupthing in building up its Private Banking offering in the Benelux countries.
- In November 2007 Kaupthing agreed with Derbyshire Building Society to acquire the entire issued share capital of Derbyshire's offshore deposit-taking business. The acquisition was a great addition to the Bank's current operations in the Isle of Man.
- Kaupthing started its first third-party private equity fund, Kaupthing Capital Partners II, in response to increasing requests from clients to participate in the Bank's equity investments.

Increased diversification

- Kaupthing's growth strategy was aimed at increasing income diversification, enhancing asset quality and broadening the services offered. 2007 was used to strengthen the Bank's operations in general with a focus on organic growth.
- The Bank has a well diversified asset base and loan portfolio and the asset quality has been improving every year over the last four years.
- The diversification of income is constantly increasing, with the UK, Denmark and Iceland, currently the most important markets, but there is strong growth in other countries, particularly in Luxembourg. Core income, Net interest income and Net fee and commission income, have shown strong organic growth and increased by 50.7% from 2006.
- At the end of 2007 Kaupthing operated in 13 countries, including all the Nordic countries, the UK, Luxembourg, Belgium, the US, Switzerland, Isle of Man, United Arab Emirates (Dubai) and Qatar. There were 3,334 people employed at year end 2007, which is a substantial increase since the end of 2006, i.e. 615 new employees or 22.6%.

STRATEGY & STRENGTHS

Kaupthing Bank's goal is to become a leading provider of integrated financial services for small and medium-sized enterprises (SMEs), institutional investors and high net-worth individuals in Northern Europe. The Bank intends to achieve this central goal by taking the following measures:

Focusing on defined clients, products and geographic areas

The Bank caters to a market niche as an integrated financial services provider for SMEs, institutional investors and high net-worth individuals, which the Bank believes are not adequately served by larger financial institutions. Kaupthing provides these clients with the full range of products offered by larger financial institutions, with investment banking and corporate banking at the core of the strategy, complemented by capital markets, asset management and private banking. These products and businesses are provided at most regional locations.

As a result, income streams are well diversified across all business areas, while the asset base is diversified across countries and industries. Geographically, the Bank's revenues are increasingly spreading across regions. The focus remains on Northern Europe, with an emphasis on the Nordic region. However, the Bank recognises the need to be present in key markets such as the Middle East, Asia and Europe.

Leveraging diversification of the business through cross-selling

A key advantage of Kaupthing is its ability to provide a wide range of financial services to its clients, including co-investment, financing, advisory and capital markets services, as well as wealth management. The Bank capitalises on the diversification of its business across product lines and, as appropriate, across regions by cross-selling the full range of products to an existing client base.

For corporate clients, which are primarily SMEs, this includes acting as a partner to help them realise a sustainable growth platform. In addition to providing a full range of banking, investment banking, capital markets, asset management and treasury services, from time to time, the Bank also takes equity stakes in its corporate clients to more fully align its economic interests with theirs. For individual clients this includes offering the full range of banking and brokerage services, as well as "wealth architecture" services to high net-worth individuals for the management, protection and enhancement of their financial assets. The Bank believes that these efforts leave it well positioned to continue its organic growth.

Balancing organic growth with well-executed acquisitions

Kaupthing maintains that the strategic acquisitions of FIH in 2004 and of Singer & Friedlander in 2005 have contributed to the establishment of a strong operating platform for organic growth. The Bank intends to continue expanding its operations in targeted geographic areas through a combination of organic growth, supported by strong cross-selling and selected acquisitions that fit the strategic vision.

With respect to acquisitions, the Bank seeks to achieve a return on equity raised in connection with any acquisition of 15% and a return on equity of 15% for the acquired subsidiary within 18 months of closing. In the long term the Bank seeks to achieve a 15% return on the aggregate purchase price. However, increased size is not considered an objective in its own right, as the Bank evaluates both organic growth opportunities and potential acquisitions with a view to maximising financial performance.

Employing strong operational discipline

Risk management is at the heart of all Kaupthing's operations, as there is a continuous effort to improve the asset quality of the loan portfolio and minimise trading losses. Risk is controlled centrally, with local risk managers reporting from each market area, in addition to supporting a credit approval process. This is manifested in strong credit quality and sustained cost discipline, notwithstanding the rapid growth of the Bank's business. Kaupthing has, partly due to more favourable conditions in the credit cycle in the countries where it operates, been able to reduce the ratio of non-performing loans to Loans to customers from 3.7% at the end of 2003 down to 0.98% at the end of 2007.

KEY BUSINESS OBJECTIVE

In order for Kaupthing Bank to fulfil its potential as a leading provider of financial services in Northern Europe, the Bank maintains a number of key business objectives that it believes are necessary stepping stones towards achieving its long-term goals. In recent years these objectives have been demonstrated by Kaupthing's determined strategy of international expansion, both through organic and acquisitive means.

- Maximise the Bank's value and long-term shareholder value
- Achieve at least a 15% long-term return on equity
- Maintain a Tier 1 capital ratio above 8.0% and a CAD ratio above 11.0%
- Maintain a dividend payout ratio of 10% to 30%
- Sustain solid growth without compromising profitability
- Develop and maintain dependable, long-term relationships with clients
- Increase Deposits/Loans to customers ratio to 50%

In order to ensure that Kaupthing's clients are provided with exceptional guidance and receive the best possible service, the Bank has organised the tenets of its culture into eleven business principles. These principles are undertaken by all the Bank's operations and are reviewed on a regular basis. Further description of the Bank's principles can be found in the chapter on Corporate Culture on page 102.

Embracing competition has always been a part of Kaupthing's philosophy so sponsoring sport comes quite naturally to us. We take great pride in the dedication and calibre of the athletes we have the honour of supporting and the winning spirit they exemplify.

RISK MANAGEMENT

Kaupthing is in the business of managing risks while still adhering to the main principle of building a bank business; to show profit. Therefore, the ultimate goal of risk management is not to minimise risk but to control risk in such a way that long-term profitability is sustained. Intelligent risk taking is the core principle of risk management at Kaupthing. The management of risk emphasises understanding of the risks assumed, in particular understanding how unexpected events affect the exposure. The Risk Management policy is to create and maintain a risk culture whereby risk is everyone's business. In the end, good judgement is the best risk management tool, and risk quantifications from mathematical models or other sources should always be critically reviewed and with a thorough understanding of the underlying assumptions.

Kaupthing Bank's risk policy

Main principles

The assessment of risk is one of the major tasks of banks and other financial institutions. Many risk factors can affect Kaupthing. The policy of the Board of Directors is to constantly monitor and manage the various risks Kaupthing faces in its business. For these purposes the Bank operates a centralised Risk Management division. In addition, internal auditor oversees operations in order to ensure that the risk management rules are implemented in accordance with resolutions made by the Board of Directors.

The Board of Directors determines Kaupthing's goals in terms of risk by issuing a risk policy. The risk policy both defines acceptable levels of risk for day-to-day operations, as well as the willingness to incur risk, weighed against the expected rewards. The risk policy is detailed in the Internal Control and Procedural Handbook, which is maintained by Risk Management and revised at least once a year. Amendments or minor changes can be made more frequently, but each change needs the approval of the Bank's Chief Executive Officer before it comes into effect, and then it must be approved by the Board of Directors at its earliest convenience.

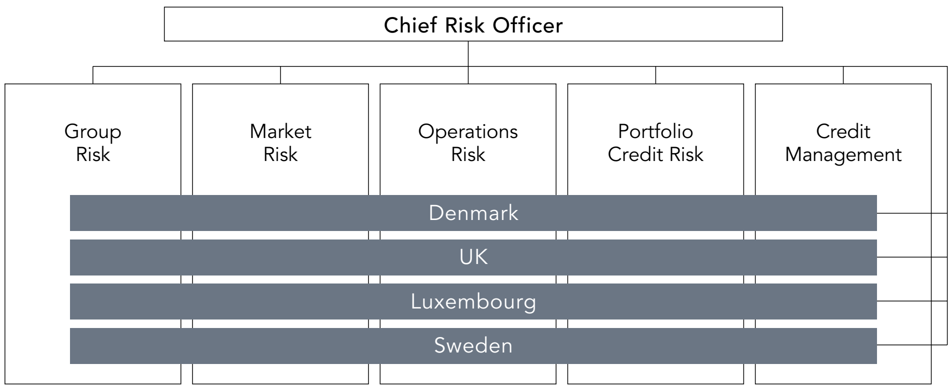
It is incumbent upon the Risk Management department to enforce the risk policy. Risk Management constantly monitors risk with the aim of identifying and quantifying significant risk exposures and acting upon such exposures if deemed necessary. To ensure that the decision-making process within Kaupthing is regulated, and that the boundaries set by the Board of Directors and regulatory authorities are not exceeded, Risk Management regularly reports risk exposures, usage of limits and any special concerns to senior management and the Board of Directors.

Structure of Risk Management

The Bank operates Risk Management departments in the Parent Company and in all major subsidiaries. The Bank also operates a Group Risk Management department, responsible for processing risk management data for reporting to the Board, management, analysts and other stakeholders, as well as annual reports and financial statements. The Risk Management departments increased their cooperation substantially during 2007 and, to further support process unification and synergies, the Board approved a new structure for risk management in the Group. The new structure will be implemented in early 2008.

The new structure is built around five functional areas, each with global heads responsible for ensuring unification in processes, risk measurements, and methodology. Uniform processes enhance the scalability and increase transparency and manageability and thereby aid senior management in their decision making.

Structure of Risk Management on a global level



Global Risk Management will be directly responsible for the risk management of the Parent Company. The CRO reports directly to the Group's CEO.

Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from the failure of an obligor of Kaupthing to repay principal or interest at the stipulated time or failure otherwise to perform as agreed. This risk is compounded if the assigned collateral only partly covers the claims made to the borrower, or if its value is variable or uncertain. Credit risk arises anytime the Bank commits its funds with the result that capital or earnings are dependent on a counterparty's, issuer's or borrower's performance. This type of risk is composed of concentration risk, residual risk, credit risk in securitisation, cross-border (or transfer) risk and others.

Loan portfolio and credit risk strategy

The Bank's main asset is its loan portfolio. Therefore, carefully monitored credit risk serves as a basis for stable profits. To maintain and further improve a healthy loan portfolio it is imperative to scrutinise all applications and weed out potential problem loans during the application phase, as well as constantly monitor the current loan portfolio. While it is not the Bank's policy to issue credit only for cases of very low risk, it is of the utmost importance that the price of issued credit reflects both the risk and the cost incurred. This means that a detailed assessment of individual customers, their financial positions, and the collateral in question is a prerequisite for granting credit.

The basic elements for the quantification of credit risk are the probability of default, the loss given default, and exposure at default. These quantities need to be measured with an effective and accurate credit rating system. Information, both quantitative and qualitative, must be gathered, both specifically with regard to the counterparty and to its general economic situation in order to estimate its creditworthiness. Furthermore, a facility rating should be performed to determine the loss parameters in case of a default.

The policy of the Bank is to apply sophisticated credit models to monitor credit risk. These credit models are also the foundation for the application of an internal rating-based approach to calculate capital requirements. Therefore, the development, implementation and application of these models must be in accordance with the Bank's Basel II strategy. Nonetheless, all aspects of the credit application must be reviewed and the responsibility ultimately lies with the credit authority granting the credit.

The client's interests should be guarded at all times, and it must be considered likely that the client will be able to repay a given loan. In particular, the quality of collateral can never be the sole reason for a positive credit decision.

In the long run the credit strategy aims to have write-offs represent less than 5% of interest income. All aspects of the credit process should be designed and implemented with this long-term goal in mind.

Provisions for losses should reflect the expected loss, both for loans for which specific provisions exist as well as for portfolios of performing loans. The collective assessment of such portfolios is based on default predictions and loss given default parameters.

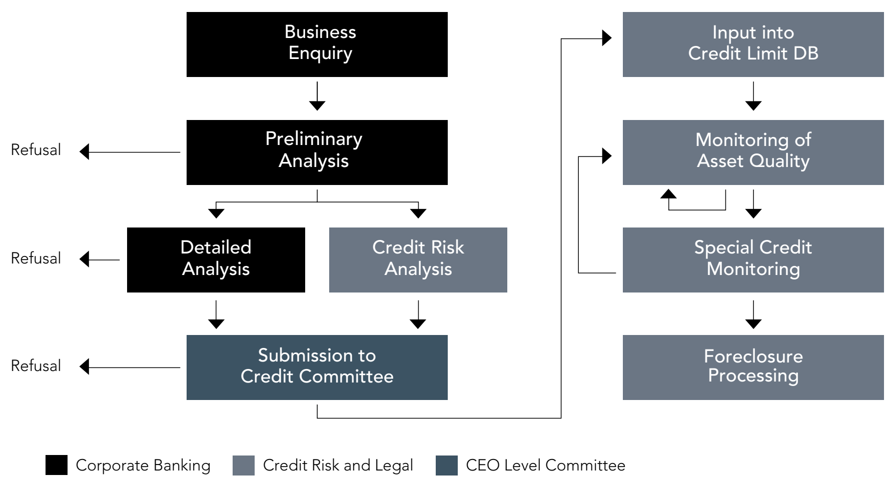
Day-to-day credit risk is monitored by Risk Management as outlined above. Risk Management is responsible for the development and maintenance of credit monitoring and reporting systems. This includes collecting data from all operational systems within the Bank, data verification and unification. The department also performs numerical analysis of the loan portfolio, e.g. estimating expected loss, concentrations within the loan portfolio and mapping defaults in a systematic way. The proprietary credit models employed within the Bank have been developed by Risk Management within the Parent Company and locally within subsidiaries.

Further analysis on the loan portfolio is provided in the section on Banking on page 66.

Credit process

The Bank employs a credit decision process incorporated across the Group and within each subsidiary as well. The highest authority in the credit process is the Parent Company's Board Credit Committee. The process structure is based on the hierarchy of the credit committees below the Board Credit Committee, which operate on 2-3 levels and within different bounds, depending on the size of the subsidiary. The principle of central management of risk and decision authority is maintained by having the Bank's CEO or his deputy as a member of the Board Credit Committee at each subsidiary.

Diagram of credit process



This structure gives Kaupthing the possibility to incorporate much needed local expertise, but at the same time manage risk on a global level. Local credit committees of the Bank's subsidiaries are thus able to grant credits, but the sum total of the exposure of the applicant and financially related counterparties is limited, most commonly by the subsidiary's capital. All applications that would lead to exposures exceeding the set limit are referred to the Board Credit Committee of the Parent Company.

If a preliminary analysis conducted by an account manager in Corporate Banking indicates that a business enquiry merits further scrutiny, it is then analysed in greater detail. If it passes the detailed analysis it is then submitted to the credit committee along with a standard credit risk analysis of the borrower, i.e., a credit rating.

The standard credit evaluation process is based both on quantitative figures from the Financial Statements and on an array of qualitative factors. In this case, factual information on the borrower is collected as well as pertinent macroeconomic data, such as an outlook for the relevant sector. These subjective factors are assessed by answering predetermined questions. Here the analyst cannot rely solely on his quantitative skills, but must also have extensive knowledge of the inner workings of the company in question and be in close contact with its management. Furthermore, a facility rating of the collateral is performed to determine the loss parameter in the case of default.

The credit rating of the counterparty plays a fundamental role in the final decision of the committee as well as in the forms being offered in the case of the application being accepted. If the client accepts the terms offered, then the loan becomes part of the loan portfolio, where long-term monitoring takes place with regard to limits and the credit quality of the client. In particular, the client is re-rated using the standard credit rating at least once a year. The loan is placed under special credit monitoring if weakened credit quality or other signs become evident, such as breach of loan covenants or a missed payment. If conditions improve the loan may be removed from the special monitoring, but in some cases the loan may eventually end in foreclosure.

Credit risk associated with derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to a change in an underlying variable. The value of a derivative can, for example, be derived from a single share, commodity or bond prices, an index value or an exchange or interest rate - or a combination thereof. Kaupthing uses derivatives for trading purposes and for risk management, e.g. to hedge its exposure to market price risk, foreign exchange and interest rate risk arising from operating, financing and investing activities.

If a client enters into a derivative contract with the Bank, the market risk associated with the underlying variable is managed. However, counterparty credit risk arises as the client is responsible for paying back potential loss on the contract. Kaupthing employs strict procedures and processes in its derivative trading to offset this risk. Before the contract is put into effect the client's creditworthiness must be established and initial collateral to cover potential loss on the contract must be presented by the client. The required initial security margin varies based on the underlying. Only cash and in some cases selected listed securities are admissible as collateral. When evaluating a basket of assets as collateral, haircuts are used, both specific to the collateralised security in question and also to account for currency mismatches between the underlying and the collateral. If loss on the contract - or a reduction in value of the collateral due to market movements or re-evaluation - reduces the margin below a certain level, the client must replenish the collateral and bring the collateral margin back to the initial level. Otherwise the contract is terminated.

Structured credit risk

Kaupthing has direct and indirect exposure to structured credit risk. The exposure can be divided into three categories: structured covered bonds, Asset Backed Securities (ABS) and corporate synthetic Collateralised Debt Obligations (CDO).

Structured Covered Bonds

Kaupthing has issued ISK 73 billion in structured covered bonds to finance the Bank's residential housing loans in Iceland. The bonds have been assigned an Aaa credit rating by Moody's Investors Service.

Asset Backed Securities

New Bond Street Asset Management (NBSAM) manages a structured credit portfolio of ABS for Kaupthing. Kaupthing took actions to limit the exposure towards structured credit risk in Q4 2007. Kaupthing sold a part of its ABS portfolio and restructured the remainder of the portfolio. Simultaneously, Kaupthing terminated a EUR 1.3 billion liquidity line that was linked to ABS exposure.

By the end of 2007, the ABS exposure at Kaupthing amounted to approximately EUR 600 million, thereof EUR 400 million in Credit Linked Loans (CLL) and EUR 200 million in other ABS assets predominantly AAA rated Collateralised Loan Obligations (CLOs). The portfolio referred to in the CLL is a diverse highly rated portfolio of ABS mostly limited to CLOs and high yield collateralised debt obligations (HY-CDOs), but excluding all sub-prime residential mortgage-backed securities (RMBS), CDO squared or CDOs of sub-prime RMBS. All underlying assets are rated A or higher with 86% rated AA or higher. The accompanying figures show the rating breakdown of the underlying assets for the CLL and for other ABS assets.

Kaupthing has no direct exposure to US sub-prime RMBS.

Synthetic Collateralised Debt Obligations (CDOs)

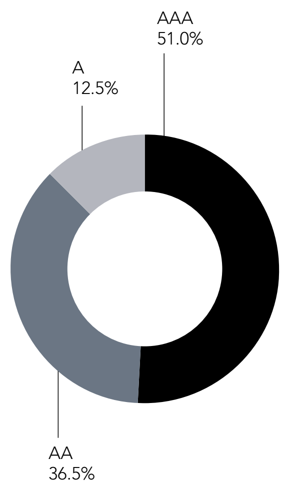
NBSAM manages a portfolio of corporate synthetic CDOs on behalf of Kaupthing. The total exposure to the portfolio is EUR 350 million. The underlying exposures are corporate names, 60% with ratings above A- and well diversified across 38 sectors. The corporates are primarily located in Europe and the US.

Market risk

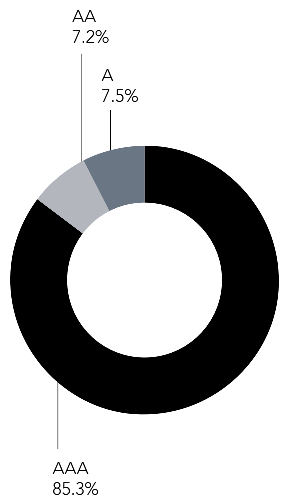
Market risk is the current or prospective risk to earnings and capital arising from adverse movements in market prices and rates. Broadly speaking, the Bank concerns itself with three main components under market risk:

- Equity price risk is the risk of loss due to adverse changes in equity markets.
- Interest rate risk is the risk that the value of an interest rate sensitive instrument will change as a result of a change in market interest rates.
- Foreign exchange risk is the risk of loss due to adverse changes in foreign exchange rates.

Credit Linked Loans



Other ABS assets



Market risk policy, management & measurement

The Bank's strategy is to invest its own capital on a limited and carefully selected basis in instruments that involve market risk. These investments result from market making, proprietary trading or as an underwriting commitment with clients.

It is essential that procedures in deciding trading limits are clear and that roles and responsibilities of everyone involved are unambiguous.

The Bank uses a top-down approach when it comes to distributing market risk limits for different operations within the Bank. The Board of Directors set the policy for market risk and the Group-wide exposure within each market risk class (equity, interest rate and foreign exchange). The Group CEO and the Chief Risk Officer distribute these limits to different asset classes and to different subsidiaries and the local CEOs then divide given limits between profit centres and trading desks.

The Board entrusts the Group CEO with the enforcement of the policy and Risk Management with the evaluation and monitoring of positions and limits.

The Board of Directors has set a global exposure limit for equity and interest rate risk based on the Bank's risk capital. At year end 2007 the global equity limit was 35% of risk capital and thereof the total unlisted exposure or private equity limit was 15% of risk capital.

For interest rate risk the global exposure limit is 8% of risk capital, thereof 3% to trading book exposure measured as the change in value of underlying positions when shifting yield curves up 100 bps.

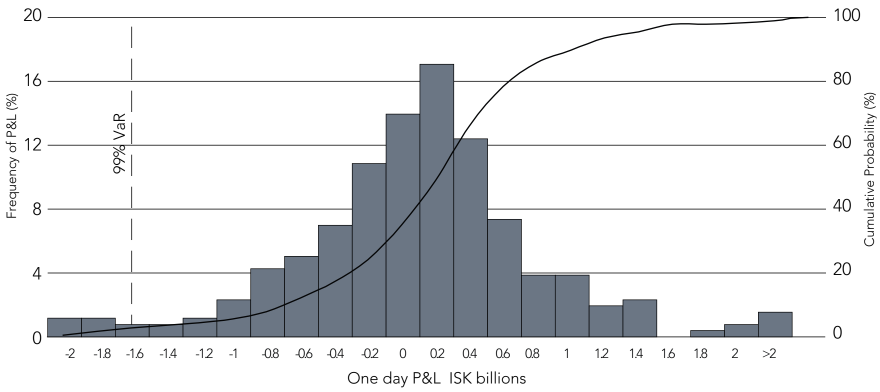
Global equity limit

Equity exposure ISK billions	Exposure	VaR (99%/10d)	VaR (99%/10d) % risk capital	Equity exposure % of risk capital	% of Tier 1 capital	% of Balance Sheet
Total	**146.8**	**5.4**		**30.3%**	**37.1%**	**2.7%**
Listed	63.6	5.4	1.1%	13.1%	16.1%	1.2%
Unlisted	83.2			17.2%	21.0%	1.5%
Icelandic	**39.3**	**1.6**	0.3%	**8.1%**	**9.9%**	**0.7%**
Listed	17.4	1.6		3.6%	4.4%	0.3%
Unlisted	21.9			4.5%	5.5%	0.4%
Other	**107.5**	**3.8**		**22.2%**	**27.2%**	**2.0%**
Listed	46.2	3.8	0.8%	9.5%	11.7%	0.9%
Unlisted	61.3			12.7%	15.5%	1.1%

Effective risk measures are mainly based on a sound business judgement aided by appropriate quantitative tools. Overconfidence in the value of mathematical models for market risk management has shown to give a biased estimate of the risk-return balance and has thus led to wrong decisions being made. At the Bank the mathematical models are primarily used as a reference for measuring and analysing risk, but they neither form a base for trading decisions nor are they applied in the Bank's limit framework.

The daily P&L of equity exposure and its cumulative distributions are shown on the chart below, as well as the 99% one day VaR.

Daily P&L and VaR



The Bank uses the most appropriate measurements for each business unit. For equity trading, limits and risk measures are based on both individual positions and the overall portfolio. Limits are based on net and gross positions as well as sensitivity measurements. For fixed income instruments, limits and risk measures are based on the shift and the twist of the underlying yield curve. Stress analyses and other quantitative methods are then applied to answer what-if questions and to unveil hidden or unexpected events and risks.

The Bank's emphasis is on a proactive approach to market risk management. This involves interacting regularly with trading desks on risk issues, exposures and potential shortfalls. Every day market risk prepares an overview for each trading unit detailing current exposure, limits, risk measures and analyses. These reports are sent to traders and the management.

Equity price risk

At year end 2007 equity exposure totalled ISK 147 billion[1] or 30.3% of risk capital, compared to ISK 159 billion and 34.5% in 2006. Thereof, the ratio of unlisted shares was 17.2% of risk capital.

VaR % of risk capital

	% of risk capital	Listed equity exposure % of risk capital
Q4 2006	1.2%	23%
Q1 2007	1.6%	21%
Q2 2007	0.8%	14%
Q3 2007	1.0%	16%
Q4 2007	1.1%	13%

1 Excluding bonds with variable income and adjusting for the direct equity exposure in Norvestia Oyj

The 10-day 99% VaR of the equity positions was 1.1% of risk capital or ISK 5.4 billion at the end of 2007, compared to 1.2% of risk capital or ISK 5.5 billion in 2006.

Interest rate risk

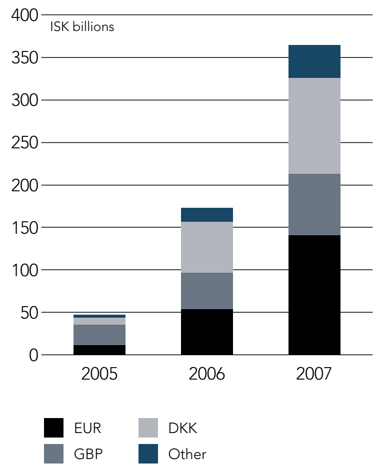
At year end 2007 interest rate risk measured as a value change in underlying positions when shifting all yield curves up 100 bps was - ISK 21 billion or 4.3% of risk capital, compared to ISK 20.6 billion and 5.7% of risk capital at year end 2006.

This table shows interest rate risk by currency and maturity. Trading interest rate risk refers to exposures on the trading book where positions are marked-to-market and profit or loss is recognised immediately, while banking interest rate risk refers to exposure on the banking book where profit or loss is realised over the lifetime of the exposure.

Interest rate risk by currency and maturity

Currency:		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2007							
ISK	Trading	-1	127	251	454	-579	252
	Banking	13	-68	-682	1,724	-17,957	-16,970
DKK	Trading	36	70	116	-1,113	-3,673	-4,564
	Banking	26	91	-12	479	-1,679	-1,095
EUR	Trading	-111	-112	298	505	351	931
	Banking	65	139	349	648	-57	1,144
GBP	Trading	9	-85	-14	-15	5	-100
	Banking	40	185	-666	-72	-84	-597
USD	Trading	-29	-66	-77	-285	125	-332
	Banking	25	24	4	964	-115	902
Other	Trading	80	-7	-193	-11	63	-68
	Banking	-1	213	-51	2,022	-2,701	-518
Total	Trading	-16	-73	381	-465	-3,708	-3,881
	Banking	168	584	-1,058	5,765	-22,593	-17,134

Net foreign exchange exposure



Foreign exchange risk

The Bank's foreign exchange risk is considered at Group level since an effective overview of such risk is a critical element of the Bank's asset and liability risk management.

The Bank has put on a foreign exchange hedge against its ISK nominated equity base. The purpose of this hedge is to minimise the volatility in the Bank's capital ratio due to fluctuations in currency rates.

Liquidity and funding risk

Liquidity and funding risk is an unavoidable source of risk in Kaupthing's operations. Liquidity risk is the current and/or prospective risk that the Bank, though solvent, either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources.

The Bank's liquidity risk policy is considered at Group level. The implemented policy forms a liquidity risk management framework. The framework includes:

- Excess liquidity - It is the Group's policy to always maintain sufficient liquidity by maintaining a sufficiently high ratio of liquid assets and available funding to near term liabilities and possible payment outflows in a stressed environment. The main limit is to maintain the secured liquidity on a Group level for at least 360 days.
- Asset and liability management - The most important strategy is to ensure long-term funding and pre-fund what the Bank estimates will be the likely cash need during a liquidity crisis.
- Contingency funding plan - The Bank maintains a crisis plan with detailed response to a funding crisis. The plan is based upon stress scenarios.

Quantification

The funding liquidity risk limit is quantified by calculating liquidity ratios, including the number of days currently covered by expected cash flow. The Bank calculates the secured liquidity from a pool of secured liquid assets against future liabilities. Secured assets are: deposits, repo-able bonds, the securitisation pipeline, and unused revolvers with maturity above 360 days and that cannot be revoked (no MAC clauses). With the secured liquidity the Bank has to be able to serve and repay all maturing debts for 360 days without any access to capital markets. Each of the subsidiaries quantifies the secured liquidity in the same way, which is then consolidated in the same way at the Group level.

At 31 December 2007 Kaupthing had more than 440 days in secured liquidity.

Secured liquidity at year end is shown in the table below.

ISK billions	Up to 1 month	1-3 months	3-6 months	6-12 months	12-18 months	18-24 months
Secured liquidity	647	420	247	102	-95	-471

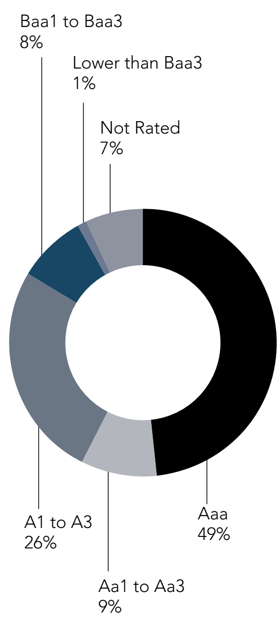
Secured liquidity at Kaupthing in excess of 360 days amounted to ISK 102 billion at year end 2007.

In addition to the secured liquidity measurement above, haircuts are applied to each type of asset in the secured assets base in order to account for different stress test scenarios that might occur in the future. In these test scenarios a moderate growth of the Balance Sheet is included.

Limit management & monitoring

Active management of liquidity through the framework of limits and controls presented above is only possible with proper monitoring capabilities. The monitoring process focuses on funding portfolios, the forward Balance Sheet and general indicators where relevant, information and data are compared against limits that have been established.

Moody's rating on bond portfolio



The Bank's Treasury is responsible for maintaining sufficient liquidity by maintaining a sufficient high ratio of liquid assets and available funding for near-term liabilities.

A significant portion of the Bank's liquidity pool is made up of investments in bonds. At year end total investments in bonds amounted to ISK 359 billion. Approximately 93% were rated and 49% received the highest quality rating, Aaa, by Moody's or its equivalent.

The secured liquidity measure is calculated and monitored by Risk Management.

Increased withdrawals of short-term funds are monitored through measurements of the deposit base in the Bank. Other general indicators are monitored in the marketplace, including credit spreads, credit default swap spreads, credit rating watch status and market news.

Liquidity risk is reported to the Board of Directors on a monthly basis.

Contingency funding plan

Kaupthing monitors its liquidity position and funding strategies on an ongoing basis, but recognises that unexpected events, economic or market conditions, earnings problems or situations beyond its control could cause either a short or long-term liquidity crisis. To monitor liquidity and funding, the Group Treasury prepares a liquidity report twice a month that projects sources and uses of funds. The report incorporates the impact of moderate risk and crisis situations. The report is an integral component of the contingency funding plan. Although it is unlikely that a funding crisis of any significant degree could materialise, it is important to evaluate this risk and formulate contingency plans should one occur. Both short-term and long-term funding crises are addressed in the contingency funding plan.

Operational risk

Operational Risk is responsible for monitoring, controlling, and reporting operational risk, as well as the regulatory capital usage associated with operational risk. Operational Risk helps the profit centres improve the control environment using risk controlled self assessments. Operational risk supervises the business recovery plan and the disaster recovery plan together with IT.

Operational risk is the risk of direct or indirect loss or damage to the Bank's reputation resulting from inadequate or failed internal processes or systems, or from human error or external events that affect the Bank's image, operational earnings and/or have adverse effects on the share price. Strategic risk, reputation risk, legal risk and compliance risk are considered sub-categories of operational risk. Operational risk is therefore inherent in all activities within the Bank.

It is the policy of Kaupthing to reduce the frequency and impact of operational risk events in a cost-effective manner. This is accomplished by fostering a strong culture surrounding operational risk, which entails internal controls and quality management, leadership skills and well educated, qualified staff. Kaupthing's main process for identifying and monitoring operational risk is through the self-assessment of risk and control and through the registration of loss events, near misses and operational incidents. Each business segment regularly assesses its own risk and relevant controls and evaluates the possible impacts. If risk lies outside acceptable limits, then internal controls and the quality and efficiency of the internal processes are re-evaluated to bring the risk back within acceptable risk limits.

To allow for effective supervision and give the means to management to enforce measurements and actions Kaupthing's operational risk framework defines roles and responsibilities with regard to operational risk. The framework furthermore details the tools and methods employed within the Bank for identifying, measuring, monitoring and controlling operational risk. Sound Practices for the Management and Supervision of Operational Risk, published by the Basel Committee of Banking Supervision, was used in the development of the operational risk framework to ensure rigorous and effective management and supervision.

The implementation of the operational risk framework is divided into five levels:

- Documenting, reviewing and improving upon working processes, policies and internal rules
- Self-assessment of risk and control
- Identifying and then monitoring key risk indicators
- Collecting data regarding loss events and near misses
- Analysis and reporting

Each business segment within the Bank holds the primary responsibility for engaging in and managing its own operational risk. However, the Operational Risk department is responsible for developing and maintaining the Bank's operational risk framework and providing guidance and support to these business segments during the implementation of this framework. The Operational Risk department acts as a source of information on the development of operational risk. This department also tracks each segment's operational risk, and if any segment should overstep the predefined risk boundaries, the head of the relevant segment would be notified as seen fit. The Operational Risk department follows through until the risk has been eliminated or reduced to acceptable levels.

The Operational Risk department works closely with each segment to ensure the successful management, identification, measurement and monitoring of the Bank's operational risk. The Internal Audit department conducts independent reviews of each business segment and provides an overview of the evaluation methods for operational risk.

IT systems and information security are important components of operational risk management. Kaupthing Bank has begun the implementation of ISO /IEC 27001:2005, the international standard for information security management. The Bank maintains this security policy to ensure that its policies, processes, rules and controls concerning information, information systems and communication channels are sound and in keeping with best practices.

Kaupthing has a specially appointed Security Committee responsible for implementing and maintaining this security policy, ensuring the Bank's compliance with the ISO /IEC 27001:2005 standard. The Bank also appoints an Information Security Officer, who is responsible for the day-to-day supervision of matters relating to Kaupthing's security policy, ensuring that IT systems, processes and internal rules comply with ISO /IEC 27001:2005 standards.

In addition, Kaupthing has a crisis management plan to increase the Bank's resilience to disruptions in business arising from internal and/or external events. The crisis management plan seeks to reduce the impact of crises on the Bank's operations, reputation, profitability, clients, shareholders and others who hold a stake in the Bank. Kaupthing also holds various insurance policies to cover major operational risk events.

Operational risk analysis

The capital charge due to operational risk is evaluated according to the Standardised Approach outlined in the new Capital Requirements Directive (CRD). However, at a later stage the Bank intends to implement advanced methods for a more risk-sensitive quantification of operational risk. In order to estimate the operational risk capital charge, Kaupthing's business segments are mapped onto six business lines: Investment Banking, Trading and Sales, Retail Banking, Corporate Banking, Agency Services and Asset Management. According to the CRD, the remaining two business lines, Payment & Settlement and Retail Brokerage, are included in the Trading & Sales business line.

The total operational risk for all the business lines is currently measured at approximately ISK 21.4 billion using a three-year average gross income.

Capital management and allocation

Kaupthing's capital policy is to maintain a strong capital base to support business development and to meet regulatory capital requirements, even in times of stress.

Capital management

Capital management at Kaupthing is currently based on a benchmark minimum Tier 1 capital ratio of 8% and a minimum capital ratio (CAD) of 11%. Kaupthing recognises that a strong capital base must be balanced against the greater leverage required to achieve its stated goal of achieving a long-term return on equity greater than 15% for its shareholders. Solid growth must be sustained without compromising profitability.

Kaupthing's capital is divided into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative tier 1 securities), retained earnings, translation reserve and minority interest after adjusting for items reflected in shareholders equity which are treated differently for capital adequacy purposes. The book values of goodwill and intangible assets are deducted in arriving at Tier 1 capital.
- Tier 2 capital, which includes qualifying subordinated loan capital and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15% of overall Tier 1 capital, qualifying Tier 2 capital cannot exceed Tier 1 capital, and qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. From the total of Tier 1 and Tier 2 capital are deducted the carrying amounts of unconsolidated investments, investments in the capital of financial institutions, and certain regulatory items.

Kaupthing's Board of Directors periodically reviews both the level and the optimal composition of capital. Capital can be raised and held either at Group level or at subsidiary level.

Capital adequacy

The Icelandic Financial Supervisory Authority (FME) supervises Kaupthing on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, Kaupthing as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements relative to risk-weighted assets. In most jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

Banking operations are categorised as either trading book or banking book and the calculation of risk-weighted assets is conducted differently for the assets in different books. Banking book risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. Banking book off-balance-sheet items giving rise to credit, foreign exchange or interest rate risk are assigned risk-weights appropriate to the category of the counterparty, again accounting for eligible collateral or guarantees. Trading book risk-weighted assets are determined by taking into account market related risks such as foreign exchange, interest rate and equity position risks, and counterparty risk.

Bank supervision is currently transitioning from the Basel I capital adequacy standard to the Basel II supervisory framework. Basel II introduces a three pillar approach to banking supervision. Pillar 1 addresses minimum capital requirements through the introduction of new calculation rules for risk weighted assets. In Pillar 2 the Bank's Internal Capital Adequacy Assessment Process (ICAAP) is subject to the FME's Supervisory Review Process (SREP). Pillar 3 introduces requirements for transparent reporting of the Bank's risk profile and risk-management methods and processes.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by the optimisation of the return on allocated capital (ROAC). The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the internal capital requirements may be inflated to reflect different risk profiles.

Although maximisation of the return on allocated capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and how the activity fits in with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Capital stress test

Capital stress testing is a simulation technique used on assets and liabilities to determine their reaction to different financial situations. Their purpose is to determine the size, but not the frequency, of potential losses related to specific scenarios. They form an important diagnostic tool to improve the Bank's understanding of its risk profile. The traditional focus of stress testing relates to exceptional but plausible events.

FME performs quarterly an official stress test on the Bank's capital ratio. The test is designed to analyse the simultaneous effect of severe fall in equity and fixed income markets as well as increased write-offs in non-performing loans and a sharp depreciation in the Icelandic krona.

The following scenario is used for regulatory stress test at least once a quarter:

- 35% decrease in the value of all domestic equities
- 25% decrease in the value of all non-domestic equities
- 20% depreciation of the ISK
- 7% decrease in the value of bonds
- 20% increase in write-offs for non-performing loans

Results of stress test at year end 2007:

Capital ratio (CAD) at year end	11.8%
Decrease in capital ratio (CAD) in the stress test	-0.6%
Capital ratio (CAD) after stress test	11.2%
Minimum required capital ratio (CAD)	8.0%

The test shows that the Bank's capital ratio remains strong, even under severe conditions.

Basel II

The Basel Committee on Banking Supervision has developed a new framework for setting capital adequacy requirements, Basel II. The new capital framework that came into force in 2007 is based on a three pillar approach. Pillar 1 addresses the mathematical calculation of minimum capital requirements for credit, market and operational risk. Pillar 2 addresses the supervisory review process, the Bank's internal capital assessment process and the strategy for setting capital targets that commensurate with the Bank's risk profile and control environment. Pillar 3 addresses market discipline and sets forth disclosure requirements for risk and capital management.

Under Pillar 1, banks can choose from three approaches for the calculation of credit risk: the standardised approach, foundation internal ratings-based (IRB) approach and advanced IRB approach. The IRB approaches differ substantially from the standardised approach, because the banks can internally assess their own key risk drivers, which serve as primary inputs to their computation of capital requirements. For operational risk, banks can also choose from three approaches: the basic indicator approach, the standardised approach and advanced measurement approach. The difference lies in the sophistication of the methods and the processes required for operational risk monitoring and quantification. In measuring market risk, a choice between two broad methodologies is permitted: the standardised method and the internal models approach. The latter allows banks to use risk measures derived from their own internal risk management models subject to certain conditions.

Kaupthing Bank has submitted an application to use the foundation IRB approach to calculate the capital requirements for credit risk. With regard to operational risk, the Bank uses the standardised approach and expects to move towards the advanced measurement approach (AMA) within a few years. For market risk the Bank will use the standardised approach.

There are a number of approaches for determining how much capital a bank should hold. The IRB approach focuses on the frequency of a bank's insolvencies arising from credit losses that supervisors are willing to accept. By adopting the foundation IRB approach the Bank will calculate risk-weighted assets by using its own estimates of probability of default parameters. The probability of default (PD) represents the probability that a customer will default on a loan within the next twelve months. The PD is estimated by means of rating models developed by Kaupthing and the customers are assigned a rating (grade) which represents their creditworthiness.

The first rating models were introduced in Kaupthing in December 2003 and the Bank has employed some of the PD models in its credit granting processes for several years while other models are being developed. Supervisory loss given default parameters (LGD) and credit conversion factors (CCF) will be used for all exposures except for retail, where internal LGD and CCF will be applied. These risk measures are converted into risk weights and regulatory capital requirements by means of the risk weight formulas, addressed in Pillar 1.

In order to comply with the minimum requirements related to the foundation IRB approach, Kaupthing has carried out a profound self-assessment of its state of readiness and this year the focus has been on verifying the validity of the credit models and improving relevant credit processes. Kaupthing aims to implement all necessary internal models for credit risk calculation according to the advanced IRB approach in the near future.

In 2007 Kaupthing established an Internal Capital Adequacy Assessment Process (ICAAP) and the initial document has been submitted to FME for review. The ICAAP outlines the Bank's assessment of capital requirement under Pillar 2 and ensures that the Bank has sufficient capital in relation to its risk profile. This provides a framework for dealing with other risks which the Bank considers inadequately covered by Pillar 1, including, but not necessarily limited to, credit concentration risk, interest rate risk in the banking book, liquidity risk and securitisation risk. It is the Bank's own responsibility to manage adequately (identify, measure, monitor and control) those other risks and allocate internal capital, where considered necessary, to support it. At least once a year the findings of the ICAAP are submitted to the Board of Directors and FME.

In the absence of FME's rulings, it is premature to draw conclusions about the effect of Basel II on Kaupthing's capital requirements or whether the capital charge on Kaupthing will be reduced when the Basel II rules have gradually taken full effect, which is expected to occur at the end of 2010.

CREDIT RATINGS

Kaupthing Bank is rated by three international rating agencies. The Bank's credit ratings are Aa3/P-1 from Moody's, A/F1 from Fitch and A+ from the Japan-based rating agency Rating and Investment Information (R&I).

Kaupthing Bank's credit ratings*

Moody's			Fitch		R&I
Long-term	Fin. Strength	Short-term	Long-term	Short-term	Long-term
Aaa	A	**P-1**	AAA	F1+	AAA
Aa1	A-	P-2	AA+	**F1**	AA+
Aa2	B+	P-3	AA	F2	AA
Aa3**	B	No prime	AA-	F3	AA-
A1	B-		A+	B	**A+**
A2	C+		**A**	C	A
A3	**C****		A-	D	A-
Baa1	C-		BBB+		BBB+
Baa2	C-		BBB		BBB
Baa3	D+		BBB-		BBB-

Kaupthing's credit ratings are in bold
* For Moody's and Fitch the table shows long-term rating investment grades. For R&I the long-term rating scale is from AAA to C
**Placed under review for possible downgrade on 15 August 2007, maintained on 29 November 2007 and on 30 January 2008

Moody's Investors Service

In August 2007, following Kaupthing's announced intention to acquire the Dutch merchant bank NIBC Bank N.V., Moody's placed Kaupthing on review for a possible downgrade of its Aa3/C rating. In its announcement Moody's stated that the decision reflected the weaker financial fundamentals of NIBC and the execution risk involved in the acquisition. Furthermore, the rating agency noted that the banks were a good strategic fit and that the acquisition would further enhance Kaupthing's geographical reach outside Iceland. Moody's reaffirmed Kaupthing's Aa3/C credit ratings and maintained on review in November 2007 and in January 2008.

Moody's Investors Service

Date	Long-term	Financial strength	Short-term
August 2007	Aa3*	C*	P-1
April 2007	Aa3	C	P-1
February 2007	Aaa	C	P-1
November 2004	A1	C+	P-1
December 2003	A2	C+	P-1
May 2003	A3	C	P-1

* Placed under review for possible downgrade on 15 August 2007, maintained on 29 November 2007 and on 30 January 2008

Earlier in the year, on 11 April 2007, Moody's Investors Service announced a downgrade of Kaupthing's credit rating. The Bank's long-term debt rating was downgraded from Aaa to Aa3. The downgrade came in the wake of an upgrade by four notches in February 2007, which was based on Moody's new joint default analysis methodology which takes into account potential sources of external support for banks. Following adjustments to the new methodology, Moody's credit rating for Kaupthing, and many other banks, was revised with the aforementioned results.

Fitch Ratings

On 6 December 2007, Fitch Ratings affirmed Kaupthing's ratings as Long-term Issuer Default rating (IDR) 'A', Short-term IDR 'F1', Individual 'B/C', Support '2' and Support Rating Floor 'BBB'. However, Fitch changed the Outlook for Kaupthing's Long-term IDR from Stable to Negative.

Fitch's historic credit ratings

Date	Long-term	Individual	Support	Short-term
December 2007	A	B/C	2	F1
August 2007	A	B/C	2	F1
July 2007	A	B/C	2	F1
March 2007	A	B/C	2	F1
August 2006	A	B/C	2	F1
November 2005	A	B/C	2	F1

In its announcement Fitch stated that the outlook followed the downgrade of NIBC's credit ratings and that NIBC's business model had become more challenging. NIBC would have become a large part of the Kaupthing Group, adding potentially volatile revenues and again increasing the Group's reliance on wholesale funding. The ratings of Kaupthing were supported by the good strategic fit of the acquisition, the improved diversification of its profits and assets, good performance and asset quality indicators, and satisfactory capitalisation.

On 31 January 2008, after Kaupthing announced the cancellation of the NIBC acquisition Fitch Ratings affirmed Kaupthing's ratings and changed the outlook for Kaupthing's Long-term IDR from Negative to Stable.

Rating and Investment Information (R&I)

R&I, a Japan-based rating agency, assigned an A+ long term credit rating to Kaupthing for the first time in June 2007. Its rating reflects the Bank's strong position in the Icelandic market, as well as the diversification of its earnings and credit risks through its expansions into the UK and Scandinavian countries. In addition, the Bank's good profitability and sound asset quality were taken into account. R&I placed the ratings of Kaupthing on the Rating Monitor with a view to downgrading, following Kaupthing's announced intention of acquiring NIBC.

On 1 February 2008, after Kaupthing announced the cancellation of the NIBC acquisition, R&I removed Kaupthing's rating from Rating Monitor, affirmed the Bank's long term rating A+ and changed the rating outlook to Stable.

Ratings of Kaupthing's subsidiaries

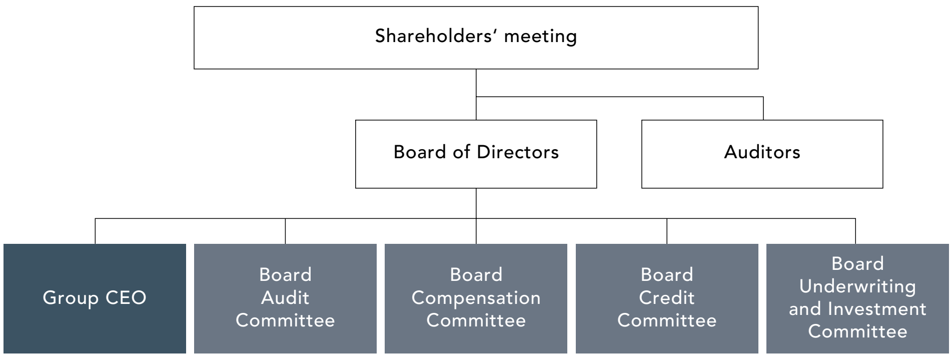
Two of Kaupthing's subsidiaries, FIH Erhvervsbank in Denmark and Kaupthing Singer & Friedlander in the UK, are rated as separate issuing entities. Below are the credit ratings of Kaupthing's subsidiaries:

Credit ratings of Kaupthing's subsidiaries

	Moody's		Fitch	
	Long-term	Short-term	Long-term	Short-term
FIH Erhvervsbank	A1	P-1		
Kaupthing Singer & Friedlander			A	F1

CORPORATE GOVERNANCE

Corporate Governance at Kaupthing Bank is defined as the framework by which the Bank is directed and controlled and the relationships between the management, the Board of Directors, shareholders and other stakeholders, such as employees, clients and lenders.



The aim of the Corporate Governance framework is to ensure disclosure and transparency, to define the responsibilities of the Board and the management, to define the rights and role of shareholders and stakeholders, to ensure the equitable treatment of shareholders and to avoid conflicts of interests.

It is the objective of the management and the Board to have transparent and effective internal controls within the Group. An Internal Control and Procedural (ICP) Handbook reflects the most recent rules and procedures in effect at the Group. The ICP Handbook is submitted annually in September to the Board of Directors for approval. The latest version of the ICP Handbook was published in December 2007.

The Bank has a special section on its website for Corporate Governance. Information provided in this section includes the composition of the Board of Directors, information about how long each member has been a part of the Board, each member's principal employment and other significant Board assignments. The section also includes information about the CEO and auditors as well as the current Articles of Association. Furthermore, the Corporate Governance section on the website includes, among other things, information about the Bank's dividend policy, primary insiders and risk policy. The website also includes an account of the work of the Board of Directors during the preceding financial year, which appears no later than in connection with the notification of an Annual General Meeting.

In 2004, the Iceland Chamber of Commerce, the Iceland Stock Exchange (now OMX Nordic Exchange in Iceland) and the Confederation of Icelandic Employers issued Guidelines on

Corporate Governance, which were later reviewed in 2005. It is the opinion of the Board that the Bank is in full compliance with these guidelines.

Statutory bodies

Shareholders' meetings

The supreme authority in the Bank's affairs, within the limits established by the Articles of Association and statutory law, rests with legitimate shareholders' meetings. Shareholders' meetings may be attended by shareholders, their proxies and advisors. The CEO has full rights to speak and submit motions at shareholders' meetings. Shareholders' meetings are open to representatives of the press and the stock exchanges. The Bank also gives shareholders the opportunity to vote electronically on issues being discussed at a shareholders' meeting.

The Bank's Annual General Meeting is held before the end of April each year. At shareholders' meetings, each share carries one vote. Decisions at shareholders' meetings are taken by majority vote unless there are contrary provisions in the Bank's Articles of Association or statutory law.

The Board of Directors

The Board of Directors is the supreme authority in the Bank's affairs between shareholders' meetings. It handles the Bank's affairs and ensures that its organisation and operation are at all times in correct and appropriate order. The Board ensures adequate supervision of the accounts and disposal of the Bank's property. The Board is, among other things, responsible for setting business objectives, strategy and business plans, formulating risk policies, confirming key aspects of the Bank's internal organisation and making decisions on the establishment or closure of foreign branches and foreign subsidiaries and on mergers. The Board is also responsible for making decisions on the Bank's authorised signatures list. The Board of Directors or a Board member shall not participate in decisions on individual transactions, unless their scope is considerable in relation to the size of the Bank.

The Board of Directors is elected at a shareholders' meeting for a term of one year. The Board of Directors is composed of nine members and nine alternate members are also elected. The Board elects a Chairman of the Board from among its members, and allocates tasks in other respects as required. The Board is authorised to entrust the Chairman of the Board with special activities on behalf of the Bank. The Chairman of the Board (the Executive Chairman) is the public representative of the Board of Directors, unless otherwise decided by the Board.

The Board of Directors appoints the CEO (Group CEO) and decides the terms of the CEO's employment.

The Board of Directors has established working procedures, setting out in further detail the performance of its duties. These procedures set forth, e.g., the area of responsibility of the Board of Directors and Chairman, Board meetings procedures, Board sub-committees, confidentiality rules, the authorisation of the Board to make decisions on individual transactions, the eligibility criteria for Board members, the handling of information on individual customers by the Board and the participation of Board members in the boards of directors of subsidiaries and associated companies.

The working procedures state that in the event of a decision regarding a Board member serving on the board of a subsidiary or associated company, there shall be detailed discussion on the effect of this on the surveillance role of the relevant Board member and on the necessity of the Board member serving on the relevant board.

The Board has established a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of the Executive Chairman and the CEO. No director is involved in deciding his or her own remuneration.

The role of the Executive Chairman is to coordinate the activities of the Bank's subsidiaries and foreign branches, pursue opportunities to increase efficiency by merging with other companies and seek out potential acquisitions. The Chairman convenes meetings of the Board of Directors and presides at Board meetings. The Chairman ensures that agendas of meetings of the Board of Directors include items which are important to the operations of the Bank and are prerequisites for the supervisory duties of the Board of Directors. The Chairman ensures that all Board members are properly briefed on issues arising at Board meetings. The Chairman has direct access to Risk Management in order to facilitate the supervision of the Bank's activities by the Board of Directors. The Chairman makes proposals on the manner in which the Board of Directors of the Bank supervises the loan portfolio, securities holdings and operations. This ensures that the Board of Directors will receive regular information on risk in the Bank's operations.

Queries by the Board of Directors or individual Board members are generally raised at meetings of the Board and are addressed to the CEO or others present at the meeting. Otherwise, queries are sent to the Chairman of the Board. It is not permitted to request information from or direct queries directly to other employees of the Bank between meetings of the Board of Directors. These provisions do not, however, apply to the Chairman of the Board if he is an Executive Chairman.

The Board regularly evaluates its activities and procedures, as well as the Bank's progress, with the assistance of outside parties if appropriate.

The working procedures of the Board of Directors state that Board members should familiarise themselves with the provisions of law, the Articles of Association, the general regulations of the securities market, and the special rules of the Bank on the handling of inside information and insider trading and other rules.

The majority of the members of the Board are independent of the Group, according to an evaluation made by the Board of Directors. Also, the majority of the members of the Board are independent of major shareholders (owning 10% or more of the share capital). The criteria for independence are in accordance with the Guidelines on Corporate Governance mentioned above.

Those who wish to stand for election to the Board of Directors must announce their intention with at least seven days' notice, according to the Bank's Articles of Association. Information about Board candidates must be available at the Bank's office no later than two days prior to the shareholders' meeting, according to Icelandic law.

Management

The CEO and Board of Directors are jointly responsible for the management of the Bank. The CEO is responsible for day-to-day operations and in this respect observes the policy and directions of the Board of Directors. The day-to-day operations do not include measures which are unusual or extraordinary. Such measures are only taken by the CEO pursuant to special authorisation from the Board of Directors unless waiting for a decision from the Board of Directors would seriously disadvantage the operation of the Bank. In such cases the Board of Directors is promptly notified of the measures.

The CEO ensures that the Bank's accounts and finances conform to applicable law and accepted standards and that the disposal of the Bank's assets is secure.

Accounts, auditing and internal auditor

A state authorised public accountant or accounting firm is elected auditor at each Annual General Meeting for a term of one year. The auditor examines the Bank's accounts and all relevant account documents for each year of operation, and has access to all of the Bank's books and documents for this purpose.

The external auditor is also required to review some of the Bank's transactions with related parties and compare them with similar transactions with other customers and prepare an opinion with respect to the transactions' terms and arm's length nature, among other things. Such reports shall be sent annually to the Financial Supervisory Authority (FME) in Iceland.

Auditors are not elected from among the members of the Board or the Bank's employees. The qualifications and eligibility of the auditor at elections are in other respects governed by applicable law. Kaupthing's current accounting firm is KPMG hf.

An internal auditor is appointed by the Board of Directors and reports directly to the Board. The objective of the internal audit is to provide independent and objective assurance designed to add value and improve the Bank's operations.

Board Committees

The Board has established four committees: the Audit Committee, the Compensation Committee, the Credit Committee and the Underwriting and Investment Committee. The Board exercises its control governance through a number of policies and instructions.

Audit Committee

The Audit Committee maintains regular contact with both external and internal auditors and ensures that complaints and observations from the auditors are acted upon. Furthermore, the Audit Committee discusses accounting principles and changes thereto. The Audit Committee consults and advises the Board on the scope of internal audits. The Committee keeps under review the scope and results of the audit and its cost-effectiveness and the independence and objectivity of the auditors. In the event that the auditors also provide a substantial amount of non-audit services to the Bank, the Committee must keep the nature and extent of such services under review.

The scope of work of the Audit Committee is set forth in a charter drawn up according to good Corporate Governance principles. The charter is revised annually by the Audit Committee. The most recent review took place in July 2007. The charter includes a description of the main responsibilities of the Audit Committee and the limitations of its work.

The Audit Committee shall consist of at least three Board members. Executive Board members and employees are not allowed to be members of the committee. The members of the Audit Committee are Hjörleifur Jakobsson (Chairman), Bjarnfredur Ólafsson and Brynja Halldórsdóttir.

Compensation Committee

The Compensation Committee discharges the Board’s responsibility in matters relating to executive compensation and administration of incentive compensation and equity-based plans, in accordance with applicable rules and regulations. The principal responsibility in compensating executives is to coordinate the incentives of the executives with actions that will enhance long-term shareholder value. The Compensation Committee also outlines the policy of the Bank regarding employee stock options and submits the remuneration policy of the Bank to the Board of Directors.

The Board of Directors is obliged to approve a remuneration policy regarding salaries and other payments to the CEO and other senior managers as well as to Board members. The policy shall be published in connection with the Annual General Meeting and submitted to the Annual General Meeting for approval or changes.

A remuneration policy was approved at the Annual General Meeting in 2007. The remuneration policy is binding on the Board of Directors where it pertains to payments in the form of share certificates, call and put options, priority purchase rights and other kinds of payments which are linked to share certificates in the Bank or the development of the price of shares in the Bank. In other respects the remuneration policy is of guidance to the Board of Directors. The policy deals with remuneration to Board members and the structure of salaries, including basic salaries, bonuses, option schemes and termination or retirement payments. According to the remuneration policy, the total put and call options written towards employees can at any given time be up to 9% of issued shares in the Bank.

The members of the Compensation Committee are Ásgeir Thoroddsen (Chairman), Niels de Coninck-Smith and Tommy Persson.

Board Credit Committee

The Board's Credit Committee makes decisions on credits exceeding EUR 165 million, taking into consideration exposure to related parties.

Three Board members are members of the Board Credit Committee, Sigurdur Einarsson (Chairman), Bjarnfredur Ólafsson and Gunnar Páll Pálsson, as well as Hreidar Már Sigurdsson, CEO. The Chief Risk Officer also attends meetings of the Board Credit Committee.

Board Underwriting and Investment Committee

The Underwriting and Investment Committee makes all underwriting decisions exceeding EUR 165 million and all investment decisions exceeding EUR 50 million. Three Board members are members of the Underwriting and Investment Committee, Sigurdur Einarsson (Chairman), Bjarnfredur Ólafsson and Gunnar Páll Pálsson, as well as Hreidar Már Sigurdsson, CEO. The Chief Risk Officer also attends meetings of the Underwriting and Investment Committee.

Internal Committees

Executive Committee

The CEO consults with the Executive Committee on matters of special importance to the Group.

Group Credit Committee

The Group Credit Committee is the Bank's second highest credit-granting body. The Group Credit Committee is authorised to approve new loans to parties for a total exposure of up to EUR 165 million, including exposure to related parties. The CEO chairs the committee.

Group Underwriting and Investment Committee

The Group Underwriting and Investment Committee is authorised to make investment decisions up to EUR 50 million and underwriting decisions up to EUR 165 million. The CEO chairs the committee.

Assets and Liabilities Committee (ALCO)

The ALCO maintains an overview of the Bank's Balance Sheet, proposes policies concerning the structure of assets and liabilities and the coordination of risk, capital, funding and liquidity matters.

IT Committee

The CEO consults the IT Committee on IT-related issues and IT strategy.

Regulatory and compliance culture

The Bank's dealings with clients are guided by principles of fair dealing, honesty and integrity. The Bank's objective is to observe all standards of market integrity, good practice and conduct expected by participants in the markets in which it operates. The personal conduct of the staff is driven by high ethical standards. All staff must be sensitive to any activities or relationships that might interfere or even appear to interfere with their ability to act in the best interests of the Bank's clients. The Bank furthermore places great emphasis on safeguarding the confidentiality of client information. Compliance's role within the Bank is to ensure that rules and policies relating to the above mentioned issues are in place. Compliance is also responsible for, among other things, training, enforcing rules on employee securities trading, advising on the appropriate separation of operating units, as well as monitoring compliance with rules on the handling of inside information and insider trading.

A Group Head of Compliance is responsible for implementing a Group-wide compliance programme and monitoring the compliance status in each jurisdiction via regular reporting from local compliance officers.

Compliance with laws and regulations and the Bank's internal rules are a responsibility of all staff, but supervision and monitoring of compliance also falls under the responsibility of the Internal Auditor, the Bank's Legal Services and Risk Management, as applicable.

Anti-money laundering

Money laundering poses a significant risk to the financial sector globally and to society as a whole. The Bank is firmly committed to participating in international efforts to combat money laundering, fraud, or other financial crimes, including the financing of terrorists or terrorist operations. Accordingly, the Bank has implemented a comprehensive anti-money laundering programme to take all reasonable and appropriate steps, which includes, among other things, written policies and procedures, designated anti-money laundering personnel, staff training and special monitoring software.

The Bank's internal rules on actions to combat money laundering and terrorist financing were adopted in accordance with the recommendations of the Financial Action Task Force (FATF) and are based on the third Money Laundering Directive of the European Union. The objective of the rules is to prevent the use of the operations of the Bank for the purposes of money laundering and, in so doing, make an important contribution to the battle against money laundering and terrorist financing worldwide.

An important key to deterring money laundering is knowing the true identity of all customers and investigating major or unexpected transactions. Kaupthing has procedures to monitor transactions and report suspicious activities. Nevertheless, the Bank is careful to respect the privacy of legitimate customers. Procedures are updated regularly to reflect regulatory change and evolving best practices. The Bank strives to observe the most rigorous standards, both domestically and internationally.

MiFID implementation

The Bank made thorough preparations within the Group for the implementation of the MiFID Directive (39/2004/EC) in 2007. As of 1 November 2007, the Bank has been working in compliance with the MiFID requirements.

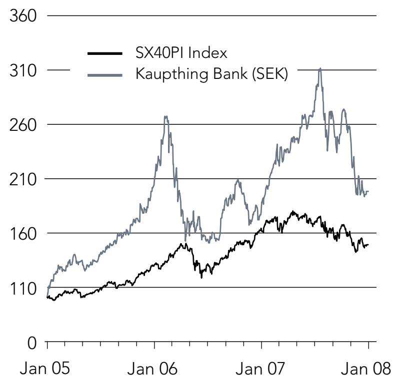
SHARES IN THE BANK

Kaupthing Bank's primary objective is to create value for its shareholders. In 2007, Kaupthing shares increased in value by 4.6% and Earnings per share were ISK 95.2. The proposed dividend is ISK 20 per share.

Share performance

Kaupthing's shares got off to a strong start in 2007 and the share price rose continuously until it reached its peak at ISK 1,281[1] on 18 July 2007. In the wake of the downturn in global credit markets and its impact on equity markets, the Bank's share price started to fall, reaching a low of ISK 852[2] on 6 December 2007. Over the year Kaupthing's share price rose from ISK 841 to ISK 880, an increase of 4.6%. Taking dividend payments into account, this increase represents a return for shareholders of 6.3%. The Kaupthing share price on the OMX Nordic Exchange in Stockholm increased by 12.4% during the year and, taking dividend payments into account, it represents a return of 14.2%. By comparison, the OMX Nordic Exchange in Iceland declined by 1.4% during the year and the OMX Nordic Exchange in Stockholm declined by 7.9%. Over the last five years, Kaupthing shares have generated an average annual return to shareholders of 42.0% and 40.6% on the OMX Nordic Exchange in Iceland and in Stockholm respectively.

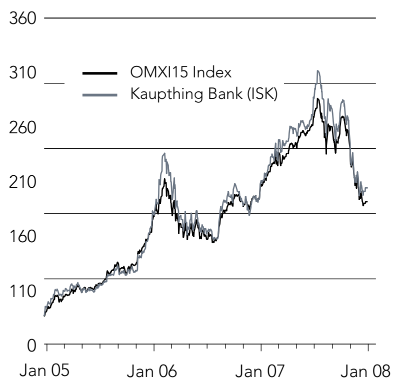
Share price performance of Kaupthing Bank in 2005-2007 compared with SX40 Financials on the OMX Nordic Exchange in Stockholm



Monthly high/low of Kaupthing Bank shares in ISK and SEK

	KAUP (ISK)		KAUP (SEK)	
	High	Low	High	Low
January	942	841	96.5	82
February	1032	952	111	97.5
March	1044	971	110	101.75
April	1091	1032	114.25	107.5
May	1110	1056	123.75	111.5
June	1131	1080	125.25	117.5
July	1281	1132	143.25	124.75
August	1210	1056	129.5	108.25
September	1153	1040	123.5	107.5
October	1182	1096	126	116
November	1090	897	117.5	89.5
December	914	852	95.75	88.75

Share price performance of Kaupthing Bank in 2005-2007 compared with OMXI15 on the OMX Nordic Exchange in Iceland



Kaupthing's market capitalisation by the end of 2007 reached ISK 652 billion. In terms of market capitalisation, the Bank is now the 7th largest bank in the Nordic region. At the end of 2007 the P/E ratio of Kaupthing was 9.2 and the stated P/B ratio was 1.9.

[1] Based on last price
[2] Based on last price

On 1 January 2008, the Bank's shares were included in the widely followed SIX 60 index, consisting of the 60 most actively traded shares listed on the OMX Nordic Exchange in Stockholm.

Liquidity of Kaupthing shares

Shares in Kaupthing are highly liquid. Trading in the Bank's shares averaged approximately ISK 3.2 million shares per trading day during 2007, with a turnover rate of 107% over the year and 165% if the OMX free float adjustment is taken into account. Most of the trading with the Bank's shares takes place in Iceland, with 76.1% on the OMX Nordic Exchange in Iceland and 23.9% on the OMX Nordic Exchange in Stockholm on average for the whole year. In terms of market capitalisation, Kaupthing was the largest company listed in Iceland and the 24th largest listed on the OMX Nordic Exchange in 2007.

Historical price to book ratio

Historical price to earnings ratio

Average 3m traling volume in Stockholm

Share capital

Kaupthing's share capital as of 31 December 2007 amounted to ISK 7,404,530,530 in nominal value, divided into 740,453,053 shares. Each share has a nominal value of ISK 10 and entitles its holder to one vote. All shares are of the same class and hold equal rights. All issued share capital in Kaupthing is listed on the Main List of the OMX Nordic Exchange in Iceland and in Stockholm.

Purchase of own shares.

According to the authorisation granted at the Annual General Meeting of Kaupthing in March 2007, the Bank can purchase up to 10% in nominal value of its own share capital. The price paid shall be no lower than 20% below, and no higher than 20% above the rate at which the Bank's shares are priced on the OMX Nordic Exchange in Iceland or in Stockholm. A net total of approximately 5 million shares of the Bank's treasury stock were sold during the year, leaving a remainder of 3.4 million own shares at year end 2007.

Authorisation to increase share capital

According to the authorisation granted at the Annual General Meeting of Kaupthing Bank in March 2007, the Bank can increase the share capital of the company by up to ISK 1,500,000,000 in nominal value through a subscription of up to 150,000,000 new shares.

Change in share capital during 2007

Millions	Share capital	Number of shares	Market value
Shares outstanding as of 1 January	7,321	732	615,696
New shares issued			-
Purchase and sale of treasury stock	50	5	(4,045)
Change in market value			36,997
Shares outstanding as of 31 December	7,371	737	648,648
Own shares at year end	34	3	2,992

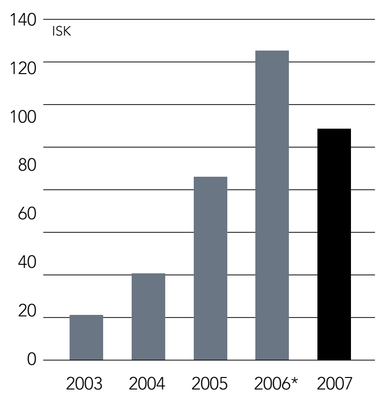
Earnings per share

The Bank reported net shareholders' earnings of ISK 70,020 million in 2007, corresponding to ISK 95.2 per share. The Bank's equity totalled ISK 345.6 billion at year end 2007.

Figures for Kaupthing Bank shares in 2007

Share price at year end ISK	880
High/Low ISK	1281/841
Market capitalisation ISK billions	651.6
Dividend per share ISK	20
Shareholders' return (dividend included)	6.30%
P/E ratio	9.2
Price-to-book stated	1.9
Outstanding shares at year end	737,137,730
Number of issued shares	740,453,053
Issued share capital ISK	7,404,530,530

Earnings per share

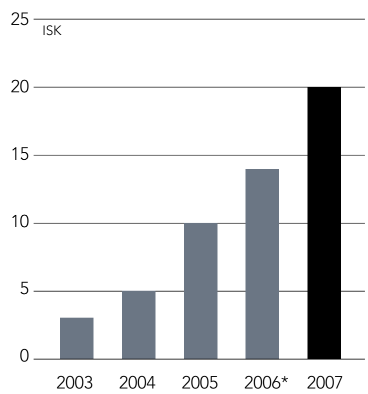


* Including the Exista gain.
The Earnings per share would have been 94.9 without the gain.

Dividends & dividend policy

Kaupthing's current policy is to pay dividends corresponding to about 10-30% of annual profit. The amount of dividends is also subject to the applicable restrictions of Icelandic law and other factors the Board sees fit to take into account. This year Kaupthing's Board of Directors will propose that dividends for 2007 totalling ISK 14,809 million, or ISK 20 per share, be paid out to shareholders, an amount representing 21% of the annual profit for 2007. Based on the Bank's share price of ISK 880, as of 31 December 2007, the dividends correspond to 2.3% of market capitalisation.

Dividends per share



* Without the extraordinary dividend payment of ISK 27.6 in 2006

Shareholders

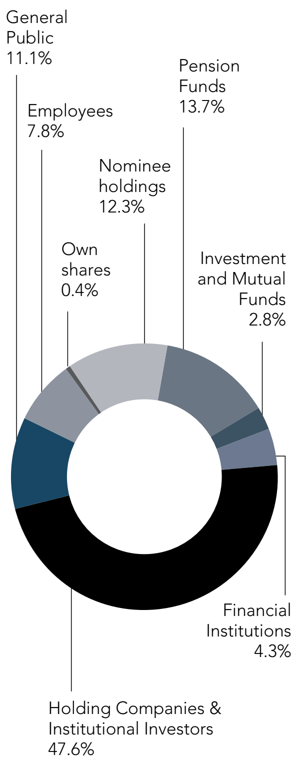
At the end of 2007 Kaupthing's shares were held by a total of 32,264 shareholders, including 6,145 foreign shareholders. Ownership is well distributed, as is clearly demonstrated when shareholders are classified by the size of their holdings. At the end of 2007 one shareholder held more than 10% in the Bank: Exista B.V. with 23.02%.

20 largest shareholders as of 31 December 2007*

Shareholder	Shares	%
Exista B.V.	170,439,413	23.02%
Egla Invest B.V.	73,153,352	9.88%
Gift fjárfestingarfélag ehf.	25,587,835	3.46%
Lífeyrissjódir Bankastraeti 7	23,876,240	3.22%
Lífeyrissjódur verslunarmanna	23,568,100	3.18%
Gildi -lífeyrissjódur	21,495,380	2.90%
Raiffeisen Zentralbank Österreich	13,550,300	1.83%
Sund ehf.	8,638,506	1.17%
Sigurdur Einarsson	8,180,423	1.10%
Hreidar Már Sigurdsson ehf.	7,235,239	0.98%
Gnúpur fjárfestingafélag hf.	6,951,104	0.94%
Stafir lífeyrissjódur	6,528,033	0.88%
Everest Equities Ltd.	6,328,927	0.85%
Kaupthing Ís-15	6,294,020	0.85%
Kaldbakur ehf.	6,020,000	0.81%
Sameinadi lífeyrissjódurinn	5,681,306	0.77%
Holt Holding S.A.	5,506,904	0.74%
Norvest ehf.	4,765,000	0.64%
Ingvar Vilhjálmsson	4,359,902	0.59%
Stapi lífeyrissjódur	3,930,085	0.53%

*Nominee accounts not included

Shareholders structure as of 31 December 2007



Shareholdings as of 31 December 2007

Shareholding	Number of shares	% of total share capital	Number of share-holders	% of share-holders
1-1,000	6,502,021	0.9%	23,410	72.5%
1,001-10,000	23,293,683	3.1%	7,498	23.2%
10,001-100,000	28,236,052	3.8%	1,090	3.4%
100,001-1,000,000	52,469,099	7.1%	182	0.6%
1,000,001-	629,952,198	85.1%	84	0.3%
Total	740,453,053	100%	32,264	100%

Employee shareholding

Most of Kaupthing employees are shareholders in the Bank, as the Bank firmly believes that the employees' equity interest in the Bank fosters commitment and personal interest in the success of the Bank as a whole. Kaupthing employees owned approximately 7.8% of the Bank at year end.

The first option agreements were made in 2000, and the number of options varied between employees, as is customary with employee stock option plans. Since then the Bank has entered into further agreements, as can be seen in the following table. Most option agreements are set up so that employees are allocated a fixed number of options, a part of which may be exercised every year at a fixed price.

List of stock options

Date Granted:	Number of shares in thousands	Vesting conditions:	Contractual life of options	Exercise price
December 2002	277	Six years of service. One third of total stock option is exercisable each year 2007-2008	6 years	51.22
March 2004	1,624	Four years of service. The stock option is exercisable 2007-2008	4 years	303
November 2005	1,714	Three years of service. One third of total stock option is exercisable each year 2007-2009	3 years	600
November 2005	5,782	Three years of service. One third of total stock option is exercisable each year 2007-2009	3 years	600/630 /660
December 2006	415	Three years of service. One third of total stock option is exercisable each year 2008-2010	3 years	840
December 2006	20,955	Five years of service. One third of total stock option is exercisable each year 2010-2012	5 years	830/872 /916
March 2007	4,872	Four years of service. The stock option is exercisable 2009-2011	4 years	1007
July 2007	1,110	Five years of service. One third of total stock option is exercisable each year 2010-2012	5 years	1.110/1.166/1.224
Total share options	36,749			

In November 2005 the Board of Directors of Kaupthing decided to grant stock options to all employees within the Group. According to the stock option scheme, 2,300 employees were granted options on a total of 2.8 million shares. In December 2006 it was announced that the Board of Directors had decided to grant further stock options to 564 employees to buy a total of 0.6 million shares, i.e. new full-time employees who began working for the Bank after stock options were granted in November 2005. As of 31 December 2007, the total of allocated employee stock options numbered 36,749,000 shares. The Bank will use its own shares or increase share capital in order to fulfil employee stock options.

Compliance

Strict rules govern securities trading by employees of Kaupthing. The Bank's Compliance Officer ensures that the appropriate rules and regulations are strictly followed by monitoring all such trades. The role of the Compliance Officer is discussed in further detail on page 40.

Investor Relations (IR)

Kaupthing aims to provide investors and analysts with clear and detailed information on the activities and operations of the Bank. The Bank's website, www.kaupthing.com, provides easy access to the Bank's announcements to stock exchanges, annual reports and quarterly results, as well as a wealth of other information for market participants, shareholders, and the media.

Kaupthing places great emphasis on further developing and strengthening its Investor Relations. Two Capital Markets Days were held in 2007, one in London in March and another in New York in November. During these, the Bank was introduced by several key employees from senior management along with several geographical and segment heads. The Bank also arranged a number of road shows in 2007 and participated in several international and European financial conferences. During the year analyst coverage was substantially increased on the equity side with five new analyst teams initiating coverage. At the end of 2007, Kaupthing was covered by eight houses: Citi, UBS, Redburn Partners, Morgan Stanley, Glitnir, Landsbanki, Fox-Pitt Kelton and Handelsbanken.

IR information

The Bank's website is the primary channel for the dissemination of investor information. The Investor Relations website provides a wealth of information including live share information, press releases and regulatory announcements to stock exchanges, the latest financial reports and presentations, an event calendar, and an extensive archive of all the Bank's releases with a detailed search interface. The IR team always strives to update the website with the most recent information available and to include new features when appropriate.

Kaupthing also makes its information available through other media, such as RSS feeds, SMS messaging and e-mail alerts. With these tools investors can choose to receive press releases and regulatory announcements, as well as financial reports and presentations. Subscriptions to these services can be set up and customised at the Bank's Investor Relations website.

Annual & Interim presentations

Kaupthing's quarterly and annual results are presented by the Bank's senior management. Analysts and investors are invited to attend these presentations in person, via the live webcast or through dial-in facilities. A video of the presentation along with presentation materials are made available on the Bank's website afterwards. In addition, the management gives a quarterly presentation of the results for investors and analysts in London and once a year in Stockholm.

Annual Report

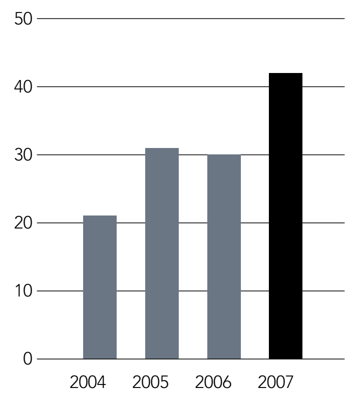
The Annual Report is published in English only. It is available in PDF and HTML formats on the Bank's website. The Bank's Annual Report is also sent to all shareholders with more than 10,000 shares in the Bank and to anyone else specially requesting it. A copy of the Annual Report can be ordered on the Bank's website.

FUNDING AND LIQUIDITY

The key strategic priority for Kaupthing Bank has been to diversify its funding sources and to strengthen its deposit base. In 2007 the Bank continued to enter new markets. The Bank managed to increase its deposit base by ISK 631 billion in 2007. At the same time, the Bank managed to keep a strong liquidity position despite difficult market conditions in the second half of 2007.

In 2007 Kaupthing continued on the path it embarked upon two years ago, diversifying funding sources and extending the maturity profile. Kaupthing re-entered the European market and issued bonds in Canada and Mexico for the first time. A concentrated effort was made within the Group to gather deposits and the Bank's target of raising the Deposits to Loans to customers' ratio to 40% was reached twelve months ahead of schedule and stood at 41.8% at the end of the year. Emphasis on prudent liquidity management within the Bank proved to be a good strategy. When global market conditions took a turn for the worse in the latter half of 2007 Kaupthing was therefore in a favourable position. The cost of senior long-term funding was 23 basis points lower than in 2006 and the average maturity of new senior issues continued to increase.

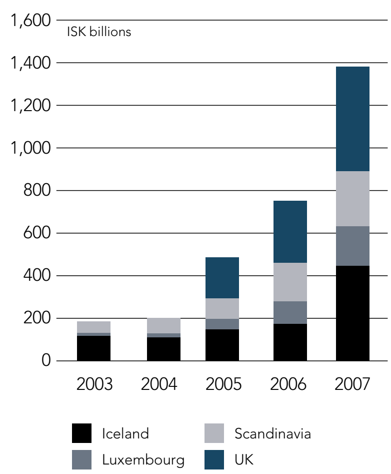
Deposit to loan ratio (%)



Issuing entities within the Group

There are three rated entities within the Group: the Parent Company Kaupthing Bank, FIH in Denmark, and Kaupthing Singer & Friedlander in the UK. Most long-term funding is arranged through the Parent Company, but FIH, which operates as a self-funded entity, is the only subsidiary which also actively accesses the debt capital markets with public transactions. Kaupthing Singer & Friedlander primarily funds its operations through customer deposits.

Geographical growth in Deposits



Doubling the deposit base

The Group's sources of funding continued to diversify in 2007. The most notable rise was in the share of deposits. Kaupthing made a concerted effort to increase its customer deposit base in 2007 and managed to almost double it over the year. At the beginning of the year, Kaupthing had a target of increasing the deposit base to 40% of Loans to customers by mid-2008. The target was reached twelve months ahead of schedule and was 41.8% at year end. Kaupthing increased deposits by ISK 630.8 billion in 2007, which represents an 84% increase from 2006. The increase in Deposits in 2007 is well spread geographically throughout Kaupthing with a 157% increase in Iceland, 41.7% in Scandinavia, 69.0% in the UK and 74.5% in Luxembourg. At the end of the year, the Deposits amounted to around 30% of the Bank's funding mix.

Cross-selling

The success in growing customer deposits has been largely achieved by leveraging existing customer relationships in line with the cross-selling ethos of Kaupthing. FIH in Denmark has been active in gathering deposits from current corporate borrowers where it had none previously. Kaupthing Singer & Friedlander in the UK, with a focus on competitively priced products delivered with high levels of service, has strengthened its position in customer deposits across a wide range of client sectors, from high net-worth individuals and small medium enterprises (SMEs), to charities, universities and local authorities. In Luxembourg, the Treasury Department started offering private clients structured deposits. Similar cross-selling has been seen in the other countries where Kaupthing operates.

As part of the Bank's strategy to increase deposits, Kaupthing acquired two institutions with strong deposit bases in 2007. Firstly, Kaupthing bought Robeco Bank in Belgium, a small bank with more than 6,800 clients and a deposit base of around EUR 300 million. Secondly, the Bank acquired an off-shore deposit-taking business in the Isle of Man, a subsidiary of Derbyshire Building Society, with over EUR 460 million in deposits.

Kaupthing Edge

In the fourth quarter of 2007 Kaupthing launched an online savings product, Kaupthing Edge, which is a new internet-based high yield savings product. This is Kaupthing's first truly global retail product and has begun to attract a new base of deposit customers to the Bank. Kaupthing Edge was first launched in Finland in October 2007 and then in Sweden in November. At the beginning of 2008 Kaupthing Edge was launched in Norway, the UK and Belgium. Further launches are scheduled in the months to come.

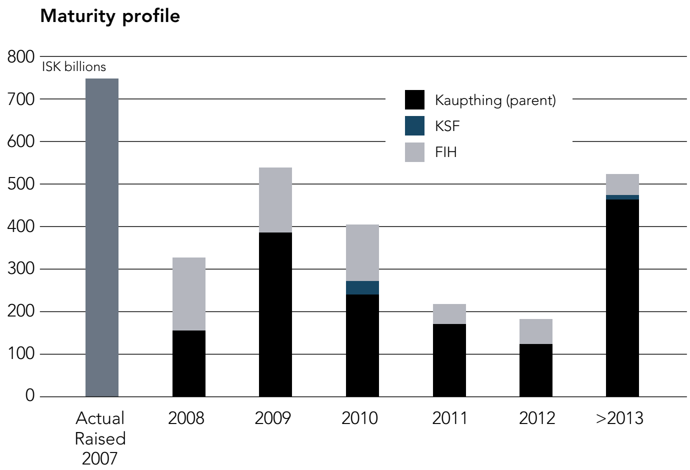
Wholesale funding across the globe

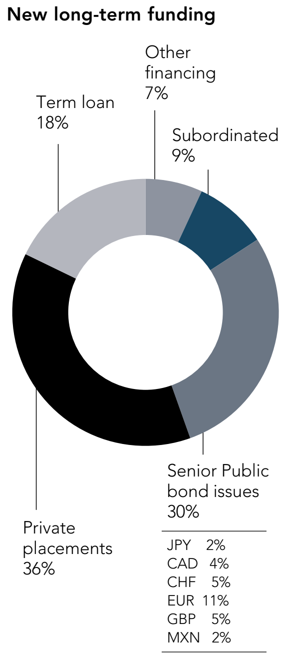
In 2007 the Bank continued on the course it set itself two years ago, by further diversifying the funding sources. As in 2006, 2007 was a year of important milestones for the Bank. Kaupthing was the first Nordic bank to issue public bonds in Mexico and also launched and entered the Canadian market with an inaugural bond issue.

In 2007 the Group raised the equivalent of ISK 748 billion (EUR 8.2 billion) through long-term borrowing in various currencies in over 116 transactions. Kaupthing incurred these borrowings mainly through the international issuance of debt securities in public offerings, private placements and several bilateral transactions with other financial institutions.

Kaupthing's EUR medium-term note programme facilitates borrowings in a variety of currencies and with different repayment structures, with any maturity agreed between Kaupthing and the relevant investors. The programme size is EUR 12 billion. At 31 December 2007, EUR 8,231 million was outstanding under this programme, compared to EUR 7,546 million at year end 2006.

A US medium-term note programme was established in May 2006, under which USD 4,805 million were outstanding as of 31 December 2007, compared to USD 4,811 million at year end 2006. In the





Australian market, an AUD 3,000 million medium-term note programme was established in November 2005. As of 31 December 2007, AUD 290 million were outstanding, unchanged from year end 2006.

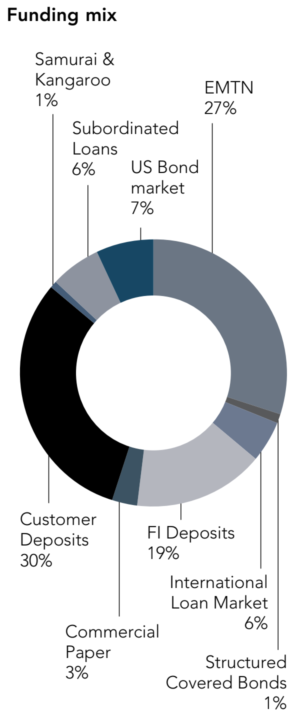
Kaupthing is registered as a borrower in the domestic Japanese market through a securities registration statement. As of 31 December 2007, JPY 78 billion out of JPY 500 billion were drawn under the shelf. In June 2007, Kaupthing followed up its 2006 debut Samurai issue with a new multi-tranche JPY 28 billion transaction.

Subordinated loan capital

To maintain strong capital ratios, Kaupthing concluded two non-innovative perpetual Tier 1 capital transactions in 2007. In July, Kaupthing re-opened the Euro Retail Tier 1 market with a EUR 250 million issue carrying a fixed coupon of 6.75%. In November, the Bank issued a USD 400 million bond carrying a fixed coupon of 9%.

Syndicated loan market

Kaupthing continued to be active in the loan market in 2007 and successfully closed two transactions at the end of the year during difficult periods in the global credit market. The success of the loans also reflects the strong relationships which Kaupthing has with its partner banks. In November, Kaupthing closed a EUR 300 million club term loan facility. Four banks participated in the loan which was priced at 60 bps (all-in) above EURIBOR. At the end of December, Kaupthing completed a three year syndicated loan facility. The terms of the loan are all-in 75 bps above LIBOR. Due to oversubscription, the loan was increased from USD 100 million to USD 160 million. In total, a group of eleven banks participated in the loan, which was placed exclusively with Asian and Australian lenders with the aim of further diversifying the funding sources of the Bank, as well as enhancing the relationship with banks in this region.



FIH Erhvervsbank A/S

During 2007, FIH raised the equivalent of ISK 191 billion through long-term borrowing. In March, FIH raised a subordinated capital issue of EUR 200 million, for a term of six years non-callable before three years. This capital transaction raised its solvency rate from 10.0% to 11.5%. Two senior transactions were also completed. In January a EUR 400 million bond was launched as a three year floating rate note followed by a five year fixed rate note of GBP 300 million in February.

Just as important to FIH was a range of issues in 2007 targeted at domestic markets and often under domestic legislation. These issues were executed in Norway, Sweden, Switzerland and Denmark. FIH values these domestic bond issues as they contribute to its ongoing effort to diversify funding sources. In managing its daily liquidity, FIH also utilises traditional money market transactions as well as maintaining two commercial paper programmes (one European and one French programme).

Strengthened bondholder communications

In 2007 Kaupthing continued to place great emphasis on the provision of regular high-quality information to the debt community, which it sees as an essential service, not just during difficult market conditions, but at all times. A dedicated Debt Relations team was set up this year within Group Treasury to manage relationships with bondholders. In addition to the deal-related road shows, several non-deal road shows were undertaken in various countries in Europe, North America and Asia, to ensure the Bank's evolving story is fully understood. During this time Kaupthing visited more than 150 investors in around 25 countries.

Robust liquidity position

Secured liquidity is the primary measure of liquidity at Kaupthing Bank. The secured liquidity consists of cash, repo-able bonds and committed alternative liquidity sources. The Bank's policy is 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 resorting to any access to capital markets. At the end of 2007, the secured liquidity of Kaupthing Group was ISK 1,226 billion (EUR 13,445 million), sufficient to cover all obligations for more than 440 days. A precise definition of secured liquidity can be found in the Liquidity Risk section in the chapter on Risk Management on page 23.

Future strategy

The Bank will continue to diversify its funding base and strengthen current relationships in 2008 and beyond. Kaupthing will also continue to put a growing emphasis on increasing the level of customer deposits within its funding portfolio in 2008 and maintaining a strong liquidity position.

Kaupthing recognises that the current market environment is challenging and that it will continue to be so throughout 2008. Kaupthing is currently in a comfortable situation with ample liquidity and a light redemption schedule in 2008. In 2007 the Bank managed to raise a total of EUR 15.3 billion in the long-term wholesale market and in new deposits. In comparison, the Parent Company has only ISK 156 billion (EUR 1.7 billion) redeeming in 2008 and the Group as a whole has ISK 326 billion (EUR 3.6 billion) which represents around 14.8% of long-term debt. Funding needs in 2008 are therefore limited.

Spontaneity, team work and enthusiasm are precious assets, which is why Kaupthing actively encourages initiatives that challenge and encourage young people to excel in their chosen disciplines and help them to thrive and grow.

KAUPTHING BANK'S RESULTS

Kaupthing Bank reported a pre-tax profit of ISK 80,907 million in 2007 and Shareholders' net earnings of ISK 70,020 million in 2007. The cost-to-income ratio was 47.5% and for the first time Net interest income covered all expenses at the Bank. Return on equity was high or 23.5%.

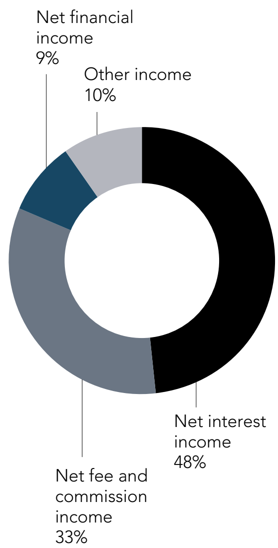
Earnings

Kaupthing Bank reported Earnings before income tax of ISK 80,907 million for 2007, compared with ISK 101,083 million in 2006. Shareholders' net earnings totalled ISK 70,020 million in 2007, compared with ISK 85,302 million in 2006, a decrease of 17.9%. The main reason for this decrease between years is the one-off after-tax profit of ISK 21.4 billion in relation to the Bank's holding in Exista and the listing of the company on the OMX Nordic Exchange in Iceland during the third quarter of 2006. Excluding this profit, earnings would have increased by 9.6% compared with 2006. Earnings per share in 2007 were ISK 95.2, compared with ISK 127.1 in 2006, of which ISK 32.3 per share was in relation to the Bank's holding in Exista.

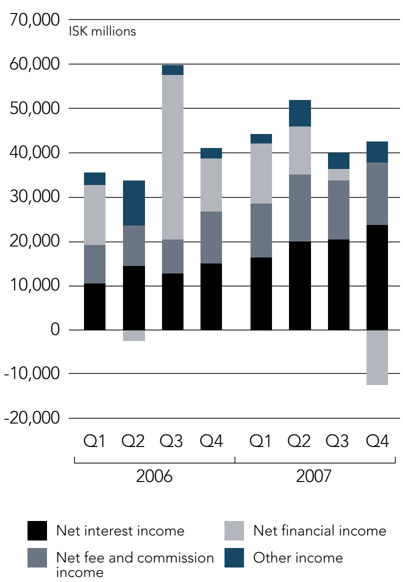
Income

Operating income in 2007 totalled ISK 165,818 million, a decrease of 0.8% compared with 2006. Taking into account income generated by the sale of the Bank's holding in Exista amounting to ISK 26.1 billion, Operating income would have increased by 17.5% in 2007. Net interest income in 2007 totalled ISK 80,113 million, an increase of 53.0% from 2006. This increase is largely due to the growth of the Bank's loan portfolio, greater liquidity at the Bank, inflation in Iceland during the year, and a higher interest margin owing to factors such as the growth of the Bank's deposits. Net fee and commission income in 2007 totalled ISK 55,021 million, an increase of 47.6% compared with 2006. This growth is due to the sharp rise in the number of fee-generating employees and a general increase in the Bank's activities in all its markets. The Bank's core income, i.e. Net interest income and Net fee and commission income, has increased as a proportion of the Bank's Operating income. In 2007, core income totalled ISK 135,134 million, increasing by 50.7% from 2006. Net financial income, which includes dividend income, net gain on financial assets/liabilities at fair value, net gain on financial assets/liabilities not at fair value and net foreign exchange difference, totalled ISK 14,433 million in 2007, compared to ISK 34,073 million in 2006, excluding the one-off gain from Exista in third quarter. The main reason for lower Net financial income is the decrease in the fair value of derivatives and bonds owned by the Bank and the loss reported by Proprietary Trading. A proportion of the

Income distribution in 2007



Income distribution by quarter



Income specified by location of markets and customers

ISK millions

	Net interest income		Net fee and commission income		Net financial income		Other income		Operating income	
Iceland	26,747	34%	22,241	40%	446	3%	5,315	32%	54,749	33%
Scandinavia	21,092	26%	9,319	17%	6,272	43%	6,117	38%	42,800	26%
UK	23,759	30%	16,270	30%	7,411	51%	4,517	28%	51,957	31%
Luxembourg	6,706	8%	6,115	11%	369	3%	284	2%	13,474	8%
Other countries	1,809	2%	1,076	2%	-65	0%	18	0%	2,838	2%
Group	80,113	100%	55,021	100%	14,433	100%	16,251	100%	165,818	100%

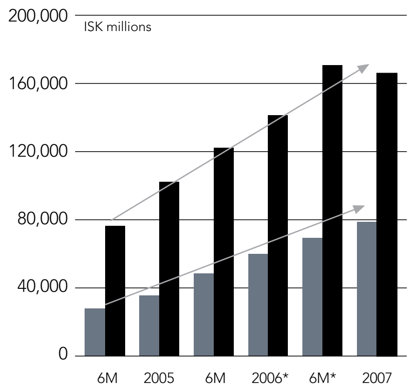
Bank's listed equities portfolio is in Nordic financial companies, whose share prices declined sharply during the quarter. Other income totalled ISK 16,251 million in 2007, a slight decrease from the previous year. This item includes profit from the Bank's sale of its subsidiary Eik fasteignafélag hf. at the beginning of April 2007, which totalled ISK 4,262 million before income tax. In 2006 the Bank booked a profit of ISK 7,421 million from the sale of its holding in VÍS. Other income in 2007 also includes net earnings from associated companies of ISK 3,459 million and income from Kaupthing Singer & Friedlander's operating lease business of ISK 4,748 million.

Expenses

Operating expenses totalled ISK 78,731 million in 2007, an increase of 31.2% compared with 2006. The increase between years is primarily due to the sharp rise in the number of employees, up by 22.6% in 2007, and a general increase in the Bank's activities. The cost-to-income ratio for 2007 was 47.5%, which is below the Bank's 50% target.

Salaries and related expenses in 2007 totalled ISK 46,647 million, increasing by 39.0% compared with 2006. This increase between years is primarily due to a significant increase in the number of employees, particularly fee-generating employees in recent quarters. Employee numbers grew most in Luxembourg, the UK and Iceland. The number of full-time equivalent positions at the Bank was 3,334 on 31 December 2007, compared with 2,719 on 31 December 2006, an increase of 615. Other operating expenses amounted to ISK 32,084 million in 2007, increasing by ISK 5,648 million compared with 2006, or by 21.4%. The rise in expenses is a result of a general increase in activities at most of the Bank's offices. Impairment on loans amounted to ISK 6,098 million in 2007, compared with ISK 4,857 million in 2006, an increase of 25.6%.

Development of Operating income and expenses - Trailing 12 months



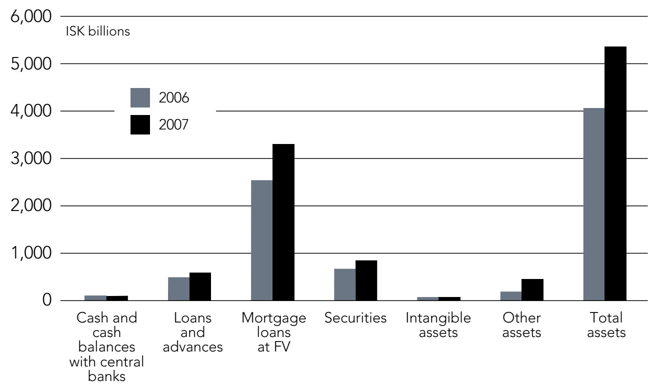
* Operating income excludes the gain from Exista in Q3 2006. Operating expenses do not include Impairments

Net interest margin - Trailing 12 months (%)

Income tax expense amounted to ISK 9,716 million in 2007, which corresponds to 12.0% of Earnings before income tax, compared with ISK 14,636 million in 2006, or 14.5% of Earnings before income tax. The income tax ratio was unusually low during the year due to the deferment of tax payments on capital gains in connection with investments in subsidiaries.

Balance Sheet

Asset distribution

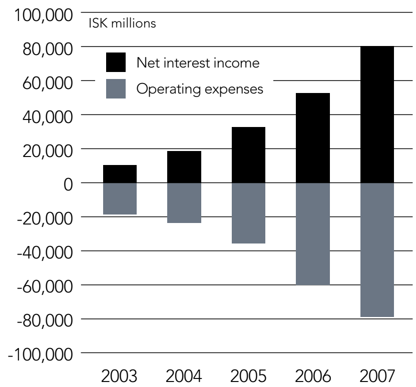


Assets

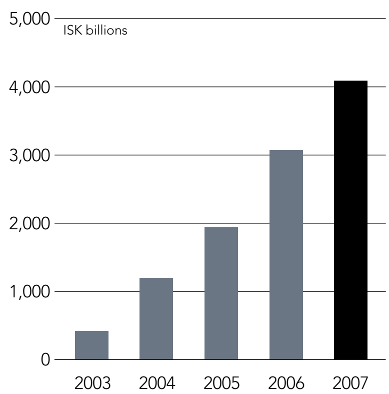
The Bank's total assets as of 31 December amounted to ISK 5,347.3 billion, increasing by ISK 1,291.9 billion or 31.9% during the year. Loans to credit institutions increased from ISK 485.3 billion to ISK 588.4 billion, an increase of 21.2%. This increase is related to the Bank's decision in 2006 to increase liquidity. Loans to customers increased from ISK 2,538.6 billion to ISK 3,304.4 billion, or by 30.2%, in 2007, and have generally increased in most of the Bank's markets. More information about Loans to customers can be found in the chapter about Banking on page 66.

Financial assets as of 31 December totalled ISK 845.5 billion, increasing by ISK 180.3 billion from the beginning of the year, or 27.1%. Bonds and other interest-bearing assets totalled ISK 367.4 billion on 31 December 2007 and increased by 15.4% during the year. Positions in shares and other variable income assets amounted to ISK 160.8 billion on 31 December 2007. Derivatives contracts totalled ISK 134.9 billion on 31 December and increased by ISK 69.4 billion during the year, primarily due to a higher volume of transactions involving contracts for difference (CFDs) in the UK. Furthermore, the Bank holds shares as hedge against derivatives amounting to ISK 91.9 billion. The Bank is not exposed to market risk of ISK 7.2 billion due to minority interests in the Bank's subsidiary Norvestia in Finland. Listed shares amounted to ISK 67.2 billion or 1.3% of the Bank's total assets as of 31

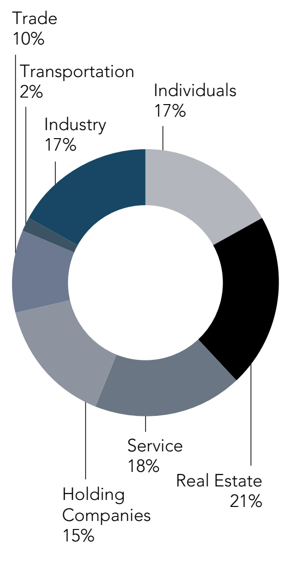
Net interest income and Operating expenses



Risk weighted assets



Loans to customers by sectors



December 2007. Of this total, ISK 16.8 billion is in the form of shares listed on the OMX Nordic Exchange in Iceland, or 25.0%. Holdings in unlisted shares totalled ISK 87.1 billion, or 1.6% of the Bank's total assets as of 31 December 2007, compared with 0.9% at the beginning of the year. The Bank's five largest positions in unlisted shares represented approximately 50% of the value of unlisted shares.

Investments in associates increased to ISK 83,831 million in 2007 from ISK 5,304 million in 2006. The main reason for this increase was that the Bank reached a 20% holding in Storebrand and declared that its holding was strategic and that it would therefore be treated as an associated company.

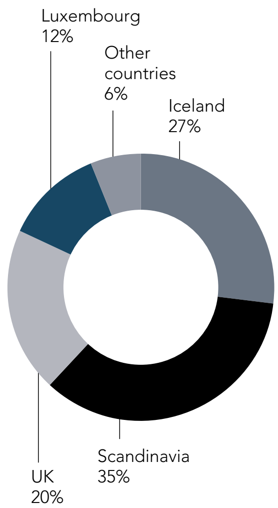
Liabilities & Equity

Liabilities to credit institutions and central banks totalled ISK 339.1 billion as of 31 December 2007 and increased by ISK 228.6 billion or 207% during the year. Deposits amounted to ISK 1,381.5 billion and increased by 84.0% from 2006. Deposits represented 25.8% of the Bank's total assets as of 31 December 2007, compared with 18.5% at the beginning of the year. Deposits as a ratio of Loans to customers equalled 41.8% at the end of December, compared with 29.6% at the beginning of the year. Borrowings amounted to ISK 2,616.0 billion as of 31 December 2007, compared with ISK 2,399.9 billion at the beginning of the year, an increase of ISK 216.1 billion or 9.0%.

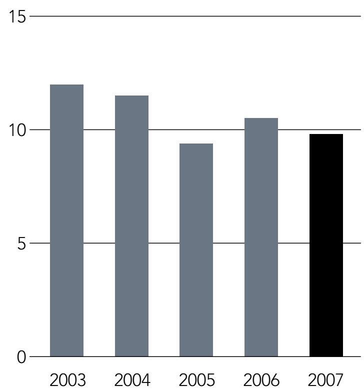
Shareholders' equity amounted to ISK 345.6 billion as of 31 December 2007, compared with ISK 323.5 billion at the beginning of the year, an increase of ISK 22.1 billion or 6.8%. The 7.1% appreciation of the ISK in 2007 is one factor behind the slight rise in the Bank's equity, and the ISK 10.3 billion dividend (ISK 14 a share) to shareholders at the end of March also had an effect. On 14 May 2007 the Bank reached 20% ownership in Storebrand and began reporting the investment as an associated company. This results in an ISK 5.1 billion decrease in equity in accordance with IFRS. The Bank's risk capital was ISK 486.1 billion as of 31 December 2007. The CAD ratio was 11.8%, compared with 15.0% at the beginning of the year. Tier 1 capital was 9.6%, compared with 10.5% at the beginning of the year.

As of 31 December 2007, 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 31 December 2007 was 32,264. The Bank's largest shareholders are Exista and related parties with 23.3% and Egla Invest with 9.9%.

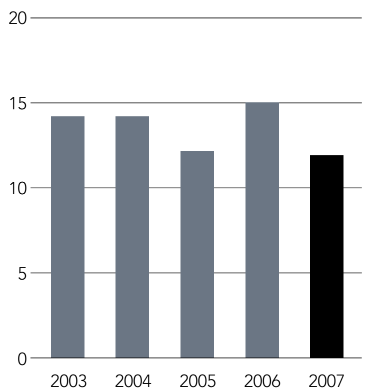
Loans to customers by country



Tier 1 ratio (%)



CAD ratio (%)



FIVE-YEAR SUMMARY

(ISK millions)	2007	2006	2005	2004	2003*
Income Statement					
Net interest income	80,113	52,362	32,710	18,259	10,124
Net fee and commission income	55,021	37,284	22,428	13,308	9,683
Net financial income	14,433	60,157	37,282	16,326	11,145
Other income	16,251	17,413	9,778	2,053	828
Operating income	165,818	167,216	102,198	49,946	31,780
Operating expenses	-78,731	-60,006	-35,525	-23,625	-18,493
Impairment	-6,180	-6,127	-4,389	-3,825	-3,894
Income tax	-9,716	-14,636	-11,228	-4,237	-1,486
Net earnings	71,191	86,447	51,056	18,259	7,907
Attributable to:					
Shareholders of Kaupthing Bank	70,020	85,302	49,260	17,707	7,520
Minority interest	1,171	1,145	1,796	552	387
Net earnings	71,191	86,447	51,056	18,259	7,907
Balance Sheet					
Assets					
Cash and cash balances with central banks	97,959	106,961	34,877	6,290	3,488
Loans to credit institutions	588,441	485,334	195,594	174,310	47,057
Loans to customers	3,304,408	2,538,609	1,543,700	980,106	349,033
Financial assets	845,455	665,129	612,534	305,961	131,159
Intangible assets	66,774	68,301	54,943	35,098	5,948
Other assets	444,308	191,062	99,163	52,688	21,884
Total assets	5,347,345	4,055,396	2,540,811	1,554,453	558,569
Liabilities and equity					
Deposits	1,381,457	750,658	486,175	202,193	182,497
Borrowings	2,615,960	2,399,939	1,556,567	968,512	210,645
Other liabilities	726,208	353,877	192,869	167,216	98,192
Minority interest	10,823	11,382	8,329	9,539	10,603
Subordinated loans	267,289	216,030	102,688	57,623	10,704
Shareholders' equity	345,608	323,510	194,183	149,370	45,928
Total liabilities and equity	5,347,345	4,055,396	2,540,811	1,554,453	558,569

*Pro forma figures from Kaupthing Bank and Bunadarbanki Island

KEY RATIOS

	2007	2006	2005	2004	2003
Cost / income ratio	47.5%	35.9%	34.8%	47.3%	58.2%
Return on shareholders' equity	23.5%	42.4%	34.0%	25.5%	23.0%
Impairment / Loans and advances	0.2%	0.2%	0.2%	0.4%	1.1%
Total credit reserves	0.6%	0.6%	0.7%	1.4%	2.4%
Price / earnings	9.2	6.6	9.9	12.4	12.2
Earnings per share, ISK	95.2	127.1	75.2	35.6	18.5
Earnings per share diluted, ISK	93.3	123.4	73.9	35.1	18.4
Average no. of shares outstanding, million	736	671	655	497	406
Avg. no. of shares outstanding diluted, million	751	691	666	505	411
No. of shares at end of period, million	737	732	664	652	438
No. of shares at end of period diluted, million	752	752	675	660	443
Share price at end of period	880	841	746	442	225

QUARTERLY OVERVIEW OF KAUPTHING BANK

(ISK millions)	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net interest income	23,739	20,259	19,850	16,265	14,806	12,687	14,385	10,484
Net fee and commission income	14,122	13,374	15,188	12,337	11,866	7,632	9,184	8,602
Net financial income	-12,429	2,634	10,772	13,456	12,003	37,256	-2,607	13,505
Other income	4,700	3,553	5,996	2,002	2,241	2,210	10,102	2,860
Operating income	**30,132**	**39,820**	**51,806**	**44,060**	**40,916**	**59,785**	**31,064**	**35,451**
Operating expenses	-22,658	-19,349	-19,017	-17,707	-18,846	-13,803	-14,805	-12,552
Impairment	-1,959	-1,723	-1,075	-1,423	-1,637	-2,819	-961	-710
Profit before income tax	**5,515**	**18,748**	**31,714**	**24,930**	**20,433**	**43,163**	**15,298**	**22,189**
Income tax	4,135	-3,962	-5,652	-4,236	-1,793	-7,630	-2,618	-2,595
Net earnings	**9,649**	**14,786**	**26,062**	**20,694**	**18,640**	**35,533**	**12,680**	**19,594**
Attributable to:								
Shareholders of Kaupthing Bank	9,849	14,406	25,484	20,281	18,077	35,393	13,034	18,798
Minority interest	-200	380	578	413	563	140	-354	796
Net earnings	**9,649**	**14,786**	**26,062**	**20,694**	**18,640**	**35,533**	**12,680**	**19,594**

Cancer research is progressing in leaps and bounds. We want to contribute to the development of a community of hope and caring by supporting research initiatives and programmes that raise awareness and make a real difference for cancer patients and their families.

OPERATING RESULTS OF BUSINESS SEGMENTS

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

All business segments returned a profit in 2007. The highest gross profit was posted by Banking with ISK 48,953 million. Banking provides services such as advice and assistance in financing to corporates, particularly in Denmark, the UK and Iceland. It also provides general banking services to individuals, mainly in Iceland, and to a lesser extent in Norway and Sweden. Capital Markets posted the second highest gross profit with ISK 21,126 million. Capital Markets delivers high quality research and advice, distribution, and trading services to its clients. Functionally, there are four primary roles across the various business lines: Sales, Trading/Execution, Proprietary Trading and Research. Treasury returned a gross profit of ISK 395 million during the year. Treasury is responsible for the Bank's Group Treasury activities, Inter-bank trading, and Trading. Investment Banking returned a gross profit of ISK 20,038 million during the year. Investment Banking provides advice on mergers and acquisitions, arranges finance for those deals, is responsible for assisting companies in stock offerings and also makes long-term equity investments. Asset Management & Private Banking returned a gross profit of ISK 7,511 million during the year. It is responsible for advising, managing and investing assets for individuals and institutional investors and operates a number of mutual and pension funds.

The gross profit of each profit centre is displayed in the table below:

Gross profit of the business segments

ISK millions	Capital Markets	Investment Banking	Treasury	Banking	Asset Mgmt & PB
Net interest income	2,436	-3,027	22,759	60,664	1,183
Net fee and commission income	20,957	13,715	-707	6,668	13,801
Net financial income	9,069	14,724	-17,793	393	310
Other income	225	223	91	6,539	164
Operating income	32,687	25,635	4,350	74,264	15,458
Operating expenses	-11,562	-5,573	-3,988	-19,149	-7,947
Impairment	1	-24	33	-6,162	0
Total expenses	-11,561	-5,597	-3,955	-25,311	-7,947
Gross profit	21,126	20,038	395	48,953	7,511

BANKING

- Record year in Banking
- Net interest income up 32% from 2006
- Solid growth in Net fee and commission income

Banking posted a record gross profit of ISK 48,953 million, compared with ISK 39,208 million the previous year, representing an increase of 24.9%. Net interest income was ISK 60,664 million, increasing by 32.2% from the previous year. The interest margin increased from 1.70% in 2006 to 1.92% in 2007. Net fee and commission income totalled ISK 6,668 million, up 16.1% from 2006. Other income in Banking amounted to ISK 6,539 million. Loan impairment increased from ISK 4,851 million in 2006 to ISK 6,162 million in 2007.

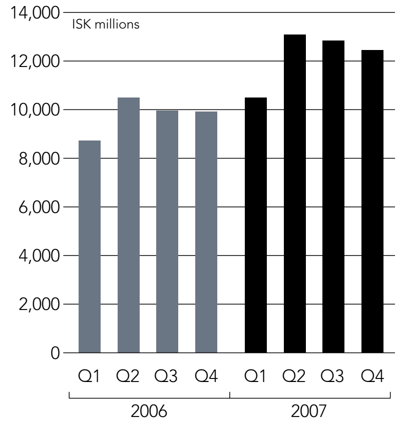
Banking

ISK millions	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	60,664	45,903	15,897	15,653	15,691	13,423
Net fee and commission income	6,668	5,744	2,037	1,835	1,539	1,257
Net financial income	393	750	217	-40	122	94
Other income	6,539	6,631	1,617	1,747	1,620	1,555
Operating income	74,264	59,028	19,768	19,195	18,972	16,329
Operating expenses	-19,149	-14,969	-5,314	-4,676	-4,779	-4,380
Impairment	-6,162	-4,851	-2,012	-1,643	-1,082	-1,425
Total expenses	-25,311	-19,820	-7,326	-6,319	-5,861	-5,805
Gross profit	48,953	39,208	12,442	12,876	13,111	10,524

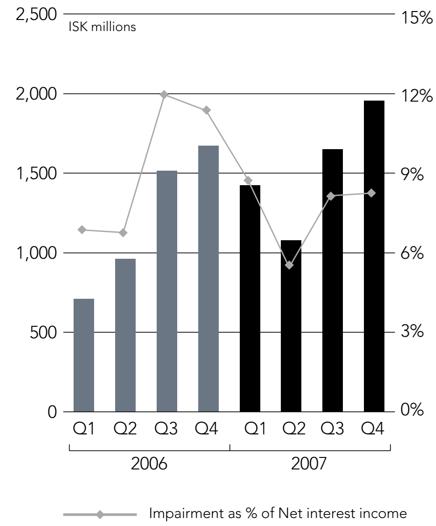
Banking is divided into two distinct units: Corporate Banking and Retail Banking. Though these units are treated as a single business segment, their activities are operated as separate units. Kaupthing Bank has banking licences through subsidiaries in Denmark, Sweden, Luxembourg and the UK and branches in Finland, Norway and the Isle of Man, but engages in retail banking mainly in Iceland, which is the only country where Kaupthing has universal consumer business and operates a retail branch network.

The Banking division provides general banking services to corporations of all sizes. Activities are focused on Iceland, the United Kingdom and Scandinavia, particularly on the segment consisting of small to medium-sized enterprises. In addition, the Banking unit also provides banking services to Private Banking customers, primarily through the offices in Luxembourg, Iceland and the UK. Banking has been building and strengthening its operation by recruiting prominent and experienced bankers to its unit, in particular in Sweden, Norway, Finland and the UK where the Bank has thus far had a modest market share.

Gross Profit



Impairment



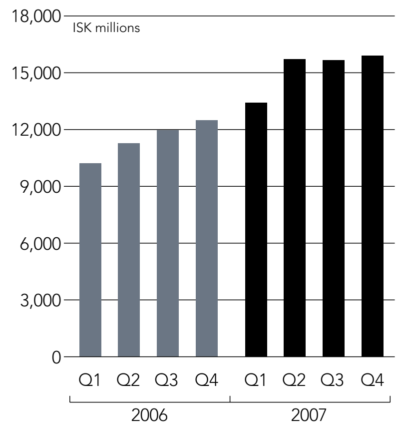
Kaupthing is one of the leading lenders in Iceland, for retail as well as corporates, while the Bank's subsidiary FIH is one of the leading corporate banks in Denmark, with a market share of 11.5% based on the December 2007 MFI statistics.

Retail Banking

Kaupthing operates retail banking activities in three countries: Iceland and to a limited extent Sweden and, as of November 2007, Norway. The vast majority of retail banking activity, however, takes place in Iceland.

The Retail Banking unit is responsible for traditional retail banking operations, with a focus on individual customers and smaller businesses with a lending exposure of up to around ISK 100 million in general. Larger businesses, medium sized and over, are clients of the Corporate Banking unit.

Net interest income



Retail Banking offers comprehensive banking services such as mortgage lending, overdrafts, deposits, credit card issuing, cash management and clearing for its clients. As of 31 December 2007, Retail Banking operated a network of 34 branches and service points in Iceland, including 13 branches in the Reykjavík area. Kaupthing Bank's market share in Iceland for private customers is estimated to be approximately 25%, which is an increase of over 2% since the beginning of 2005. Retail Banking employed 454 people at year end 2007.

Retail Banking activities in Iceland have undergone considerable changes, transforming from a traditional lending institution into a modern bank, offering comprehensive financial solutions for its customers. The Bank places great importance on continuous product development and innovation. Services through the branch network have been continually updated over the last few years. The role played by financial advisers has grown significantly, while traditional clearing has become less important as automation and self-service on the internet are replacing traditional teller services to a large degree. Retail Banking has also increased its range of services by selling and advising on personal insurance and pension products. The objective of the Retail Banking unit is to advise the Bank's customers on a set of comprehensive financial services tailored to their personal needs.

Corporate 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 Bank is focused on developing long-term relationships with its clients to help them achieve their potential, whether organically or by acquisition, by gaining a thorough understanding of their businesses and the competitive environment in which they operate, and to tailor the Bank's products to their needs. Corporate Banking's dedicated team has a commercial ethos, which enables it to understand businesses' underlying dynamics and to become a partner with its clients as they grow.

Corporate Banking provides a wide range of banking services and products, including term loans, multi currency loans, bridge financing, credit lines, revolvers and other kinds of working capital facilities, structured finance, mezzanine financing, property and asset finance and investment financing for corporates as well as Private Banking customers. Corporate Banking also provides comprehensive deposit products, cash management and other add-on products and services, such as cash pooling, cash sweeping and comprehensive internet banking, in particular from its operations in Iceland where it has been at the forefront in terms of introducing technical innovations in banking services. Corporate Banking employed 503 people at year end 2007.

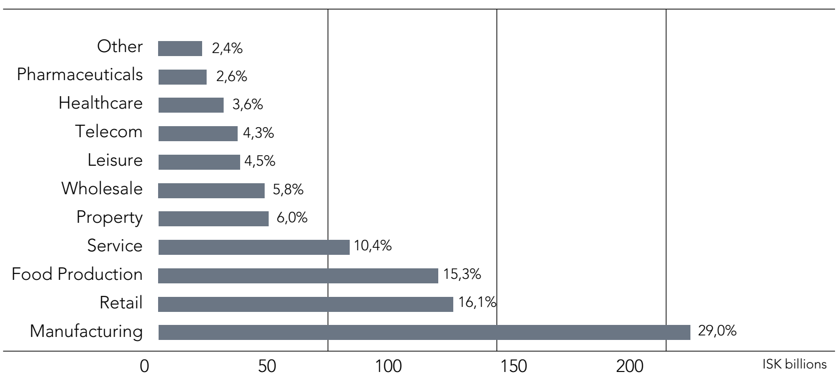
The client group of Corporate Banking is highly varied and represents virtually all sectors of the market, with a number of high growth, entrepreneurial, private and listed companies. The Bank seeks to provide the best possible solutions for each company which calls for close co-operation between Corporate Banking and its clients as well as with other business segments of the Bank, in particular Investment Banking, Capital Markets, Treasury and Private Banking.

The above activities are focused on the United Kingdom, Iceland and Scandinavia, whereas Private Banking financing for entrepreneurs and their investment vehicles are predominantly carried out from Luxembourg, the UK and Iceland.

Corporate Banking is also engaged in Acquisition and Leverage Finance (ALF) transactions and does hold a substantial ALF portfolio, sourced, to a large extent, by the Bank's Investment Banking teams across the Group.

The ALF portfolio represented around 16.4% of Loans to customers at year end 2007. It is fairly evenly spread geographically and amongst sectors in Northern Europe and largely originated by Kaupthing's Investment Banking teams in the UK, Scandinavia and Iceland. Terms of assets in the ALF portfolio are very much market standard, with no covenant lite or aggressively structured assets.

Sector breakdown of ALF portfolio

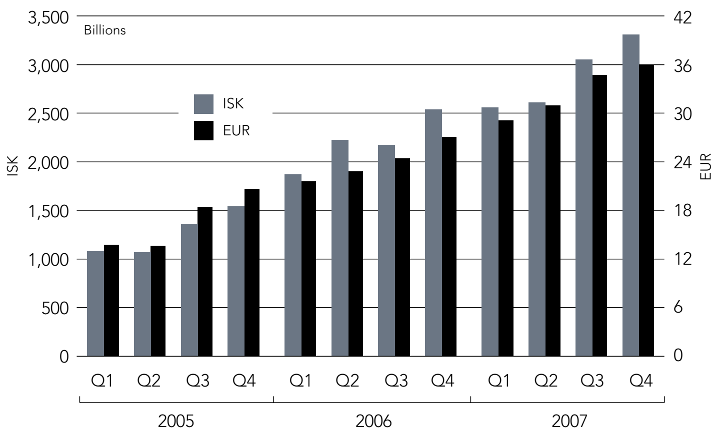


The Loan Portfolio

Loans to customers amounted to ISK 3,304 billion as of 31 December 2007 and represented 61.8% of the Bank's Assets. The loan portfolio grew by approximately 30.2% in 2007 when denominated in ISK and 35.7% if adjusted to currency fluctuations, which is all organic growth.

The Bank's loan portfolio has grown substantially over the last few years, mainly organically, but also through acquisitions, most notably with the acquisition of FIH in 2004. The growth has been a result of Kaupthing's expansion into Northern Europe. It should, though, be stated that growth of the loan portfolio has never been a means in itself for Kaupthing and the quality of the loan portfolio has not been affected by its growth.

Loans to customers

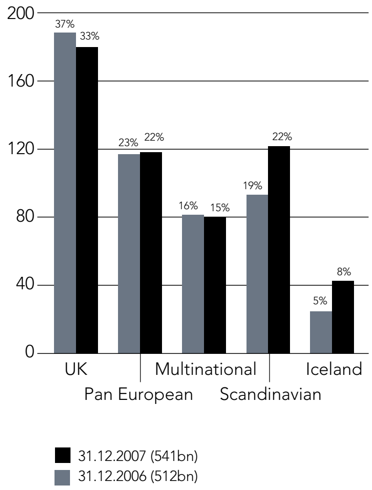


The Bank's loan portfolio is well diversified. The property sector contributes the most to the loan portfolio with 21% of the portfolio, while service contributes the second largest and industry the third largest with 18% and 17% of the portfolio, respectively. The service sector can be broken down mainly into financial services, public administration, technical services, restaurants and hotels and social and personal services. Industry, on the other hand, can be broken down into manufacturing, food production, construction, fishing, agriculture, electricity, gas, and water and mining. Loans to individuals represented 17% of the total portfolio.

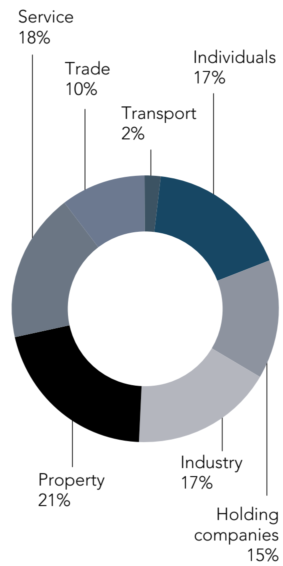
With respect to geography, the Bank's exposure is highest in Scandinavia with around 35%, with property, industry and service most significant. Around 20% of the exposure is to clients within the UK, and around 27% of the Loans to customers are to corporate and retail clients in Iceland.

Market breakdown of ALF portfolio

ISK billions



Loans to customers by sectors



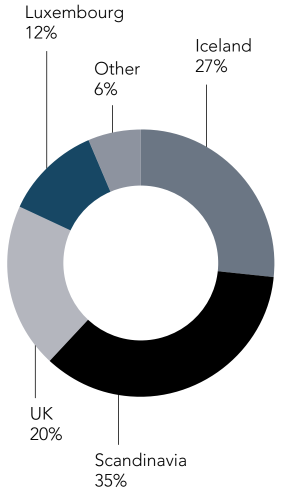
Kaupthing's largest asset is its loan portfolio. The portfolio can be split roughly into two categories, one deriving from lending made against predictable and solid cash flows, with robust equity cushion and ample headroom on debt service cover ratios and the other deriving from lending made against liquid assets, with considerable security coverage ratio.

An informative way of assessing the quality of the loan portfolio and how it has been evolving is to examine loan-loss reserves in relation to the linked quantities: write-offs, non-performing loans and impairments. To make the comparison meaningful over time and between different financial institutions it is most natural to display these quantities as a percentage of the total loan portfolio.

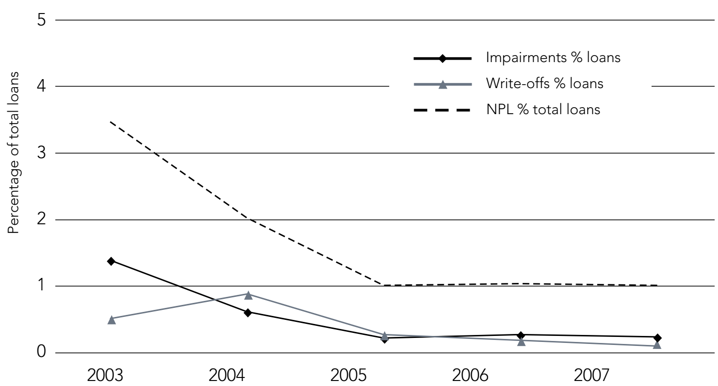
Since 2003 these measures have improved significantly and stayed relatively consistent over the last couple of years. Both provisions and impairment have been declining in recent years and the ratio of non-performing loans in relation to Loans to customers has stayed stable at around 1% for the last three years, the ratio of impairments in relation to total loans around 0.2% and the ratio of loan loss reserves to total loans just above 0.5%, which is in line with the long-term target of the Bank. Loan loss reverses as a percentage of non-performing loans currently stays at 60%, but if the part of the non-performing loans which is covered by collateral is added to the loan loss reserves, this ratio is 119% of non-performing loans.

These are all signs of an improved loan portfolio despite the substantial growth of the portfolio since 2003. Tactical changes made with regard to the approach to credit in recent years therefore seems to have come to fruition and should facilitate further improvement in the asset quality and ensure that it remains relatively stable over the coming years.

Loans to customers by geography



Loan-loss reserve as a percentage of total loans (%)



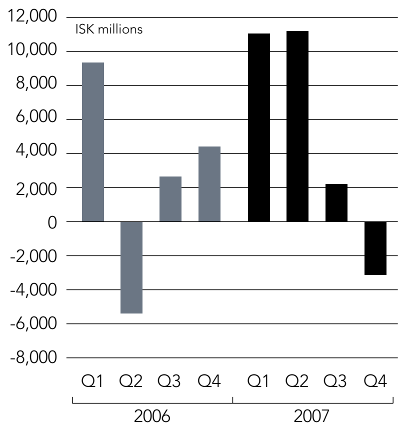
CAPITAL MARKETS

- Positive trend in Net commission income, up 112% from 2006
- Net financial income increased by 15% despite severe market turbulence in the second half of 2007
- Capital Markets operations in the UK and Denmark were fully established

Capital Markets posted a gross profit of ISK 21,126 million in 2007, compared with ISK 10,869 million in 2006, representing an increase of 94.4%. Net fee and commission income amounted to ISK 20,957 million, representing an increase of 112%. The strong Net fee and commission income is attributed to an increase in activities in the UK, Luxembourg and Denmark, as well as continued progress at other locations. There was an increase in Net financial income over the year from ISK 7,913 million in 2006 to ISK 9,069 million in 2007. Total expenses amounted to ISK 11,561 million and increased mainly due to the higher number of employees and performance related bonuses which are linked to higher Net fee and commission income during the year.

Kaupthing's ownership in Storebrand was increased to 20% during the year and redefined from a financial investment to a strategic holding, and subsequently accounted for as an associated company. Nevertheless, 46% of the Bank's holdings in listed companies are still within the financial sector, but otherwise the listed assets are well diversified between sectors and countries.

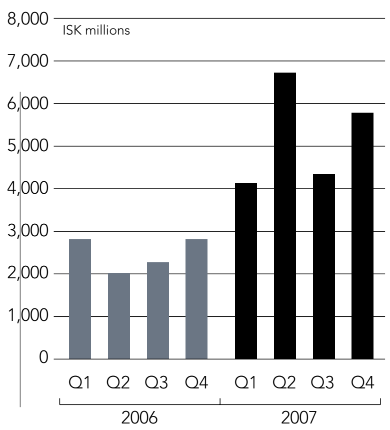
Gross profit



Capital markets

ISK millions	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	2,436	-408	1,600	876	524	-564
Net fee and commission income	20,957	9,881	5,778	4,336	6,717	4,126
Net financial income	9,069	7,913	-6,920	-452	6,663	9,778
Other income	225	0	140	-13	42	56
Operating income	32,687	17,386	598	4,747	13,946	13,396
Operating expenses	-11,562	-6,394	-3,749	-2,595	-2,806	-2,412
Impairment	1	-123	0	0	1	0
Total expenses	-11,561	-6,517	-3,749	-2,595	-2,805	-2,412
Gross profit	21,126	10,869	-3,151	2,152	11,141	10,984

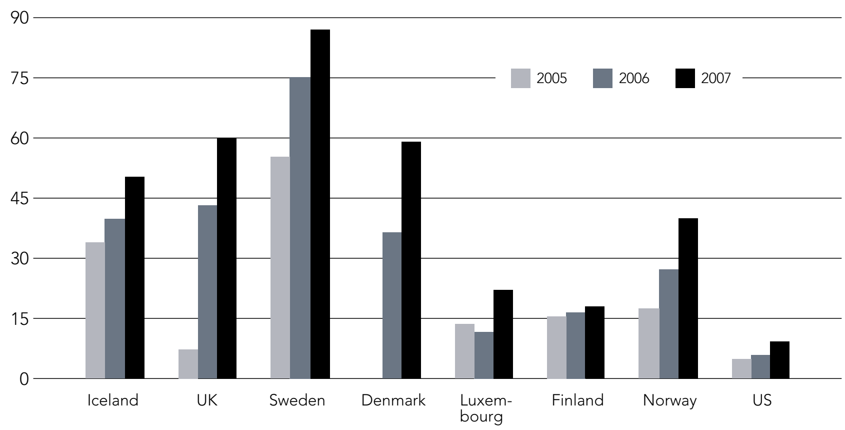
Net fee and commission income



Kaupthing Capital Markets delivers high quality research and advice, distribution, and trading services to its clients. Capital Markets' business offering comprises equities, fixed income, foreign currency and commodities products, cash instruments, derivatives and structured products, equity/debt capital market services, and research.

Capital Markets services are provided in eight different countries within the Kaupthing Group: Iceland, Norway, Finland, Sweden, Denmark, the UK, US and Luxembourg. At the end of 2007 there were 345 full-time employees, up from 265 in 2006. Numerically, employees increased the most in Denmark and the UK, while proportionally the increase was largest in Luxembourg.

Number of employees



The Bank has significantly strengthened its presence in all markets during the year and has hired many top rated analysts in addition to high level industry professionals. The focus has been on building up positions in Norway, Sweden and Finland, while maintaining its strong position in Iceland and Luxembourg and fully establishing its operations in the UK and Denmark.

Four primary roles

Functionally, there are four primary roles across the various business lines: Sales, Trading/ Execution, Proprietary Trading and Research.

Sales

Sales offers clients a full-service product, with local know-how and expertise coupled with the strengths inherent in a larger group. This is done by providing investment ideas, trading opportunities and market information to clients.

Trading/Execution

The Trading/Execution team executes clients' orders in cooperation with sales and is responsible for market making in both bonds and stocks in many markets, as well as client facilitation. Market making involves the Bank committing to buying and selling certain classes of securities in accordance with pre-determined rules, in order to ensure a liquid market in those securities. Market making includes facilitating transactions for numerous companies and institutions. The Bank is an active market maker in both equities and bonds, particularly for Icelandic issuers. The most extensive market making is currently in benchmark bonds for the National Debt Management Agency of Iceland and the Icelandic Housing Financing Fund.

A part of the team specialises in structured derivatives and continually looks for new opportunities in that area. The Bank's greatest strength in this area, especially within foreign exchange and interest rate products, is its innovation when it comes to customising these services to clients' needs. The team helps them manage their risks and offers a comprehensive array of derivative products. In addition, this division offers a variety of structured products to institutional investors and Private Banking clients.

Proprietary Trading

The Proprietary Trading team seeks opportunities to increase the long-term returns of the Bank's capital. Some of the positions taken for the Bank's own account are opportunistic investments with a medium-term horizon, while others are short-term positions aimed at taking advantage of price discrepancies or spreads in different markets. However, all positions fall within a clearly defined risk framework based on various factors such as liquidity, legal framework and the Bank's risk policy.

The proprietary trading units within the Group have a complementary focus on different instruments and markets. The different units also vary in terms of strategy and timeframe. Each unit is awarded a risk budget based upon past performance and its current business case.

Research

Kaupthing Bank Research operates independently but maintains close collaboration with the other units in the segment. The unit functions as a network of analysts and professionals located in the United Kingdom, Sweden, Finland, Norway, Denmark and Iceland, engaging in equity analysis, fixed income, FX and economic research, as well as corporate access and related client activities.

The Equity Research teams work in sector teams across the Nordic region and the UK in order to serve domestic and international clients. The focus is on value added, idea driven cases rather than maintenance research. The teams in Oslo, Stockholm, Reykjavík, Copenhagen and Helsinki, follow about 280 companies covering 24 sectors in the Nordic region and the team in the UK follows approximately 240 companies covering twelve sectors in the UK. The Nordic Equity Strategy team is based in Oslo and Stockholm, fixed income and FX teams in Copenhagen and an Economics research team in Iceland.

The Corporate Access team works out of London, Stockholm, Copenhagen and Oslo. In close cooperation with other offices, it facilitates and organises contacts between listed companies and investors through road shows, seminars and other events. The Bank's philosophy is to work actively with clients and maintain a close relationship. Client activities, such as events, meetings and calls are a significant part of the analysts' performance evaluation.

The client base

Capital Markets' client base is highly demanding and varies slightly from market to market, ranging from local and international institutions such as mutual funds, pension funds, investment companies and insurance companies to the broader retail market. These include many of the Nordic and international leading financial institutions, investment companies and hedge funds, as well as entrepreneurs and other high net-worth individuals.

Capital Markets in Sweden and Norway have focused their operations on some of the largest institutional investors. Capital Markets fortified its strong position in the private client market in Sweden and built up its presence among Norwegian private clients through increasing its sales force. Capital Markets in Iceland increased its strong position, raising its market share of equity trading from 27.5% to 29.8%. This position is secured through strong franchises in both the institutional and private client segments. Additionally, Capital Markets in Iceland had the largest market share in bond trading both on exchange of 30.5% and off exchange of 40.0%.

Capital Markets in the UK has focused its operations on institutions, hedge funds and high net-worth clients. The Bank's Danish, Finnish and US operations have focused primarily on the institutional segment. Luxembourg has offered its services primarily to Private Banking clients, high net-worth clients and European institutions.

Developments in 2007

Capital Markets continues to expand its product offering. The Bank's plan to integrate Capital Markets activities across countries, which was initiated in 2006, has continued in 2007. The migration to a sector based research platform is leading to an increasingly consistent product range across the different offices. The UK team has been active in initiating coverage and plans to expand the coverage to some 250-300 companies throughout 2008.

A Corporate Access team was formally established during the year with the recruitment of dedicated professionals in London, Stockholm, Copenhagen and Oslo.

Prospera, the leading survey of Nordic stockbrokers, shows clear progress in building up Kaupthing's institutional footprint in the Nordic equity markets. A joint third rating in Denmark was especially encouraging. This was the first time a new market player makes it straight into the top three. This rating is a valuable contribution to the marketing of FIH as one of the leading corporate and investment banks in Denmark. Moreover, Prospera rated Kaupthing's strategy team within the top four of all Nordic countries and the Norwegian trading and execution team achieved the top spot.

Other highlights from the ranking include top two ratings within small company research in Finland and Sweden, a top three ranking within materials in Norway and top three ratings within forestry and food in Finland. The Danish sales force was ranked number two overall.

In 2007, several new products were offered to clients in many offices, such as Contracts for Difference (CFDs) and derivatives on shipping freight rates.

In order to provide the Bank's clients with a properly integrated product offering, be it equities, debt, fixed income, currency or commodity products, and thereby adhering to the Bank's strategy of cross-selling, Capital Markets cooperates closely with other units of the Bank, both locally and across borders. In cooperation with Investment Banking, a specialised ECM group has been established in order to strengthen Kaupthing's presence in the market for new issues and IPOs. In autumn 2007 the Bank was approved as an official sponsor for listings on the London Stock Exchange. The Bank managed its first listing on the Main List of the London Stock Exchange at the end of the year when New Britain Palm Oil was listed. In addition Kaupthing has participated in the listing of companies on the Oslo, Iceland and Stockholm stock exchanges. This year alone, the Capital Markets unit was involved in over 25 ECM transactions in excess of ISK 275 billion.

Kaupthing in Iceland is also dominant in the fixed income primary market and is estimated to have 65% of all new issues in 2007. The total primary issues in Iceland during the year were around EUR 5.0 billion.

Kaupthing Capital Markets is a member of the London Stock Exchange, all the Nordic Exchanges and the Tallinn Stock Exchange. It is also a member of the Financial Industry Regulatory Authority (FINRA) in the United States, enabling trade directly on NASDAQ.

Markets conditions and outlook

Following a strong first half, concerns about the US sub-prime mortgage market led to increased volatility and significant price declines in global equity markets. Sweden and Iceland were the bottom Nordic performers, while the Norwegian market held up fairly well due to the rise in oil prices.

While total turnover was up 24.6% in 2007 in the Nordic markets, the increased uncertainty of the market outlook led to lower activity in the latter half of the year, as liquidity was withdrawn from the market. This development could lead to a continuation in 2008. More volatile markets have led to investors reducing their value at risk, and thus the gross value of their investments in equities. Also, experience has shown that global investors tend to refocus on their domestic markets during periods of increased uncertainty and volatility. Recent weaknesses in the US economic statistics have increased the uncertainty of global growth, and thus the earnings developers of the corporate sector. On the other hand, valuation is fairly undemanding, and growth remains fairly robust in emerging markets. Furthermore, monetary conditions are easing.

The Bank will continue to increase its presence in the markets it operates in and to develop and build business together with its clients, bringing Kaupthing significantly closer to the ambitious target of Northern European leadership. The goal is to reach regional leadership, based on local knowledge and in-depth industrial competence combined with significant international distribution.

INVESTMENT BANKING

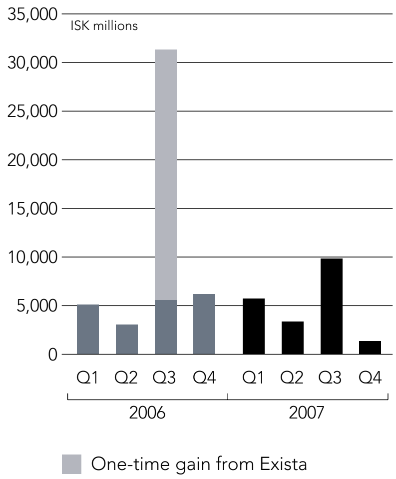
- Solid year - Net commission income increased by 43% despite a slow-down in corporate activity in the second half of 2007
- Employees increased by 70% during the year, mainly in the UK
- Investment Banking operations set up in Luxembourg and Middle East

Investment Banking generated a gross profit of ISK 20,038 million in 2007, compared with ISK 45,621 in 2006, representing a 56.1% decrease, but an increase of 2.6% if the one-time gain from Exista in Q3 2006 is excluded. Pre-tax profit was 1% lower than in 2006, excluding the gain from Exista in Q3 2006. Net financial income amounted to ISK 14,724 million. Net fee and commission income amounted to ISK 13,715 million, representing an increase of 43.2% from 2006. Total expenses amounted to ISK 5,597 million, representing an increase of 54% from 2006, mainly due to the increase in the number of employees and performance-related bonuses linked to growth in Net fee and commission income.

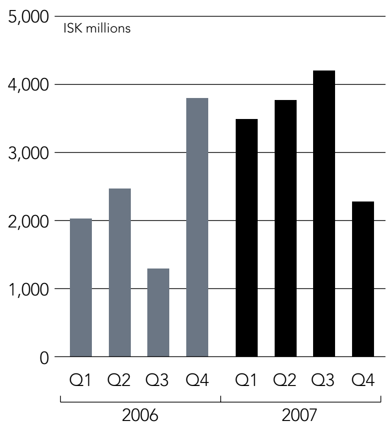
Investment Banking

ISK millions	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	-3,027	-3,348	-327	-655	-950	-1,095
Net fee and commission income	13,715	9,577	2,268	4,196	3,767	3,484
Net financial income	14,724	42,984	1,362	7,711	1,671	3,980
Other income	223	43	22	170	-34	65
Operating income	25,635	49,256	3,325	11,422	4,454	6,434
Operating expenses	-5,573	-3,636	-2,080	-1,646	-1,140	-707
Impairment	-24	1	-24	0	0	0
Total expenses	-5,597	-3,635	-2,104	-1,646	-1,140	-707
Gross profit	20,038	45,621	1,221	9,776	3,314	5,727

Gross profit



Net fee and commission income



Investment Banking continues to grow its footprint in the European investment banking market, offering 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.

Kaupthing has pan-European Investment Banking operations with teams based in the UK, Iceland, Norway, Sweden, Denmark, Finland, Luxembourg and the Middle East, the latter two commencing business during 2007. In June 2007, the division's geographical presence was strengthened further through the Bank's acquisition of a 20% stake in FiNoble, a leading Indian advisory firm. The rationale behind the expansion towards India and the Middle East is the attraction of inward investments from these developing areas towards the Bank's clients and core sectors in Europe, providing our deep knowledge and integrated product approach to potential investors. At the end of 2007 the Investment Banking division employed 160 people.

In addition to the establishment of new Investment Banking operations in the Middle East and Luxembourg, the division's offering was also extended during the year through the introduction of a UK-based origination team with an initial emphasis on the infrastructure and renewable sectors. The division also continued to build its team with the recruitment of a number of highly experienced individuals from global investment banks and respected boutiques. This extension of the product offering and further strengthening of the team leaves Investment Banking well placed to enhance its market position further in 2008.

Kaupthing's strong focus on cross-selling and teamwork, across both product lines and geographies, enables the Bank to provide clients with highly entrepreneurial solutions within demanding timescales. Clients of Kaupthing Investment Banking have access to an extensive, locally focused, advisory platform, together with a significant local Capital Markets presence and bespoke financing solutions.

This teamwork and cross-selling is clearly demonstrated by a number of deals, such as the completed ones summarised below:

GBP 104 million public offer for La Tasca (April 2007)
Kaupthing's M&A Advisory, Debt Products, Capital Markets and Principal Investments teams together provided a comprehensive product offering to LAT Holdings, enabling it to win a competitive public offer process for La Tasca, the UK's leading Spanish casual dining operator. The acquisition was secured despite strong competition from Blackstone, who had previously announced an offer (through its portfolio company, Tragus Bidco) which was recommended by the Board of La Tasca and underpinned by irrevocable undertakings from 26% of the shareholder base. The entrepreneurial decision, which needed to be taken at short notice to counter-offer and successfully close the deal against strong opposition, could not have been achieved without Kaupthing's integrated solution, close teamwork and flexible approach.

GBP 362 million IPO of New Britain Palm Oil (December 2007)
Investment Banking originated the opportunity to float New Britain Palm Oil in the UK. The company is the largest palm oil producer in Australasia, producing palm oil for export to EU based corporates. The transaction was completed in difficult market conditions in December 2007 and firmly demonstrated Kaupthing's strong teamwork, involving the Investment Banking origination team in conjunction with the UK, Icelandic, US and European Capital Markets platforms. Following management meetings with approximately 140 institutions and other investors, equity was ultimately distributed to around 90 investors in the UK, US, Iceland, Luxembourg and France, representing a high conversion rate of over 60%. The combined team successfully executed the GBP 362 million IPO on the Main Market of the London Stock Exchange, with Kaupthing acting as sole global co-ordinator, bookrunner and sponsor for the global offering. At 31 January 2008 the company had a market capitalisation in excess of GBP 600 million, a real success story against the backdrop of difficult markets in the second half of 2007.

Mergers and Acquisitions Advisory

Investment Banking's M&A Advisory team structures and executes transactions involving all aspects of mergers, acquisitions, divestitures, spin-offs, defences, leveraged buy-outs and recapitalisations. During 2007, the team maintained its focus on core sectors such as retail, food and leisure, with the strategy of building long-term relationships with mid-cap corporations, private equity houses, entrepreneurs and high net-worth individuals.

A feature of the Bank's increasing international profile has been the origination of a significant number of deals without an Icelandic connection. These transactions have been sourced either by the newly-hired M&A executives or through other teams within the Bank, such as the recently strengthened Capital Markets business.

The key M&A deals for the Bank in 2007 include:
- Baugur's GBP 850 million public offer for Mosaic Fashions
- The DKK 6.3 billion sale of Icopal to Investcorp[1]
- ENIC International's GBP 209 million mandatory offer for Tottenham Hotspur
- SCAMP Holdings' GBP 200 million public offer for Teesland
- Schibsted's NOK 1.7 billion acquisition of Stavanger Aftenblad
- St. James Holdings' GPB 135 million mandatory offer for Newcastle United
- LAT Holdings' GPB 104 million competitive public offer for La Tasca
- Refresco's acquisitions of Kentpol, Histogram, Nuits St. George and Sun Beverages Company
- The EUR 130 million sale of Medivire TTP Holding to Suomen Terveystalo
- The divestment of Ventelo Norway and Ventelo Denmark
- The USD 44 million sale of a 36% stake in Point Carbon to Oak Investment Partners and JP Morgan Ventures Corporation

During 2007, Kaupthing Group[2] provided M&A advisory services in respect of over 40 transactions with an aggregate value in excess of ISK 675 billion[3]. This was achieved in a market which saw a significant reduction in deal flow compared to the previous year. While the Bank's main target markets (Nordic countries and the UK) experienced a robust M&A transaction flow over the first half of 2007, this was followed by a slowdown during the second half of the year, principally due to the knock-on implications of the sub-prime credit crisis. As a consequence, the aggregate Nordic and UK M&A volume fell by approximately 24%[4] over the year as a whole, from approximately EUR 389 billion[4] in 2006 to approximately EUR 296 billion[4] in 2007.

Investment Banking origination and Capital Markets advisory

In autumn 2007 the Bank established an origination team within Investment Banking with an initial emphasis on the infrastructure and renewable sectors. This team, drawn from industry and consulting, overlaps to a reasonable degree with the Bank's Capital Markets advisory platform and enables clients to benefit from in-depth industry expertise.

The Bank's Capital Markets advisory team typically advises on and executes IPOs, rights issues, convertible debentures and private placements with a focus on the mid-cap market. The team works closely with other parts of Investment Banking, as well as the separate Capital Markets division, and has strong sector experience, particularly in new energy and emissions, infrastructure, consumer and retail, and oil and gas.

[1] Originated and executed by the Bank's majority owned subsidiary FIH Partners
[2] Including its majority owned subsidiary FIH Partners
[3] Based on transaction completion dates
[4] Source: Dealogic data based on announcement dates

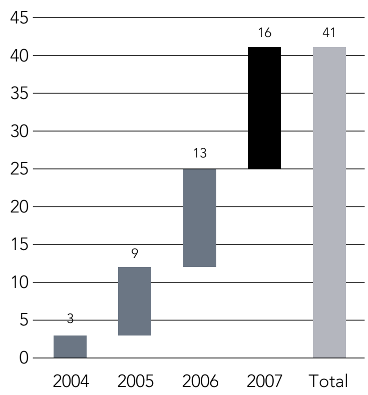
During 2007, Kaupthing Group[1] advised on over 25 capital markets transactions with an aggregate value in excess of ISK 275 billion.[2] The most significant capital markets transaction completed by the Bank, in December 2007, was the GBP 362 million sole advisory IPO of New Britain Palm Oil on the Main Market of the London Stock Exchange. This highly successful transaction drew institutional demand across the Bank's capital markets platform including the UK, the US, Iceland and Continental Europe. Against generally challenging conditions in many of the world's equity markets, the Bank will continue to provide clients with in-depth relevant sector and product expertise.

Debt Products

Debt Products consists of Leveraged Finance and Principal and Asset-Backed Finance (PABF), which are both supported by a common Distribution team and Portfolio Management team.

Leveraged Finance originates and executes transactions in the middle-market, focusing on acquisitions made by international private equity firms, entrepreneurs, Kaupthing Principal Investments and corporates. The team uses senior debt, second lien debt, mezzanine debt and other types of subordinated debt to finance transactions. The Leveraged Finance team had a very successful year in 2007, closing 16 lead arrange deals (three more than 2006). The transactions arranged supported a combination of existing clients, Kaupthing Principal Investments, portfolio companies and new clients. The deals closed during the year were in a range of sectors such as healthcare, food manufacturing, retail, business services and leisure. A notable accomplishment was supporting the team's existing client, Refresco, with its buy-and-build strategy by arranging and underwriting debt and equity bridge facilities totalling EUR 230 million to facilitate four acquisitions across Europe (Histogram in the UK, Kentpol in Poland, Nuits St. George in France and Sun Beverages Company in Belgium, the Netherlands, France and Spain). Other notable transactions were lead arranging the GBP 140 million senior and second lien credit facilities to support the refinancing of Jane Norman and the GBP 59 million senior, mezzanine and bridge credit facilities to support Kaupthing Principal Investments' acquisition of ADP, the UK dental corporate business.

Number of transactions



Principal and Asset-Backed Finance (PABF) originates and executes structured real estate loans and asset-backed acquisition financings (such as Opco/Propco, Sale & Leaseback and Sale & Manageback structures). It has the capability to underwrite transactions across the capital structure. During 2007, the PABF team closed four deals in seven jurisdictions throughout Europe and the US. The key transactions for PABF in 2007 were lead arranging a EUR

[1] Including its majority owned subsidiary FIH Partners
[2] Based on transaction completion dates

342 million bridge facility to finance the acquisition of a diversified portfolio of retail, office and warehouse assets in France (the Celsius Portfolio) by Invista Real Estate Investment Management PLC and Propinvest, lead arranging a tri-currency (EUR / NOK / SEK) bridge facility totalling the equivalent of EUR 159 million to refinance and acquire a Scandinavian / Germany property portfolio, and lead arranging the GBP 79 million of senior debt and revolving credit facilities for Dawnay Day's acquisition of Asquith Nurseries.

The market for the Debt Products team in 2007 was divided into two halves, with the first half of the year seeing record levels of activity within the leveraged buyout arena and the second half seeing a significant fall in volumes, driven by the sub-prime crisis. Looking forward to 2008, reduced liquidity within the market will provide a challenging environment for the market overall, although the market is open for good quality mid-market transactions.

Principal Investments

Kaupthing Principal Investments invests equity in companies with attractive business models, strong cash generation and leading positions in growing sectors. To date, the majority of the team's investments have been in private companies, although it also invests in listed companies as part of a potential take private transaction or in illiquid instruments to effect an acquisition.

In 2007, the Bank launched its first third-party private equity fund, Kaupthing Capital Partners II (KCP II), in response to increasing interest from clients in participating in the Bank's equity investments. The Bank further believes that the establishment of KCP II will increase transparency and provide clarity and discipline over its private equity investment strategy. Kaupthing expects the fund to be able to take part in larger and more numerous projects and increase activity within the Bank's other business segments.

The fund closed at approximately GBP 500 million, with GBP 200 million committed by the Bank and the remaining funding committed by institutional and high net-worth investors and investment companies. KCP II has first right of refusal over private equity opportunities flowing into the Bank (excluding FIH and Norvestia). Private equity opportunities arising since the beginning of 2007 have been made available to KCP II. The fund was 14% invested (with a further 9% committed) at 31 December 2007, following investments in ADP, Phase Eight and DLG. During the year, previous investments in Costcutter and Iceland were exited at attractive returns.

KCP II's investment focus is on UK and Nordic companies with enterprise values of between GBP 50 million and GBP 500 million or larger with co-investors involved. Investments are often related to advisory work or debt financing where clients have shown interest in having Kaupthing co-invest alongside them. The focus is on taking minority stakes alongside the Bank's clients in connection with management buy-outs, mergers, restructurings or acquisitions; hence the Bank shares risk with its clients and further establishes long-term relationships. KCP II's activities substantiate an important element in the Bank's integrated offering of investment banking products and provide a unique solution in the UK and Nordic mid-cap market environment.

MAJOR TRANSACTIONS COMPLETED BY INVESTMENT BANKING

Teesland iOG

Rule 3 adviser
in relation
to recommended
cash offer

GBP 200 million

February 2007

KAUPTHING BANK

Refresco

Acquisition of

Sunco, histogram, Pampryl

Adviser to acquiror
€230m debt facilities
Equity investor

EUR 230 million

February–May 2007

KAUPTHING BANK

KAUPTHING Capital Partners

Acquisition of

ADP Dental Co. Ltd.

£59m debt facilities
Equity investor

GBP 75 million

March 2007

KAUPTHING BANK

R2O KAUPTHING Capital Partners

Acquisition of

La Tasca

Adviser to acquiror
Debt facilities
Equity investor

GBP 104 million

April 2007

KAUPTHING BANK

St James Holdings

Mandatory offer for

Newcastle United plc

Adviser to acquiror

GBP 135 million

May 2007

KAUPTHING BANK

BAUGUR KAUPTHING Capital Partners

Refinancing of

jane norman

Debt facilities

GBP 140 million

May 2007

KAUPTHING BANK

SCHIBSTED

Mandatory offer for

Stavanger Aftenblad

NOK 1,700 million

May 2007

KAUPTHING BANK

ENIC International

Mandatory offer for

Tottenham Hotspur

Adviser to acquiror
Debt facilities and guarantee

GBP 209 million

June 2007

KAUPTHING BANK

BAUGUR

Public offer for

Mosaic Fashions hf

Adviser to acquiror

GBP 850 million

June 2007

KAUPTHING BANK

ALTOR EQUITY PARTNERS

Acquisition of

NORTHSTAR BATTERY COMPANY

US$ debt facilities

Value not disclosed

July 2007

KAUPTHING BANK

MEDIVIRE

Divestment to

Terveystalo

Adviser to vendor

EUR 130 million

August 2007

KAUPTHING BANK

Primera TRAVEL GROUP

Acquisition of

BUDGET TRAVEL

Adviser to acquiror

Value not disclosed

September 2007

KAUPTHING BANK

HgCapital

Refinancing of

ADDISON

Debt facilities

EUR 115 million

October 2007

KAUPTHING BANK

ALTOR EQUITY PARTNERS

Acquisition of

Aker Material Handling

€ debt facilities

Value not disclosed

October 2007

KAUPTHING BANK

ÖSSUR

Private placement

ISK 3,920 million

October 2007

KAUPTHING BANK

KAUPTHING Capital Partners

Acquisition of

dlg see.beyond.

Adviser to acquiror
Equity investor
£40.5m debt facilities

GBP 73 million

October 2007

KAUPTHING BANK

New Britain Palm Oil Limited

Sole financial adviser and bookrunner on London Stock Exchange IPO

GBP 362 million

December 2007

KAUPTHING BANK

ventelo

Adviser on the divestment of Ventelo Norway and Ventelo Denmark

Value not disclosed

December 2007

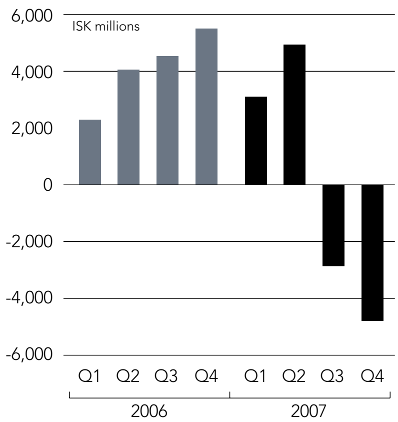
KAUPTHING BANK

TREASURY

- Record Net interest income, increased by 119% from 2006
- Treasury division significantly strengthened in UK, Luxembourg, Sweden and Finland
- Negative Net financial income due to sale, restructuring and mark-to-market changes in derivatives and bonds

Treasury posted a gross profit of ISK 395 million in 2007 compared with ISK 16,371 million in 2006, representing a decrease of 97.6%. This decrease is due to sale, restructuring and mark-to-market changes in derivatives and bonds owned by the Bank as part of the liquidity portfolio. Net interest income amounted to ISK 22,759 million reflecting a 119% increase from 2006. Net financial income decreased significantly to ISK -17,793 million, primarily due to charges, related to the derivatives and bonds owned by the Bank.

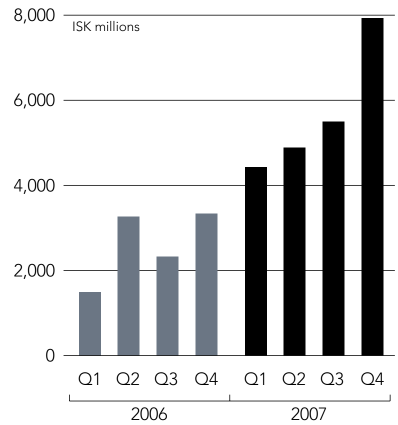
Gross profit



Treasury

ISK millions	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	22,759	10,386	7,946	5,501	4,884	4,428
Net fee and commission income	-707	443	-225	-555	149	-76
Net financial income	-17,793	8,411	-11,650	-6,953	1,251	-441
Other income	91	25	-51	31	44	67
Operating income	4,350	19,265	-3,980	-1,976	6,328	3,978
Operating expenses	-3,988	-2,889	-841	-886	-1,386	-875
Impairment	33	-5	33	-6	6	0
Total expenses	-3,955	-2,894	-808	-892	-1,380	-875
Gross profit	395	16,371	-4,788	-2,868	4,948	3,103

Net interest income



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 newly established Kaupthing Edge internet deposit bank is also part of Treasury. In addition to Group Treasury, the Bank has treasury operations in most of the countries it does business in. At the end of 2007 Treasury employed 98 people.

2007 saw further increases and diversification of Treasury activities across Kaupthing. The UK division took off in 2007 with improved diversification of product expertise. The Treasury departments in Luxembourg, Sweden and Finland strengthened their positions in 2007 with increases in turnover and client demand. A growing emphasis was placed on the sales role within Treasury in 2007 especially in relation to deposits. Over the year the deposits base of Kaupthing grew by 84%. Further discussion on deposits can be found in the Funding and liquidity chapter on page 48.

Trading

Trading activities both in relation to volume and product grew in 2007. The UK desk was established and over the year introduced further diversification of product offering, especially in relation to interest rate derivatives capabilities. In Iceland, Kaupthing Bank reinforced its position as a leading market maker for equity derivatives, interest rate derivatives and foreign exchange derivatives related to the ISK. Luxembourg also strengthened its position with increased demand from clients and further product offerings. The Bank was active in the area of structured products in 2007, in which customised solutions are made available for a wide variety of investors. Among those products are equity-linked, commodity-linked and credit-linked bonds issued or arranged by Kaupthing.

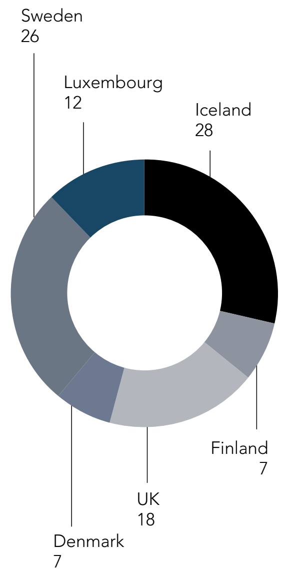
Structured deposits proved to be popular in 2007, especially in Iceland and Sweden. In Iceland Kaupthing offered structure deposit accounts to Icelandic retail clients for the first time. In Sweden the appetite for structured deposits was also high.

In Luxembourg the Treasury Department started offering private clients structured deposits at the end of the year. The Department managed to double its deposit base in 2007. Structured deposits are a prime example of successful cross-selling between departments which is one of the Bank's key strategies.

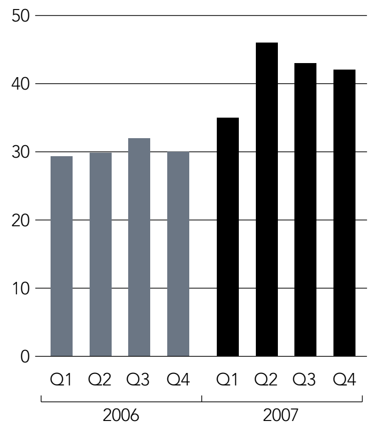
Inter-bank trading

Treasury manages the Bank's currency and interest-rate exposures, including the entire Bank's trading with other banks on the international money market, and the currency market. As in other areas, the UK FX and money market desk took off in 2007. The division is currently active in the three major currencies. The Luxembourg division had a solid performance in 2007 with growing client demand. The desk is a growing player in the FX market dealing with over 430 banks in all major currencies. In Iceland, Kaupthing is one of three banks acting as a market maker for the Icelandic currency and money markets and one of the leading players in these markets.

Employees



Deposit to Loans to costomers ratio (%)



Group Treasury

Group Treasury is a central coordination unit responsible for the overall treasury strategy of the Bank located both in Iceland and the UK. Group Treasury activities can be divided into the following four teams: Funding, Financial Institutions, Debt Relations and Asset & Liabilities Management. Group Treasury also maintains an ongoing dialogue with rating agencies. Further discussion on funding and liquidity can be found on page 48.

Funding and Debt Relations

The Funding team focuses on the Bank's funding activities. In 2007 the team continued implementing the Bank's chosen debt strategy of diversifying funding sources and extending the maturity profile. In 2007, Kaupthing Bank raised the equivalent of ISK 749 billion in long-term borrowing in various currencies in over 116 transactions. Kaupthing incurred these borrowings mainly through the international issuance of debt securities in public offerings and private placements. In 2007 a team dedicated to managing relationships with bondholders was established. Over the year the team met more than 150 investors in around 25 countries.

Financial Institutions

The Financial Institutions team is responsible for building relationships with other financial institutions, investors, and credit analysts. The team also oversees the deposit gathering effort of Kaupthing and the aim of increasing the ratio deposits to customer loans up to 50% in 2008.

Asset and Liability Management

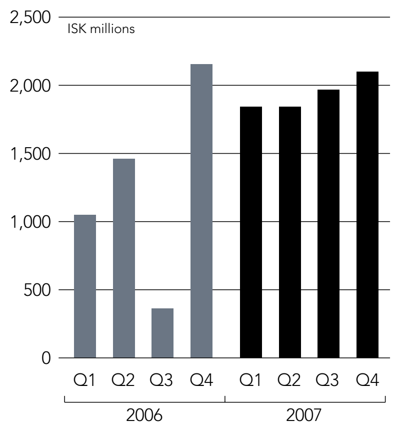
The Asset & Liability Management team focuses on liquidity and capital management for the Group in cooperation with Risk Management and Finance. The team also handles securitisation projects for the Bank, liquidity investments and internal funding to subsidiaries. Most subsidiaries are subject to legal and regulatory capital requirements as well as minimum liquidity thresholds. Therefore, the local Asset & Liability Committees (ALCO) in each country are responsible for managing their local liquidity requirements. Each subsidiary quantifies the secured liquidity measure in a consistent manner and reports its liquidity position to the Group Liquidity Management (GLM) within Group Treasury on a bi-weekly basis. All local ALCOs are under the supervision of the Group ALCO. The Group ALCO is responsible for balancing the Group-wide needs of resource availability such as capital, liquidity and Balance Sheet limits. At the end of the year the Bank's liquidity position remained strong with enough liquidity to cover more than 440 days.

ASSET MANAGEMENT & PRIVATE BANKING

- Solid year for Asset Management & Private Banking
- 50% increase in gross profit from 2006
- 112% increase in pre-tax profit from 2006

Asset Management & Private Banking posted a gross profit of ISK 7,511 million in 2007, compared with ISK 5,022 million the previous year, which represents an increase of 49.6%. Net interest income amounted to ISK 1,183 million compared with ISK 817 million in 2006. The largest part of Operating income in Asset Management & Private Banking is constituted by Net fee and commission income. Net fee and commission income totalled ISK 13,801 million, representing a 22.9% increase from 2006. Operating expenses amounted to ISK 7,947 million or 51.4% of revenues, compared with 54.5% in 2006.

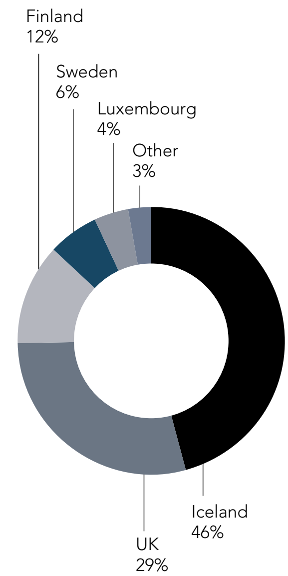
Gross profit



Asset Management and Private Banking

ISK millions	2007	2006	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	1,183	817	263	389	208	323
Net fee and commission income	13,801	11,230	4,067	3,245	3,075	3,414
Net financial income	310	531	40	119	123	28
Other income	164	962	75	143	-135	81
Operating income	15,458	13,540	4,445	3,896	3,271	3,846
Operating expenses	-7,947	-7,380	-2,345	-1,928	-1,672	-2,002
Impairment	0	-1,138	0	0	0	0
Total expenses	-7,947	-8,518	-2,345	-1,928	-1,672	-2,002
Gross profit	7,511	5,022	2,100	1,968	1,599	1,844

Assets under management by country at year end



Asset Management (AM) & Private Banking (PB) are divided into four main areas: fund management, private banking, institutional asset management and services to institutional investors. Private Banking entails wealth management services, private banking as well as discretionary and non-discretionary portfolio management. Asset Management & Private Banking services are offered in nine different countries within the Group: Norway, Finland, Luxembourg, Sweden, Switzerland, Isle of Man, the UK, Iceland and Belgium. As of 31 December 2007, assets under management (AuM) amounted to ISK 1,557 billion, representing an increase of 11% during the year. Since 2000, AuM has increased at an average yearly rate of over 50%. This is due to internal growth as well as acquisitions. The Bank's asset and fund management activities are primarily based in the UK, Finland, Sweden and Iceland, while main private banking activities are concentrated in Iceland, Luxembourg, the UK and Sweden. At the end of 2007 Asset Management & Private Banking employed 408 people.

Asset management

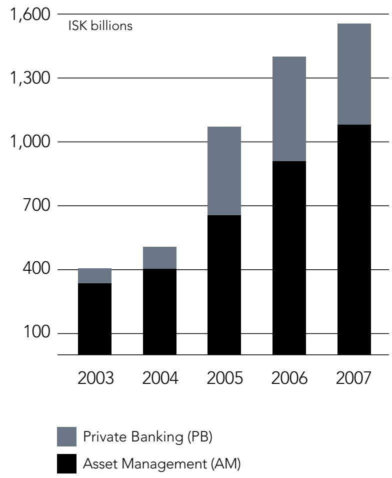
Kaupthing Asset Management was established in Iceland in 1985 and has been a key operation of Kaupthing from the beginning. The division employs 215 specialists in eight countries that have an extensive knowledge of asset management and various related financial services. Asset Management (AM) operations are located in the UK, Sweden, Luxembourg, Finland, Iceland, Switzerland, Norway, Isle of Man and Denmark. In addition to a variety of mutual funds, alternative investment vehicles and pension plan schemes, the division offers customised asset allocation strategies and managed accounts, designed to meet the diverse needs of corporate, institutional and private clients.

A special emphasis is placed on asset and liability management of pension funds and professional services in identifying client needs, structuring portfolios accordingly, managing risk and monitoring processes. The Asset Management division employs its market experience and proprietary tools in asset allocation, security selection, portfolio risk management and related services. In an international, competitive environment, the focus is on developing competent staff, efficient IT processes, highly sophisticated risk management surveillance and highly effective teamwork between the Bank's international asset managers, researchers and analysts. This emphasis is aimed at obtaining the best results for clients and ensuring that they are offered comparable services and return on investments.

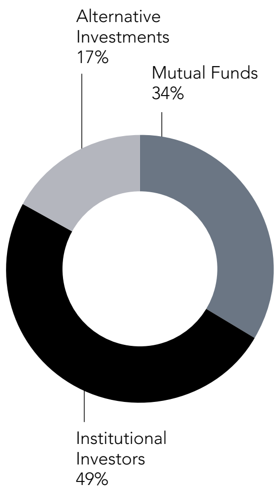
In its daily work, the Asset Management team at Kaupthing follows the principle that teamwork and research create performance and that performance and service create long-standing relationships. The asset management team places special emphasis on building long-term relationships based on trust, ambitious goals and the pursuit of opportunities where others see business as usual. The division aims to provide its clients with customised investment solutions that best meet their needs through a combination of investment expertise, risk management, and presence on both the local and global levels.

Asset Management serves institutional clients of every size and investment objective, offering a wide range of services and product mix across virtually all asset classes, investment approaches and styles. In order to establish a solid foundation for successful business, the asset management team devotes consistent effort to devising a long-term strategy, systematically examining all obligations, objectives and risk concerns for each client. It is important that the client and the managers share the same expectations

Assets under management



Assets under management (AuM) at year end (AM)



Services & products

Funds	Institutional	Alternatives	Other
Equities Bonds Balanced Funds Fund of Funds Managed Portfolios 3rd Party Funds (Currencies Overlays)	Discretionary Portfolios Asset Allocation Structured Products Asset and Liability of Pension Funds Customised Services	Hedge Funds Private Equity Funds Asset Backed Securities Managed Derivatives Real Estate Funds Currencies Overlays	Branded long-term savings plans (2nd and 3rd pillar pension schemes)

of services and that the investment process is clear. Mutual understanding paves the road to superior service and long-term performance. In order to achieve exceptional performance the Asset Management team uses proven investment processes, which combine the advantages of teamwork with the benefits of individual responsibility and by defining performance according to the diversity of the client's goals and risk tolerance. Performance is best accomplished through dynamic relationships with the clients and fund management by individuals who exhibit exemplary critical thinking working in an open-minded culture. This culture is characterised by high motivation, innovative thinking and the over-arching goal of securing the clients' success.

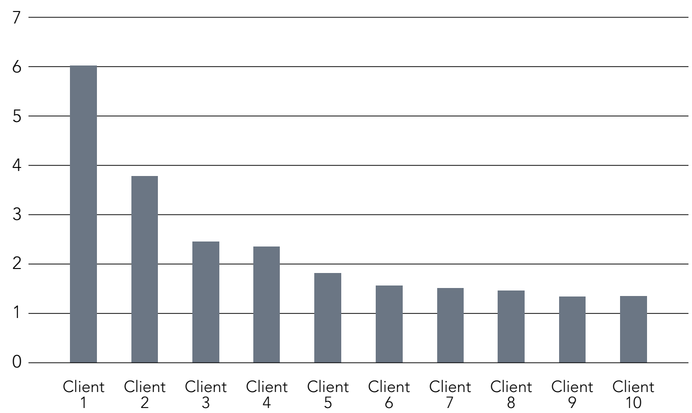
In addition to servicing institutional clients, the division services a number of mutual fund clients and branded long-term savings plans. Most of the retail clients are located in Iceland where the Bank operates and manages both first and second pillar pension schemes.

The Kaupthing fund offering consists of mutual funds, fund of funds and third party funds. In the alternative investment category Kaupthing offers a variety of options such as hedge funds, private equity funds, real estate funds, structured products and currency overlays. The funds have performed well both in the markets where asset management offices are located but also on international markets. In 2007, the Kaupthing Swedish Growth Fund, which was awarded Morningstar's highest rating in 2007, was the second best performing Swedish equity fund of the year. All Icelandic equity funds exceeded their benchmark in 2007. These include: the Kaupthing Icelandic Growth Fund, the largest Icelandic equity fund, and Kaupthing ICEX Main Fund, the best performing fund in Icelandic equities for the third year in a row. Kaupthing Fund Global Value, holding Lipper's highest rating as well as four stars from Morningstar, was among the world's top performing global equity funds in 2007. Artemis, a multi-strategy Fund of Hedge Funds has consistently outperformed the industry benchmark over the past five years. Finally the equity fund Kaupthing Norge was among the best performing Norwegian funds in 2007 and was awarded four stars by Morningstar the same year.

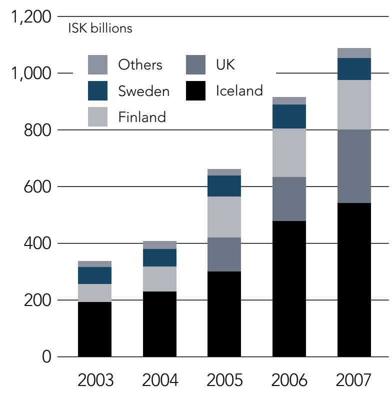
At the end of 2007 AuM in Asset Management totalled ISK 1,083 billion. Out of that 17% were in Alternatives, 34% in Mutual Funds, 49% in Institutional Investors. AuM increased by 19% in 2007, but at a fixed exchange rate the increase was 23.5%. 77% of the increase in AuM came from the inflow of new AuM and 23% from returns. The growth in assets under management shows how well the division has performed over the years, both internally and through external growth

Over the years the Bank has managed to diversify the portfolio of assets between the asset management offices around the world, as well as between different asset classes. The client base is also diverse in relation to operational risk where two of the largest clients are pension funds operated and managed by Kaupthing and others are institutional clients. As an example of this the biggest asset management client accounts for 6.0% of total AuM and is a pension fund, managed and operated by Asset Management in Iceland. Diversification and good growth is a sign of a steady asset management operation and a successful strategy.

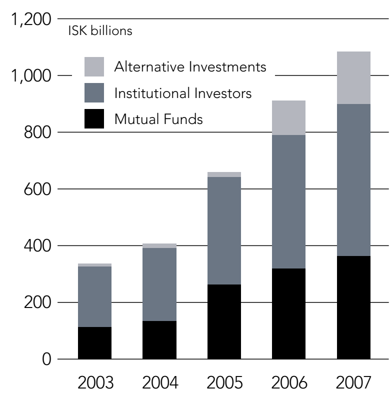
Asset Management's 10 largest clients (%)



Growth in AuM by country (AM)



Growth in AuM by category (AM)



Private Banking

Private Banking offers comprehensive private banking and wealth management services to high net-worth individuals.

Private Banking's suite of services encompasses all aspects of wealth planning, including a wide range of legal and tax solutions, such as arranging all areas of estate planning and philanthropy, acting as concierge for trusts in addition to dealing with integrated planning and the administration of corporate structures. Private Banking also offers access to the Bank's high level of expertise in the areas of both pensions and insurance.

Private Banking works closely with Kaupthing's other divisions to provide credit facilities, discretionary as well as non-discretionary asset management, and banking solutions specifically catered to clients' needs.

Furthermore, through the Corporate Banking division, Private Banking offers a comprehensive range of specialised lending products, such as property, aircraft and superyacht financing, designed to meet each client's entire premium financial solution requirements.

Kaupthing's asset management services are tailored to suit each client's specific needs. Through advisory services, senior account managers closely involve their clients with the allocation of their assets. Discretionary asset management, in line with the investment strategy defined by the client, allows for active management whilst using the expertise of the asset management team. In addition to the series of investment products, Kaupthing's Private Banking offers a variety of banking solutions, including cash management, treasury solutions and easy access for clients to their funds with credit cards.

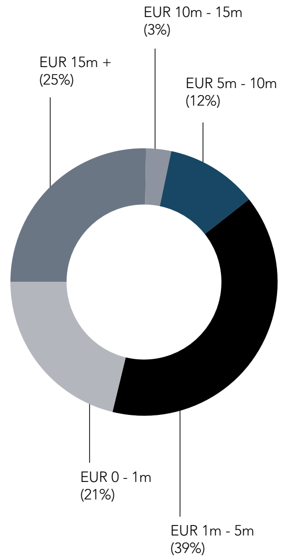
Private Banking clients range from affluent to high net-worth individuals. This can be attributed to the Bank's flexibility and focus on building and maintaining unique and mutually beneficial long-term relationships with each individual client. Adopting a holistic approach to a client's private and business needs is fundamental to Kaupthing's value proposition. In 2007, high net-worth individuals (EUR 15m+) accounted for 25% of discretionary AuM.

Private Banking services are offered in nine markets: Belgium, Finland, Iceland, Luxembourg, Norway, Sweden, Switzerland, Isle of Man and the UK. At the end of 2007, the Faroe Islands operation was sold and Robeco Bank Belgium was acquired in order to strengthen the Private Banking offering in the Benelux countries. The division has invested in manpower to support current and future growth. At the end of 2007 Private Banking employed 193 people.

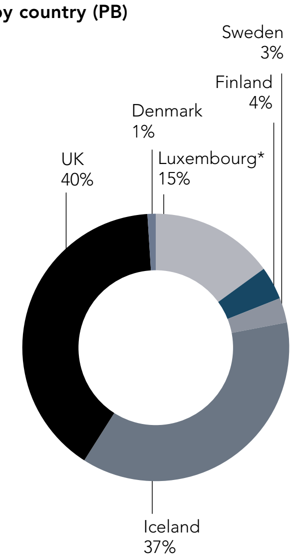
At the end of 2007, AuM of Private Banking amounted to ISK 474 billion. Luxembourg, Sweden and the UK also have non-discretionary assets, if they are included in the calculation, the AuM in Private Banking would have been ISK 616 billion higher. Private Banking performed strongly this year in spite of volatile financial markets during the second half of the year. This was due to increased offering both through open architecture and in-house products and services.

Private Banking's aim in 2008 is to continue to build on the achievements of the past year to become a unified Private Banking division and further increasing cross border cooperation and knowledge sharing across all divisions. This will facilitate tailored holistic solutions for clients and enhance the Bank's value proposition.

Assets under management by client asset band (PB)



Assets under management by country (PB)



*Including Switzerland operation

At Kaupthing we realise that the environment is a vital part of our global heritage. We therefore need to do everything in our power to protect it, not only for the quality of our lives today but also those of the generations to come. That’s why we always strive to minimise the environmental impact of our business operations wherever they may be, by using energy as intelligently as possible and preserving our natural resources.

PRINCIPAL SUBSIDIARY: KAUPTHING SINGER & FRIEDLANDER

Kaupthing Bank acquired Singer & Friedlander in July 2005. The acquisition formed part of the Bank's strategy to expand the product offering in the UK in order to be able to provide small and medium-sized enterprises (SMEs) and high net-worth individuals with an integrated and wide range of banking services.

The operation has been restructured and integrated with Investment Banking business at Kaupthing Ltd. In addition, the product offering has been enhanced by establishing the Capital Markets division and expanding the Treasury division.

Today, Kaupthing Singer & Friedlander provides corporate banking services to SMEs as well as a full range of investment banking services, including treasury, asset finance and capital markets services, in addition to a wide range of wealth management services to high net-worth individuals. Kaupthing Singer & Friedlander is headquartered in central London, with two branch offices in Birmingham and Manchester, and eight additional offices in Cheltenham, Dorking, Glasgow, Kent, Leeds, Leicester, York and Truro. International private banking services are offered from an office in the Isle of Man, and Kaupthing Singer & Friedlander also works closely with the Bank's branches in Dubai and Qatar. Kaupthing Singer & Friedlander employed 817 people at the end of 2007.

Kaupthing Singer & Friedlander operates in six principal business areas:

Banking

Kaupthing Singer & Friedlander's banking operations are split into three principal areas: Corporate & Structured Finance, Property Lending and Commodity Trade Finance. Corporate & Structured Finance includes Corporate Banking and Structured and Leverage Finance. Property Lending covers residential and commercial development both in the UK and overseas, lending for investment properties and student accommodation. Commodity Trade Finance offers a one stop commodity financing package delivering all products demanded by international traders and merchants.

Asset Finance

Asset Finance covers three broad product categories: Corporate Asset Finance, Healthcare Finance and Insurance Premium Finance. Corporate Asset Finance provides hire-purchase facilities and finance leasing to SMEs, partnerships, sole traders and individuals. Healthcare Finance is a leading provider of operating lease facilities to NHS Trusts and Foundation Trusts and specialist finance facilities for healthcare providers. Insurance Premium Finance provides loans for the payment of insurance policy premiums.

Wealth Management

Private Banking and Asset Management provide high net-worth individuals and entrepreneurs with an integrated approach to wealth management, including wealth structuring advice, Credit Solutions, Investment Management and Private Banking. Kaupthing Singer & Friedlander's Investment Management arm, Kaupthing Singer & Friedlander Investment Management Ltd., has over 100 years of experience in managing portfolios for private clients, charities, trusts and pension funds. The head office is in London with an offshore office in the Isle of Man. Private Banking offers domestic and international mortgages, unsecured lending and structured lending facilities secured against aircraft, superyachts, fine arts and shares.

Investment Banking

Kaupthing Singer & Friedlander's investment banking operations provide a mix of advisory services to SMEs and high net-worth individuals, including M&A advisory services and advisory services in connection with acquisitions and leveraged finance, debt syndication, real estate advisory and principal investments.

Capital Markets

Kaupthing Singer & Friedlander Capital Markets Limited (KSFCM) was established in 2006 to offer a range of brokerage services to institutions, hedge funds, SMEs and high net-worth individuals in the UK. All of the Bank's UK brokerage activities are conducted through KSFCM. The business comprises Equity Sales, Equity Research, Trading, Equity Capital Markets Corporate Advisory and Structured Equity Products.

Treasury

Kaupthing Singer & Friedlander Treasury underwent significant transformation in 2007 whilst being built around the core Treasury principle of maintaining the subtle balance between Prudential Balance Sheet Management and Income Generation for the Bank. Its balance sheet management capabilities were tested and successfully withstood the worst liquidity crisis in modern banking history. Through wider product expertise, innovative solutions for the Bank customers and competitive instinct, Treasury contributed a meaningful share of the Bank's income.

PRINCIPAL SUBSIDIARY: FIH ERHVERVSBANK

Kaupthing Bank acquired FIH Erhvervsbank in July 2004 as part of its strategy to grow its corporate banking capabilities and expand its presence in the Nordic region. The acquisition doubled the size of the Balance Sheet at the time and provided a leading position in the Danish corporate banking sector. Since the acquisition, the Bank has focused on realising revenue through expanding into new business areas and cross-selling products.

FIH Erhvervsbank is one of the leading commercial banks in Denmark specialising in corporate lending. In 2007 it had approximately 4,000 clients, including approximately 60% of Denmark's 200 largest industrial companies and a number of municipalities, giving it a corporate banking market share of 11.5% based on the December 2007 MFI statistics. Since the acquisition, the Bank has expanded the operation of FIH by adding Investment Banking services, Capital Markets, Structured Finance and Private Equity operations. FIH Erhvervsbank employed 367 people at the end of 2007.

FIH operates in six principal business areas:

Corporate Banking

Corporate Banking offers a wide range of banking services to approximately 250 of the largest companies in Denmark, as well as to other large companies in Sweden and Norway. The companies are often listed enterprises.

Small and medium-sized (SME) Banking

SME Banking provides a range of banking services to approximately 3,000 small and medium-sized companies in Denmark – most of them privately owned.

Structured Finance

Structured Finance provides solutions for various types of financings in the Nordic region, including equity-related financings, such as acquisition finance to private equity funds, management buy-outs, management buy-ins, refinancings and delisting transactions. The financing solutions are tailored to meet the requirements of the individual transaction, with pricing to match the risk and terms of the financing. FIH Structured Finance cooperates with leading private equity funds in the Nordic region. In 2007, FIH Structured Finance arranged, co-arranged or participated in 18 transactions. The transactions where FIH acted as arranger or co-arranger comprised twelve new transactions and six follow-on investments to previous arranged deals.

Investment Banking

Investment Banking supports advisory services in connection with mergers and acquisitions. In 2007, the division called FIH Partners became the leading investment banking operation in Denmark.

Capital Markets

FIH's Capital Markets provides sales, trading and brokerage services for Nordic equities and bonds. The purpose of establishing the FIH Capital Markets back in 2006 was to strengthen other business segments' positions. For example, Investment Banking is now able to provide advice in connection with initial public offerings and other capital market issuances.

Property Finance

Property Finance offers comprehensive financial services for professional Danish property investors investing in and outside of Denmark. A focus on innovation and tailor-made solutions ensures FIH Property Finance a market leading position.

OTHER MAJOR SUBSIDIARIES AND BRANCHES

Kaupthing Bank operates in thirteen countries. The following is a brief overview of the Bank's major subsidiaries other than FIH and Kaupthing Singer & Friedlander, which are described in greater detail on the preceding pages.

Kaupthing Bank Luxembourg SA

Year established as subsidiary: 1998

Kaupthing Bank Luxembourg is one of the leading banks in the Luxembourg market. According to KPMG's Insights 2007, it is ranked 34th out of 156 banks in the Luxembourg banking market in terms of assets and is also a top quartile bank in terms of profits. Kaupthing Bank Luxembourg has shown strong growth over the years and its range of services has increased significantly. Its core activities are wealth management including private banking, financial markets and corporate banking. Financial markets services comprise treasury and brokerage for both internal clients and external institutional counterparties. Corporate banking activities include participation as lead manager and arranger of syndicated credits and stock listings. It has also built up expertise in the administration of mutual funds and offers insurance products through its subsidiary Kaupthing Life and Pension. Kaupthing Bank Luxembourg has two branches, Kaupthing Switzerland and Kaupthing Bank Belgium. Kaupthing Switzerland provides comprehensive wealth management services which encompass private banking for private and institutional clients, as well as advisory services in alternative investments for qualified investors. In October 2007, Kaupthing Bank Luxembourg signed an agreement to acquire Robeco Bank Belgium. The acquisition was finalised at the end of the year and the name was changed to Kaupthing Bank Belgium. Kaupthing Bank Luxembourg also maintains a representative office in Spain. There were 276 full-time positions at Kaupthing Bank Luxembourg at year end, including the operations in Belgium and Switzerland.

Kaupthing Norge AS (Norway)

Year established as subsidiary: 2003

Kaupthing Norge AS was established in 2003, following the acquisition of Tyren Holding AS, an asset management company. In 2004, Kaupthing Bank further strengthened its Norwegian operations by acquiring A. Sundvall ASA, a securities broker and research house. Kaupthing has since continuously increased its presence in Norway. In November 2007, Kaupthing Bank opened the first Kaupthing Bank branch in Norway thus adding retail banking, private banking and corporate banking to their range of services. In addition, Kaupthing Norway provides comprehensive financial services including investment banking, asset management and capital markets services to companies, institutional investors and private clients. There were 104 full-time positions at Kaupthing Norge at year end.

Kaupthing Bank Sverige AB (Sweden)

Year established as subsidiary: 2002

Kaupthing Bank Sverige AB operates in three cities in Sweden: Stockholm, Gothenburg and Malmö. It offers a wide range of financial services with special emphasis on securities brokerage, research, advisory services and asset management/private banking. Corporate banking and investment banking is also a substantial part of its activities. Services are aimed towards institutions as well as individuals. There were 372 full-time positions at Kaupthing Bank Sverige at year end.

Kaupthing Bank hf. Finnish Branch

Year established as subsidiary: 2001

Kaupthing Bank hf., Finnish Branch is located in Helsinki. Kaupthing Bank acquired Sofi Oyj in 2001, its first acquisition outside Iceland, as a part of the Bank's efforts to establish its presence in the Nordic region. In December 2004, the company was granted a banking licence. It specialises in asset management and securities brokerage for corporations, institutional investors and high net-worth individuals. Furthermore, Kaupthing in Finland offers comprehensive investment banking, corporate banking and treasury services. From the beginning of August 2007 an organisational change was made whereby corporate banking and treasury services were incorporated into the Finnish Branch. At year end, the rest of the operations were subsequently transferred into the Branch. There were 111 full-time positions at Kaupthing Bank hf. Finnish Branch at year end.

Norvestia Oyj (Finland)

Year established as subsidiary: 2003

At the end of 2003 Kaupthing Bank acquired a majority holding in Norvestia Plc, a Finnish investment company based in Helsinki, whose Series B shares are listed on the Main List of the OMX Nordic Exchange in Helsinki. Norvestia's objective is to make long-term investments in listed Nordic equities and funds. Kaupthing Bank owns 900,000 unlisted A-shares and 4,113,976 listed B-shares, representing 56.0 % of the votes and 32.7 % of the share capital in Norvestia Plc. The company is fully consolidated with Kaupthing Bank with the shares not owned by the Bank reported as a minority interest. There were 6 full-time positions at Norvestia Oyj at year end.

Kaupthing New York Inc. (US)

Year established as subsidiary: 2000

Kaupthing Bank entered the North American market in 2000 under the name Kaupthing New York, Inc. To accommodate the growing operations, in November 2007, Kaupthing New York relocated to larger US headquarters in Manhattan's historic Chrysler Building, from where it serves the US and Canadian markets. The main operations are conducted through Kaupthing

Securities, Inc., a wholly owned subsidiary, a member of the National Association of Securities Dealers (NASD) and registered US broker-dealer. It specialises in servicing North American institutional investors with Nordic and UK research as well as primary and secondary securities brokerage and execution services. In addition to holding direct exchange memberships through its European sister companies, Kaupthing Securities, has direct access to all of the main US and Canadian securities exchanges, including the New York Stock Exchange (NYSE) and the NASDAQ Stock Exchange. Kaupthing New York has been engaged in a range of assignments in support of cross-border transactions between US and European companies. There were 13 full-time positions at Kaupthing New York at year end.

Kaupthing Bank in the Middle East (Dubai and Qatar)

Year established as branches: 2007

Kaupthing Bank was granted a licence to operate a branch in the Dubai International Financial Centre (DIFC) and in the Qatar Financial Centre (QFC) on 13 September and 27 September, respectively. Kaupthing Bank is the first Nordic bank to receive an operating licence in both jurisdictions. Kaupthing will initially focus on providing investment banking service in the region as well as wealth management services. There were 6 full-time positions at Kaupthing Bank Middle East at year end.

Kaupthing Bank Asset Management Company hf. (Iceland)

Year established as subsidiary: 1996

Kaupthing Bank Asset Management Company hf. is a subsidiary maintained in addition to Kaupthing Bank's other activities in Iceland. The company manages a large selection of mutual funds that cater to the needs of both private and institutional investors. The funds and their investment strategies differ according to their focus on institutional or private investors. There were 34 full-time positions at Kaupthing Bank Asset Management Company at year end.

New Bond Street Asset Management (UK)

Year established as a limited liability partnership: 2004

Kaupthing Bank is the corporate partner in a Limited Liability Partnership under English law with seven individual partners New Bond Street Asset Management LLP (NBSAM). NBSAM is a specialised credit management business regulated by the UK FSA which provides independent advice, asset management services and fund products. NBSAM specialises in investment grade credit and features four product platforms: private managed accounts, public open-end funds and closed-end funds (CDO management) and credit trading. There were 22 full-time positions at NBSAM at year end.

Arion Custody Services hf. (Iceland)

Year established as subsidiary: 2002

Arion's offering to financial institution includes securities funds and pension funds, clearing and settlement solutions and custody services, as well as fund administration services. Arion is a global custodian and as such provides full settlement and custody service in all major global markets. Icelandic financial institutions are able to outsource their securities back-office to Arion and last year the demand grew dramatically. Arion offers sub-custody services to international institutional clients. Arion also offers full services to remote brokers on the OMX Nordic Exchange for the Icelandic market. Arion is the only financial institution in Iceland specialising in securities servicing. There were 85 employees at Arion Custody Services hf. at year end.

Kaupthing Holding (Isle of Man) Limited

Year established as subsidiary: 2005

In 1971, Singer & Friedlander became the first City of London merchant bank to establish an office in the Isle of Man. Through its operating subsidiaries in the Isle of Man, Kaupthing now operates a wide range of banking and investment management services. Kaupthing Singer & Friedlander (Isle of Man) Limited offers a comprehensive range of private banking services tailored principally for overseas residents, expatriates and internationally mobile clients. Banking services include various deposit accounts, foreign exchange facilities and international debit cards. Lending facilities include mortgage finance for the purchase/re-mortgage of residential properties in the United Kingdom, for residential and investment purposes, overseas property finance, superyacht and aircraft finance. Kaupthing Singer & Friedlander Investment Management (IOM) Limited provides private and institutional investment management services for a wide variety of clients including private individuals, companies, pension funds, trusts, captive insurance companies and other institutional accounts. In December 2007 Kaupthing completed the acquisition of the entire share capital of Derbyshire Building Society's offshore deposit-taking business, The Derbyshire (Isle of Man) Limited. The acquisition was is line with the Bank's strategy to increase deposits within the Bank. There were 62 full-time positions at Kaupthing in the Isle of Man at year end.

A good working environment is paramount to any company's success and the well-being of its employees. At Kaupthing we strive to create a flexible and challenging framework that always attracts top quality candidates and encourages existing employees to continuously hone their skills and excel in their fields.

CORPORATE SOCIAL RESPONSIBILITY

Kaupthing Bank sees itself as an integral part of the communities in which it operates. This means that the Bank recognises that its activities have an impact on the environments in which Kaupthing and its subsidiaries do business, both through the products and services it provides and its conduct as a company. The Bank also realises that the basis for any good business is trust and that society expects the highest standards from Kaupthing when it comes to ethics and corporate responsibility.

Kaupthing's business is and always has been founded on solid, long-term relationships with all of its stakeholders. The Bank achieves this by promoting a corporate culture that adheres to its business principles, and by generating good and sustainable returns for its shareholders. The objective of the Group's involvement in Corporate Social Responsibility (CSR) is to ensure mutual value creation for the Group, as well as its employees and stakeholders.

Employees and shareholders

Kaupthing is a committed equal opportunity employer, adhering to the highest social standards. The Bank seeks to provide a superior working environment for its staff based on diversity and respect for the importance of the individual.

The Bank is committed to building its global business and serving its clients, while at the same time improving the communities in which it does business. As a financial services organisation, people entrust Kaupthing with their finances, and therefore, with their aspirations for their families and businesses. This is a large responsibility and a great opportunity. The Bank in turn strives to listen to and learn from its stakeholders and to take the appropriate action where it applies, since responsible behaviour towards its clients, shareholders and employees is an essential element of the Bank's daily business.

As a leading financial services firm, one of Kaupthing's main purposes is to create long-term value. Kaupthing firmly believes that sustainable growth and investment for any business is also dependent on what it does above and beyond what laws and regulations require. This is why the Bank is committed to creating a working environment based on the values of equal opportunity, diversity and meritocracy. The Bank has also adopted measures to protect the environment and contribute to the communities it is a part of. All the Bank's activities are reinforced by its governance structure, which complies with the leading codes of best practices.

The environment and the Bank's communities

CSR means voluntarily integrating social and environmental considerations into the business and these are an integral part of Kaupthing's corporate culture and fundamental business principles. Kaupthing believes that a prosperous community creates a prosperous business. By supporting charitable causes, educational programmes, cultural life and sports, Kaupthing seeks to help people achieve their goals and, at the same time, make life richer for everybody.

While Kaupthing is an international bank, it strives to maintain a local presence in each market. For this reason, decisions regarding Kaupthing's corporate sponsorship are put in the hands of the members of the Bank's communities who are local to the issues and know where the Bank's efforts can make the biggest difference.

A clear example of this commitment is Kaupthing's collaboration with the Icelandic Carbon Fund. In 2007 the Bank calculated the carbon footprint for every car journey and flight undertaken by Kaupthing employees. The money the fund collected was then used to finance the planting of trees in compensation for their carbon emissions. Initiatives of this kind also help to create greater environmental awareness among the Bank's employees and the public at large.

Ethical behaviour and the Anti-Money Laundering Programme

As a multinational company with a substantial presence in a number of national economies, Kaupthing is dedicated to ethical corporate behaviour. Kaupthing supports sustainable development by contributing to economic development and improving the quality of life for its employees, communities, and society at large. For this reason, the Bank places a special emphasis on tackling issues such as money laundering, which poses a significant risk to the financial sector globally and to society as a whole.

Kaupthing and its subsidiaries are therefore firmly committed to participating in international efforts to combat money laundering, fraud, or other financial crimes, including the financing of terrorists or terrorist operations. Accordingly, the Bank has implemented a comprehensive Anti-Money Laundering (AML) programme to take all reasonable and appropriate steps, which includes, among other things, written policies and procedures, designated anti-money laundering personnel and special monitoring software. Moreover, all of Kaupthing's staff are briefed on AML issues and required to view a presentation.

The Bank's internal rules on actions to combat money laundering and terrorist financing were adopted in accordance with the recommendations of the Financial Action Task Force (FATF) and are based on the third Money Laundering Directive of the European Union. The objective of the rules is to prevent the use of the operations of the Bank for the purposes of money laundering and, in so doing, make an important contribution to the battle against money laundering and terrorist financing worldwide.

An important key to deterring money laundering is knowing the true identity of all customers and investigating major or unexpected transactions. Kaupthing has procedures to monitor transactions and report suspicious activities. However, the Bank is careful to respect the privacy of legitimate customers. Procedures are updated regularly to reflect regulatory change and evolving best practices. The Bank strives to observe the most rigorous standards, both domestically and internationally.

Nevertheless, Kaupthing is convinced that there is always room for improvement and therefore it is the Bank's aim to learn more about CSR and be an active player to ensure its ongoing development in this field and make a significant contribution to all of its stakeholder groups in the future.

CORPORATE CULTURE

Kaupthing Bank's corporate culture centres on the common interests of the Bank and its clients by seeking to establish strong, long-term relationships between the two.

Corporate culture places a premium on the Bank's human resources, through knowledge acquisition, job development, training and communication, leading to job satisfaction and a real sense of community. In this environment emphasis is placed on effective management, a clear definition of responsibility, straightforward work processes and a minimum of bureaucracy. In this way the Bank is able to serve its clients as well as possible by helping them to achieve their goals.

In order to ensure that Kaupthing's clients are provided with exceptional guidance and receive the best possible service, the Bank has organised the tenets of its culture into eleven business principles. These principles are undertaken by all the Bank's operations and reviewed on a regular basis. Candidates who apply for a position at the Bank are evaluated with these criteria in mind and, as careers unfold within the Bank, these are the lines along which the Bank encourages its employees to grow.

Long-term relationships

Kaupthing's main objective is to develop and maintain long-term relationships with its clients. Their needs and interests are made a priority, since their success consequently fuels the Bank's success, thus establishing a common goal.

Teamwork

The best results are achieved when the Bank and its clients work together as a team. Effective cooperation and communication ensure fast and professional service and provides the basis for efficient teamwork.

Fun & flair

Business becomes a pleasure when the Bank can take part in celebrating its clients' successes. Maintaining a positive morale supports a sense of community and an ambitious approach to working. Providing effective advice and achieving excellent results leads to shared enjoyment, underscoring the Bank's commitment to its clients.

Trumping bureaucracy

Cutting bureaucracy enables the Bank to respond swiftly to its clients' needs. Short and straight lines of communication, a clear definition of responsibility and the devolution of power provide the Bank's clients with sharp, swift and effective advice.

Efficient decisions

Effective service to the Bank's clients is based on swift and efficient decision-making, achieved through a flat hierarchy, the devolution of power and open communication. This also makes for an exciting and highly motivating work environment that attracts highly educated, top-quality candidates.

Welcoming change

The business environment is constantly undergoing changes, bringing the Bank up against new challenges as a leading financial company and adviser to ambitious clients. In order to assist its clients in gaining a competitive advantage, the Bank keeps abreast of changing business practices and seeks to implement changes ahead of the competition.

Identifying opportunities

By identifying opportunities where others see business as usual, the Bank is able to advise its clients effectively and provide them with exceptional choices. The Bank ensures its employees are able to perform this task by providing them with training and education, building their confidence and encouraging their initiative.

Embracing competition

Both the Bank and its clients face intense competition, as is par for the course in a rapidly changing business environment. However, the Bank views competition as a powerful motivator, as a spur to keep the Bank's business ahead of the times and providing its clients with the best possible service in the industry.

Intelligent risk taking

The Bank uses its expertise to advise its clients on the risks they face and enable them to make informed decisions. Powerful information systems and highly qualified personnel, with the interests of the Bank and its clients at heart, ensure intelligent risk assessment and decision-making.

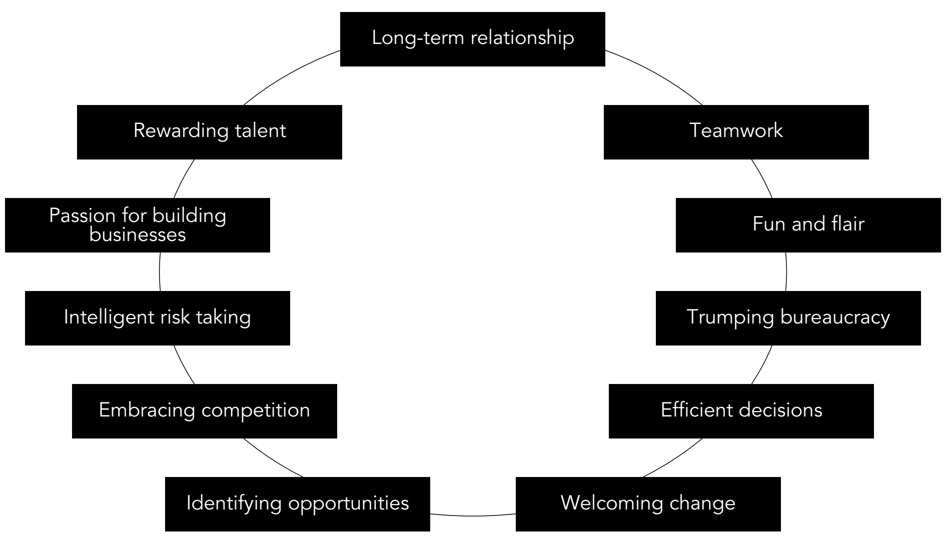
Passion for building businesses

The Bank is determined to build its clients' businesses for the benefit of both parties. The best possible business results can be achieved through a strong and committed team of Bank personnel and clients working in unison, focusing on the task at hand.

Rewarding talent

To ensure that its clients receive superior advice and services, the Bank rewards those employees who perform most successfully. The Bank's greatest resource is its personnel, and it places great emphasis on retaining good employees, that is, those who provide the greatest benefits to the Bank's clients.

The Kaupring - Kaupthing's eleven business principles



EMPLOYEES

One of Kaupthing Bank's principal strengths is the quality and dedication of its employees and their shared sense of being part of a team. Their diverse vantage points and unique abilities create a broad range of skills and knowledge that underpin the Bank's work. In order for Kaupthing to continue its steady growth, it is essential that it retains key employees and provides an attractive opportunity for new personnel.

A great part of success in the financial services industry depends, more than anything else, on the know-how, experience, talent, and commitment of a firm's human capital. For Kaupthing to continue to succeed, the company must be able to attract, develop and retain highly qualified people. Kaupthing's employees should be able to benefit from its strong business principles, its fast-moving and entrepreneurial spirit, and the broad opportunity for individual and team success.

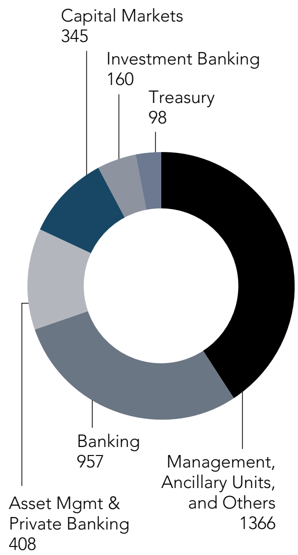
Kaupthing places great emphasis on keeping employees informed about the Bank's vision, strategy and focus. Moreover, the Bank provides regular communication to its employees with information regarding current news in the media, events and achievements. To enhance the flow of information within the Bank, an in-house newsletter called "KaupLife" was launched this year. The aim of the newsletter is to act as a bridge between Kaupthing employees in various offices and countries within the Group.

Full-time equivalent positions at year end

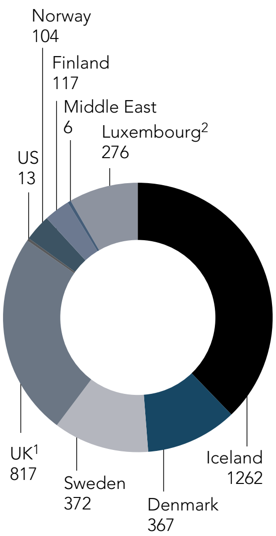
Recruitment

A career at Kaupthing demands a high level of diligence and dedication. The work of the Group requires individuals of uncommon ability, and to this end great efforts have been made in assembling the Bank's current group of employees.

Employees by division at year end



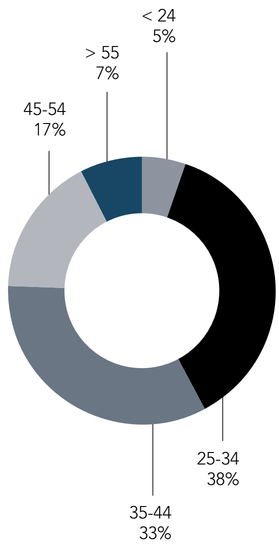
Number of employees by country at year end



[1] Includes Isle of Man operation
[2] Includes Switzerland and Belgium operations

Operating in global capital markets, Kaupthing's personnel form a community that is shaped by the unique backgrounds, individual perspectives and diverse skills of its people. The Bank consistently seeks to recruit those who can strengthen this diversity, but still support its corporate culture. Likewise, as the Bank has grown and expanded its operations in recent years, the number of applications from highly qualified people has increased significantly, indicating interest from people who are attracted by the Bank's distinct position and ideology.

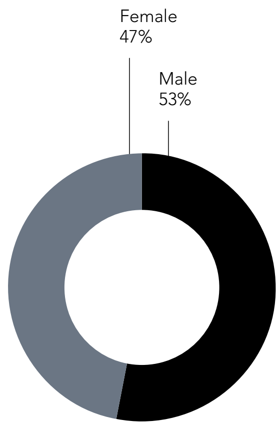
Age distribution at year end



Kaupthing believes that having a broad range of age and experience in its workforce helps the Bank meet the varied needs of its clients around the world. This is reflected in the structure of the workforce. 70% of the Bank's global employee population is in the 25-44 age range, with the average age of Kaupthing employees being 38.

The Bank places a special emphasis on ensuring that new positions are filled by the most accomplished candidates, in terms of their education, experience and ability. The Bank also strives to strike an even equilibrium in the gender distribution of its employees.

Employees by gender



Kaupthing's recruitment strategy is based on attracting highly qualified candidates through employee networks, selective head-hunting, advertisements and a high-profile presence at universities. Line management is responsible for recruiting and retaining diverse talent within the Group. The Human Resources Department is an important partner in supporting the Bank's business leaders in achieving this. To meet the requirements of the Bank's expanding operations and the many demanding projects last year, job positions were increased by 22.6% within the Group. The largest increase in the number of employees was observed in Iceland and the UK, but in terms of percentages, the greatest increases were in Luxembourg and Norway.

Careers and development

Kaupthing comprises a league of enterprising women and men who are distinguished by their initiative, diligence, imagination, and ambition. The Bank's work is driven by a sense of teamwork and solidarity that transcends both international borders and the Bank's hierarchy. The people of Kaupthing are part of a culture of integrity and leadership, which they have an active role in creating. They form a community in which people's potential and talents are cultivated with the aim of establishing lifelong careers. High-quality employees are trained and fostered, with the goal of developing tomorrow's leaders.

Leadership is certainly among the strongest elements fostered by the Bank's community, seeking to demonstrate leadership both in the industry and in the societies where it operates. In order to sustain this element of leadership, strong emphasis is placed on developing employees through in-house training programmes as well as by supporting and organising educational opportunities outside the Bank. The culture of Kaupthing cultivates the desire to keep abreast of the latest developments.

As a forward-looking enterprise, the Bank strives to continually stimulate its employees to uphold the state of the art in their respective fields. In order to inspire trust and create added customer value, great emphasis is placed on maintaining employees' knowledge and skills through training, development and informative feedback. As in previous years, the Bank placed great emphasis on training its managers and developing their leadership qualities. Moreover, the annual Kaupthing staff meetings, held at every office, play a central role in making sure that the strategy and objectives for each year are clearly communicated and executed. It is vitally important that those who drive the Bank's success are fully informed of its vision, strategy, and focus for the year and know what kind of contribution is expected of them as individuals in order to achieve these.

A global graduate programme is being established at the Bank, where graduates are given the opportunity to experience work in various business areas within the Bank, including at least a six-month assignment overseas. The aim of the programme is to attract the most talented people in the market and develop strong future leaders.

Furthermore, in recognition of the growth of Kaupthing's international network and in order to encourage knowledge sharing and teamwork globally, a policy for International Assignments is being developed. This policy will enable the Bank to facilitate moves within the Group whilst also retaining the ability to evaluate the value of these assignments and to ensure that the Bank is compliant in each country that it operates in.

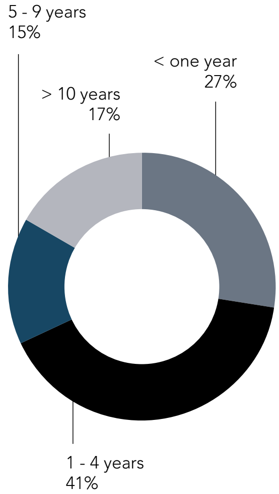
Job satisfaction and retention

Kaupthing seeks not only to attract the most qualified personnel, but to retain them by creating a superior work environment and attending to their needs. To ensure success for the Bank as a whole, employees are encouraged to engage in synergetic teamwork, and every effort is made to facilitate communication and the flow of information. Employee initiative and responsibility are promoted through challenging assignments where rewards are determined by results.

Employee turnover at the Bank was at a comparable level to the previous year. The total turnover rate for the Bank was around 15%, which is largely dependent on external factors such as the local unemployment rate. The real challenge is to keep unwanted turnovers (resignations) at a minimum, and as they constitute less than half of the turnover rate, it may be said that this challenge has been met with success.

The average length of service within the Bank is around 5.2 years. The length of service is lowest in Norway and Luxembourg, due to a large increase in the number of employees this year in response to the Bank's high business growth. The length of service is measured highest in Iceland. The length of service distribution within the Bank can be seen below.

Length of service



To maintain the level of retention, the Bank conducts an extensive annual workplace survey. The main purpose of the survey is to evaluate workplace issues, such as cooperation, job development, job training, management, and employee services. A good workplace environment leads to greater job satisfaction, which works to everyone's benefit. The results of the survey are compared against the Bank's historical results, as well as results from other companies conducting similar surveys. The overall results for the 2007 survey were very positive. General job satisfaction and commitment proved to be very high compared to other companies. Morale at Kaupthing is high and new employees feel they are well received. Furthermore, employees feel their opinions count at work and are encouraged to express new ideas for improvements. Moreover, information flow is effective and the Bank's objectives and visions are considered clear.

A workplace survey of this type encourages management and employees to constantly improve their working relationships and make adjustments when necessary, based on feedback. This valuable feedback is also often gleaned from performance appraisals for individual employees, who are encouraged to set their own goals for job development within the Bank.

Incentives

By rewarding good results, Kaupthing encourages its people to fulfil their potential and in this way support the optimal performance of the Bank. The system of profit-sharing exemplifies how the Bank works as a community and, by the same token, shares the spoils of success as a community. By aligning the interests of employees and shareholders, Kaupthing enables its people to take an even more active role in bringing the success of their own community. The employee stock-option plan serves as a representation of the stake that Kaupthing employees already have in the future of their Bank.

Salaries and benefits

In addition to a monthly salary, bonuses are paid to those key employees and management who directly affect the Bank's performance. Bonus payments are subject to the individual's performance as well as the Bank's profits.

At the end of 2005, a stock-option scheme was put in place, which enables all regular employees to buy shares in Kaupthing at a given price. New employees have the opportunity to enter into such a scheme after a given period of time. At the end of 2007, the Bank's employees owned approximately 7.8% of its shares. Further information about employee stock-option programmes can be found in the chapter Shares in the Bank on page 45.

Communication

The open flow of information within Kaupthing is important in order to maintain efficient operations. Employee engagement is facilitated through a number of channels, the largest of these being the corporate intranet for the Bank and a number of other local intranets within the different subsidiaries. Internal communication is also supported through Group-wide employee publications, such as the in-house KaupLife newsletter discussed above and through e-mail announcements and news flashes.

Furthermore, an annual CEO tour is held which opens face-to-face dialogue between employees and senior management. Through these channels the Bank supports a flat organisational structure and encourages collaboration throughout the Bank.

Human Resources strategy

- Attract qualified personnel by creating a motivated workplace
- Always hire the best candidate for the position
- Retain competent employees by creating a superior workplace
- Provide new employees with appropriate training from the outset
- Encourage employees to maintain professional skills and give them the opportunity to develop and grow
- Keep staff up to date with the most current information
- Ensure maximum employee success – empower the individual, provide an opportunity to show initiative, and commend independent initiative
- Maintain a spirit of ambition, efficient decision-making, flexibility and quick responses to changes
- Create a strong international team
- Sustain an environment that supports a balance between work and life
- Ensure equal opportunities, with regard to employment, work facilities, assignments, training, job development and wages
- Align the interests of employees with the interests of the organisation

"Imagination is more important than knowledge," Albert Einstein once said, and few would dispute that the world would be a drabber place without the colour art brings to our lives. Banks have been patrons to the arts throughout the ages and it's a tradition that Kaupthing is proud to uphold.

ANNUAL ACCOUNTS 2007

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KAUPTHING BANK

ENDORSEMENT AND SIGNATURES OF THE BOARD OF DIRECTORS AND THE CEO

Operations in 2007

The Consolidated Financial Statements of Kaupthing Bank hf. for the year ended 31 December 2007 include the Financial Statements of Kaupthing Bank hf. and its subsidiaries, together referred to as "the Bank".

Net earnings, according to the Consolidated Income Statement, amounted to ISK 71,191 million for the year ended 31 December 2007. The Board of Directors proposes a payment of dividend, ISK 20 per share or ISK 14,809 million, which is 21% of net earnings for the year. Total Equity, according to the Consolidated Balance Sheet, amounted to ISK 356,431 million at the end of the year, including share capital amounting to ISK 7,371 million. The capital ratio of the Bank, calculated according to the Act on Financial Undertakings, was 11.8%. This ratio may not be lower than 8.0%.

At the end of year 2007 the Bank's shareholders numbered 32,264 compared to 31,730 at the beginning of the year. At the end of the year, one shareholder held more than 10.0% of the shares in the Bank, Exista, which owned 23.26% of the shares.

In April the Bank sold all shares in the wholly owned subsidiary Eik fasteignafélag hf. The Bank generated a profit before taxes of ISK 4,262 million on this transaction, which was booked in the second quarter of 2007.

In August 2007 the Bank entered into an agreement to purchase the entire share capital of NIBC N.V. for EUR 2,985 million. On 29 January 2008 the Bank came to an agreement with the Sellers that both parties relinquish their prior agreement.

In December the Bank sold its operation in the Faroe Islands.

In May the Bank increased its holding in the Norwegian insurance and financial services company Storebrand ASA to 20% of the company's outstanding shares.

Share Capital and Articles of Association

The issued share capital of the Bank amounted to ISK 7,405 million at year end. The Bank owns treasury shares with nominal value of ISK 34 million. The share capital is divided into shares of ISK 10 each with equal rights within a single class of shares listed on the OMX Nordic Exchange Iceland and OMX Nordic Exchange Stockholm. The Board of Directors has the right to increase the share capital of the Bank by the nominal value of ISK 1,500 million with the sale of new shares. Shareholders have waived the pre-emptive rights to these shares. The Board of Directors will decide the sale price and sale rules. The Board of Directors has the right to purchase up to 10% of the nominal value of the shares of the Bank, provided that the purchase price in not more than 20% higher or 20% lower than the last quoted price in the OMX Nordic Exchange Iceland or OMX Nordic Exchange Stockholm.

Share option agreements have been concluded with employees of the Bank, which enables them to purchase shares in the Bank at the exercise price of ISK 51 to ISK 1,224 over a period of 3 to 6 years, given that they are employeed by the Bank during that time. Further information on the share option program is in note 116.

In the course of the Bank's normal business it has entered into agreements with employees which may be affected by the event of a take-over or termination without cause. The Board of Directors considers none of these to be of material importance to the Bank's operation.

The Bank's Board of Directors comprises nine members elected at the Annual General Meeting. Those persons willing to stand for election shall give formal notice thereof in writing to the Bank's Board at least full seven days before the beginning of the meeting. The Bank's Articles of Association can only be amended with the approval of 2/3 of casted votes in a legal shareholders' meeting, provided that the notification calling the meeting thoroughly informs on such amendment and what the amendment consists in.

Statement by the Board of Directors and the CEO

The Annual Consolidated Financial Statements for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

According to our best knowledge it is our opinion that the Annual Consolidated Financial Statements give a true and fair view of the consolidated financial performance of the Bank for the financial year 2007, its assets, liabilities and consolidated financial position as at 31 December 2007 and its consolidated cash flows for the financial year 2007.

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

The Board of Directors and the CEO have today discussed the Annual Consolidated Financial Statements of Kaupthing Bank hf. for the year 2007 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the Consolidated Financial Statements will be approved at the Annual General Meeting of Kaupthing Bank hf.

Reykjavík, 30 January 2008

Board of Directors

Sigurdur Einarsson
Chairman

Antonios P. Yerolemou	Ásgeir Thoroddsen
Bjarnfredur H. Ólafsson	Brynja Halldórsdóttir
Gunnar Páll Pálsson	Hjörleifur Thór Jakobsson
Niels de Coninck-Smith	Tommy Persson

Hreidar Már Sigurdsson
CEO

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Kaupthing Bank hf.

We have audited the accompanying Consolidated Financial Statements of Kaupthing Bank hf. and its subsidiaries (the "Bank"), which comprise the Consolidated Balance Sheet as at 31 December 2007, the Consolidated Income Statement, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of Kaupthing Bank hf. as at 31 December 2007, of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 30 January 2008

KPMG hf.

Saemundur Valdimarsson

Reynir Stefán Gylfason

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2007

	Notes	2007	2006
Interest income		304,331	187,451
Interest expense		(224,218)	(135,089)
Net interest income	44	80,113	52,362
Fee and commission income		64,865	40,904
Fee and commission expense		(9,844)	(3,620)
Net fee and commission income	45	55,021	37,284
Net financial income	46-51	14,433	60,157
Share of profit of associates	73	3,459	1,194
Other operating income	52	12,792	16,219
Operating income		165,818	167,216
Salaries and related expenses	54-55	(46,647)	(33,570)
Administration expenses		(24,693)	(19,800)
Depreciation and amortisation	79	(6,550)	(5,976)
Other operating expenses		(841)	(660)
Impairment on loans	57	(6,098)	(4,857)
Impairment on other assets	57	(82)	(1,270)
Earnings before income tax		80,907	101,083
Income tax expense	58	(9,716)	(14,636)
Net earnings		71,191	86,447
Attributable to:			
Shareholders of Kaupthing Bank hf.		70,020	85,302
Minority interest		1,171	1,145
Net earnings		71,191	86,447
Earnings per share			
Basic earnings per share (ISK)	59	95.2	127.1
Diluted earnings per share (ISK)	59	93.3	123.4

The notes on pages 121 to 192 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK millions

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007	2006
Assets			
Cash and balances with central banks	60	97,959	106,961
Loans to credit institutions	61	588,441	485,334
Loans to customers	62-68	3,304,408	2,538,609
Bonds and debt instruments	69	367,350	318,264
Shares and instruments with variable income	69	160,797	159,020
Derivatives	69,96	134,856	65,454
Derivatives used for hedging	69,96	22,503	6,453
Securities used for hedging	69	159,949	115,938
Investments in associates	73	83,831	5,304
Intangible assets	74-75	66,774	68,301
Investment property	76-77	28,155	31,584
Property and equipment	78-80	32,714	30,466
Tax assets	87-90	6,899	5,834
Other assets	81	292,709	117,874
Total Assets		5,347,345	4,055,396
Liabilities			
Due to credit institutions and central banks	69	339,088	110,456
Deposits	69	1,381,457	750,658
Financial liabilities measured at fair value	69,84-86	217,945	71,264
Borrowings	82	2,615,960	2,399,939
Subordinated loans	83	267,289	216,030
Tax liabilities	87-90	22,478	23,209
Other liabilities	91-92	146,697	148,948
Total Liabilities		4,990,914	3,720,504
Equity			
Share capital		7,371	7,321
Share premium		162,221	164,028
Other reserves		(14,627)	17,220
Retained earnings		190,643	134,941
Total Shareholders' Equity	93-95	345,608	323,510
Minority interest		10,823	11,382
Total Equity		356,431	334,892
Total Liabilities and Equity		5,347,345	4,055,396

The notes on pages 121 to 192 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK millions

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2007

	Share capital and share premium	Other reserves	Retained earnings	Total Share-holders' equity	Minority interest	Total equity
2007						
Equity 1 January 2007	171,349	17,220	134,941	323,510	11,382	334,892
Translation difference		(31,866)		(31,866)	(358)	(32,224)
Fair value changes in financial assets available-for-sale		19		19		19
Net loss recognised directly in equity		(31,847)		(31,847)	(358)	(32,205)
Net earnings according to the Income Statement			70,020	70,020	1,171	71,191
Total recognised earnings for the year		(31,847)	70,020	38,173	813	38,986
Dividends paid to shareholders, ISK 14 per share			(10,272)	(10,272)		(10,272)
Purchases and sales of treasury stock	(3,995)			(3,995)		(3,995)
Exercised stock options	716			716		716
Stock option expense	1,522			1,522		1,522
Restating the initial investments in shares			(5,111)	(5,111)		(5,111)
Other changes			1,065	1,065	(1,372)	(307)
Equity 31 December 2007	169,592	(14,627)	190,643	345,608	10,823	356,431
2006						
Equity 1 January 2006	121,244	(1,540)	74,479	194,183	8,329	202,512
Translation difference		18,289		18,289	2,176	20,465
Fair value changes in financial assets available-for-sale		(9)		(9)		(9)
Deferred pension reserve		480		480		480
Net earnings recognised directly in equity		18,760		18,760	2,176	20,936
Net earnings according to the Income Statement			85,302	85,302	1,145	86,447
Total recognised earnings for the year		18,760	85,302	104,062	3,321	107,383
Dividends paid to shareholders, ISK 37.6 per share			(24,814)	(24,814)		(24,814)
Issued new share capital	55,558			55,558		55,558
Purchases and sales of treasury stock	(6,024)			(6,024)		(6,024)
Exercised stock options	571			571		571
Other changes			(26)	(26)	(268)	(294)
Equity 31 December 2006	171,349	17,220	134,941	323,510	11,382	334,892

The notes on pages 121 to 192 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK millions

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR 2007

	2007	2006
Cash flows from operating activities:		
Earnings before tax income	80,907	101,083
Adjustments to reconcile net earnings to cash flow (used in) from operating activities:		
Non-cash items included in net earnings and other adjustments	(28,057)	1,481
Changes in operating assets and liabilities	56,061	(144,389)
Income taxes paid	(10,154)	(8,115)
Net cash from (used in) operating activities	98,757	(49,940)
Cash flows from investing activities:		
Investment in associated companies	(26,329)	(5,400)
Proceeds from sale of associated companies	512	20,266
Dividend received from subsidiaries	149	4,103
Purchase of intangible assets	(2,654)	(1,810)
Proceeds from sale of intangible assets	77	0
Purchase of investment property	(10,293)	(3,475)
Proceeds from sale of investment property	13,473	5,367
Purchase of property and equipment	(12,453)	(13,818)
Proceeds from sale of property and equipment	2,283	3,283
Payment for acquisition of subsidiaries, less cash acquired	(3,321)	0
Proceeds from sale of subsidiaries, net of cash disposed	7,808	0
Other changes	(3,312)	221
Net cash (used in) from investing activities	(34,060)	8,737
Cash flows from financing activities:		
Subordinated loan capital issued	51,666	111,336
Subordinated loan capital repaid	(407)	(2,601)
Purchases of own shares to meet share awards and share option awards	(3,995)	(5,800)
Proceeds from the issue of shares	0	55,558
Dividends paid	(10,272)	(24,814)
Net cash from financing activities	36,992	133,679
Net increase in cash and cash equivalents	101,689	92,476
Cash and cash equivalents at beginning of the year	202,789	81,758
Effect of exchange rate changes on cash held	(9,279)	28,555
Cash and cash equivalents at year-end	295,199	202,789

The notes on pages 121 to 192 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK millions

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR 2007 – NOTES

	2007	2006
Non-cash items in the Income Statement and other adjustments:		
Impairment on loans	6,743	4,857
Depreciation and amortisation	6,551	5,976
Impairment on intangible assets	82	1,270
Share of profit of associates	(3,459)	(1,194)
Investment property, fair value change	219	(96)
Net gain on disposal of investment property	0	(3,020)
Indexation and exchange rate difference	(30,884)	2,689
Net gain on disposal on property and equipment	(845)	(303)
Net gain on a disposal of subsidiaries	(5,962)	(8,398)
Share based payment expenses	1,522	571
Changes in other non cash items	(2,024)	(871)
	(28,057)	1,481
Changes in operating assets and liabilities:		
Loans	(769,464)	(1,253,947)
Financial assets measured at fair value	(207,671)	(51,150)
Derivatives used for hedging	(15,980)	(2,016)
Financial assets available for sale	(1)	3
Tax assets	1,136	(3,060)
Other assets	(176,239)	(82,894)
Deposits	862,168	301,998
Borrowings	216,958	834,270
Financial liabilities, measured at fair value	147,362	10,872
Provisions	(4,647)	1,378
Tax liabilities	11	(1,788)
Other liabilities	2,428	101,945
	56,061	(144,389)
Cash and cash equivalents at year end:		
Cash in hand and demand deposits	97,959	106,961
Due from credit institutions	197,240	95,828
Cash and cash equivalents at year end	295,199	202,789

The notes on pages 121 to 192 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK millions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

1. Reporting entity

Kaupthing Bank hf., the Parent Company, is a company incorporated and domiciled in Iceland. The address of Kaupthing Bank's registered office is Borgartún 19, Reykjavik. The Consolidated Financial Statements for the year 2007 comprise Kaupthing Bank hf. and its subsidiaries (together referred to as "the Bank"). The Bank offers integrated financial services to companies, institutional investors and individuals. These services include corporate banking, investment banking, retail banking, capital markets services, asset management and comprehensive wealth management for private banking clients.

2. Basis of preparation

a) *Statement of compliance*

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The Financial Statements were approved and authorised for issue by the Board of Directors of Kaupthing Bank hf. on 30 January 2008.

b) *Basis of measurement*

The Consolidated Financial Statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value
- Financial instruments held for trading are measured at fair value
- Financial instruments designated at fair value through profit and loss are measured at fair value
- Financial instruments classified as available-for-sale are measured at fair value
- Investment properties are measured at fair value

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell, unless IFRS 5 requires that another measurement basis be used.

c) *Functional and presentation currency*

The Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company´s functional currency. Except as indicated, financial information presented in ISK has been rounded to the nearest million.

d) *Use of estimates and judgements*

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities as well as income and expenses in the Financial Statement presented. Actual results may differ from the estimates and the assumption made.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of IFRS that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment within the next financial year are discussed in note 38.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Bank entities.

3. Basis of consolidation

a) *Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control usually exists when the Bank holds more than the 50% of the voting power of the subsidiary. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank's share of the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

b) *Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The Financial Statements of special purpose entities are included in the Bank's Consolidated Financial Statements where the substance of the relationship is that the Bank controls the special purpose entity.

c) *Funds management*

The Bank manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The Financial Statements of these entities are not included in these Consolidated Financial Statements except when the Bank controls the entity. Information about the Bank's funds management and securitisation activities is set out in note 71.

d) *Transactions eliminated on consolidation*

Intragroup balances, unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with associated entities are eliminated to the extent of the Bank's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. Associates

Associates are those entities over which the Bank has significant influence, i.e. the power to participate in the financial and operating policy decisions of the associates but not control or joint control over those policies. Significant influence generally exists when the Bank holds between 20% and 50% of the voting power, including potential voting rights. Investments in associates are initially recognised at cost. The carrying amount of investments in associates includes goodwill and accumulated impairment loss.

Investments in associates held as venture capital in Investment Banking are not accounted for on an equity basis but are designated upon initial recognition as financial assets at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

The Consolidated Financial Statements include the Bank's share of the total recognised income and expenses of associates on an equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Bank's share of losses exceeds its interest in an equity accounted associate, the Bank's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

4. cont'd

If an investment in an associate is classified as held for sale the equity method is no longer applied and the investment is accounted for as non-current assets held for sale.

5. Foreign currency

a) *Functional currencies*

Items included in the Financial Statements of each of the Bank's entities are measured using the functional currency of the respective entity.

b) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Bank entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or financial instruments designated as a hedge of the net investment in a foreign operation which are recognised directly in equity.

c) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Icelandic krona, at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Icelandic krona at average exchange rates approximating the exchange rates current at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in equity. Since 1 January 2004, the Bank's date of transition to IFRSs, such differences have been recognised in the Translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the Translation reserve is transferred to the Income Statement.

d) *Hedges of net investment in foreign operations*

See accounting policy 10c.

6. Income and Expense

a) *Interest income and expense*

Interest income and expense are recognised in the Income Statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the Income Statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis,
- unwinding of the discount on impaired financial assets,
- interest on trading assets and liabilities on an accrual basis,
- interest on financial assets and financial liabilities designated at fair value through profit or loss on an accrual basis,
- interest on derivatives designated as hedging instruments on an accrual basis.

6. cont'd

b) *Fee and commission income and expense*

The Bank provides various services to its clients and earns income there from, such as income from Investment Banking, Corporate Banking, Capital Markets, Asset Management and Retail Banking. Fees earned from services that are provided over a certain period of time are recognised as the services are provided. Fees earned from transaction-type services are recognised when the service has been completed. Fees that are performance-linked are recognised when the performance criteria are fulfilled. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

c) *Net financial income*

Net financial income comprises Dividend income, Net gain on financial assets and liabilities at fair value through profit and loss, Net foreign exchange gain and Net gain on financial assets and liabilities not at fair value.

i) Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

ii) Net gain on financial assets and liabilities at fair value through profit and loss comprises Net gain on trading portfolio, Net gain on assets and liabilities designated at fair value through profit and loss and Fair value adjustments on hedge accounting.

Net gain on trading portfolio

Net gains on financial instruments held for trading comprise gains and losses related to financial assets and financial liabilities held for trading, and includes all realised and unrealised fair value changes, except for interest (which is included in "Interest income" and "Interest expense") and foreign exchange gains and losses (which are included in "Net foreign exchange gains" as described below).

Gains and losses arising from changes in the fair value of derivatives that are classified as held for trading and which are economic hedges of financial assets or financial liabilities designated at fair value through profit or loss are included in "Net gains on financial instruments designated at fair value through profit or loss".

Net gain on assets and liabilities designated at fair value through profit and loss

Net gains on financial instruments designated at fair value through profit or loss comprise gains and losses related to financial assets and financial liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes, except for interest (which is included in "Interest income" and "Interest expense") and foreign exchange gains and losses (which are included in "Net foreign exchange gains" as described below).

Fair value adjustments in hedge accounting

Fair value adjustments in hedge accounting comprise gains and losses arising from the entire change in fair value of hedging instruments in fair value hedges and gains and losses on hedged items attributable to the risks being hedged.

iii) Net foreign exchange gains comprise all foreign exchange differences arising on the settlement of foreign currency monetary assets and liabilities and on translating foreign currency monetary assets and liabilities at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, except for differences arising on financial instruments designated as hedging instruments of net investments in foreign operations (see note 5).

Net foreign exchange gains also include foreign exchange differences arising on translating non-monetary assets and liabilities which are measured at fair value in foreign currencies and whose other gains and losses are also recognised in profit or loss.

iv) Net gain on financial assets and liabilities not at fair value through profit or loss relates to derecognition of certain financial assets and liabilities and comprises Net realised gain on loans and finance leases, Net realised gain on available-for-sale assets, Net realised gain on financial liabilities measured as amortised cost, and other net realised gain. It does not include either unrealised foreign exchange gains or interest income and expense which are included in other line items.

6. cont'd

d) *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

e) *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The deferred income tax asset / liability has been calculated and entered in the Balance Sheet. The calculation is based on the difference between Balance Sheet items as presented in the tax return on the one hand, and in the Financial Statements on the other, taking into consideration a carry-forward tax loss. This difference is due to the fact that tax assessments are based on premises that differ from those governing the Financial Statements, mostly because revenues, especially of financial assets, are recognised earlier in the Financial Statements than in the tax return. A deferred tax asset is only offset against income tax liability if they are due to tax assessment from the same tax authorities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

7. Impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

An impairment loss is recognised whenever the carrying amount of a financial asset exceeds its recoverable amount. Impairment losses are recognised as described below.

a) *Impairment on loans*

The Bank recognises losses for impaired loans when there is objective evidence that impairment of a loan or portfolio of loans has occurred. This is done on a consistent basis in accordance with the Bank's guidelines.

There are two basic methods of calculating impairment losses, those calculated on individual loans and those losses assessed on a collective basis. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence of impairment includes observable data about the following loss events:

i) significant financial difficulty of the borrower;

ii) a breach of contract, such as a default on instalments or on interest or principal payments;

iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;

7. cont'd

iv) It becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;

v) The disappearance of an active market for that financial asset because of financial difficulties; or

vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- general national or local economic conditions connected with the assets in the group.

Individually assessed loans

Impairment losses on individually assessed accounts are determined by an evaluation of the exposures on a case-by-case basis. The Bank assesses at each reporting date whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant. In determining such impairment losses on individually assessed accounts, the following factors are considered:

- the Bank's aggregate exposure to the customer;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigates) and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value and the amount of any loss is charged in the Income Statement. The carrying amount of impaired loans is reduced through the use of an allowance account. In the case of a loan at variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Collectively assessed loans

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the reporting date but which will not be individually identified as such until some time in the future. The estimated collective impairment loss is recognised through the use of an allowance account.

The collective impairment loss is determined after taking into account:

- future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash flows of the assets;
- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan;
- future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash; and
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The estimated period between a losses occurring and its identification is determined for each identified portfolio.

7. cont'd

Estimates of changes in future cash flows for groups of assets should be consistent with changes in observable data from period to period, for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the group and their magnitude. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to minimise any differences between loss estimates and actual losses.

Loan write-offs

Loans are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

Reversals of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of any reversal is recognised in the Income Statement.

Assets acquired in exchange for loans

Non-financial assets acquired in exchange for loans in order to achieve an orderly realisation are recorded as assets held for sale and reported in the Balance Sheet. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan, net of impairment allowance amounts, at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the Income Statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the Income Statement.

b) *Impairment of financial assets available-for-sale*

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial strength of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The amount of impairment loss is recognised in the Income Statement. Impairment losses are subsequently reversed if the reasons for the impairment loss charged no longer apply.

c) *Calculation of recoverable amount*

The recoverable amount of the Bank's investments in financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate, i.e. the effective interest rate computed at initial recognition of these financial assets.

d) *Reversals of impairment*

An impairment loss in respect of financial assets carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the Income Statement.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

7. cont'd

e) *Impairment on investments in associates*

After applying the equity method to account for investments in associates, the Bank determines whether it is necessary to recognise any impairment loss with respect to its net investments in associates. The Bank first determines whether there is any objective evidence that a net investments in an associate is impaired in the same way as for available-for-sale equity instruments (see 7.b above). If such evidence exists, the Bank then tests the entire carrying amount of the investment for impairment, by comparing its recoverable amount, which is the higher of value in use and fair value less costs to sell, with its carrying amount. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the Bank. The excess of the carrying amount over the recoverable amount is recognised in income statement as an impairment loss. Impairment losses are subsequently reversed through Income Statement if the reasons for the impairment loss no longer apply.

8. Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine, whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent of other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill associated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

9. Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to a change in an underlying variable, such as share, commodity or bond prices, an index value or an exchange or interest rate, which requires no initial net investment or initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and which is settled at a future date.

The Bank uses derivatives for trading purposes and to hedge its exposure to market price risk, foreign exchange and interest rate risk arising from operating, financing and investing activities.

Derivatives are recognised at fair value. Fair value changes are recognised in the Income Statement, except in the case of derivatives that are designated and are effective hedging instruments, whose fair value changes are recognised in accordance with the accounting policies in note 10. Changes in fair values of derivatives are split into interest income, foreign exchange differences and other gains and losses. Interest income is recognised on accrual basis. Derivatives with positive fair values are recognised as Derivatives and derivatives with negative fair values are recognised as Financial liabilities measured at fair value.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the Balance Sheet together with the host contract.

The fair value of derivatives is determined in accordance with the accounting policy presented in note 13.

10. Hedging

Due to the Bank's risk positions and funding structure, its risk management policies require that the Bank should minimise its exposure to changes in foreign currency rates and manage interest rate risk, credit risk and market price risk exposure within certain guidelines (see also separate section on risk management). The Bank uses both derivative and securities to manage the potential earnings impact of these risks. Securities comprise bonds and other debt instruments as well as shares and other equity instruments.

Several types of derivatives are used for this purpose, including interest rate swaps, currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the Bank's hedging activities is to protect the Bank from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank enters into transactions to ensure that it is economically hedged in accordance with risk management policies. For qualifying hedge relationships, the Bank uses hedge accounting.

Each qualifying hedge relationship is evidenced and driven by management's approach to risk management and the decision to hedge the particular risk. Where hedge accounting is applied the Bank assesses, both at the inception of the hedge and each time the Bank prepares its annual or interim Financial Statements, whether the derivatives used as hedges are highly effective in offsetting the changes in value or cash flows associated with the hedged items. A hedge is normally regarded as highly effective if the changes in fair value or cash flows of the hedged item are expected to almost fully offset the changes in fair value or cash flows of the hedging instrument. Actual effectiveness results must be within a range of 80 to 125 percent on a cumulative basis. The designation and effectiveness measurement follows the methodologies that management has in place for risk identification and measurement. The ineffective portion of any gain or loss on a hedging instrument is recognised in the Income Statement.

The Bank's risk management activities concentrate on hedging the Bank's net exposure based on its asset and liability positions. Therefore the Bank monitors its interest rate risk exposures by reviewing the net asset or liability gaps within repricing bands. For hedge accounting purposes, the Bank designates the benchmark interest rate exposure of a portion of the underlying gross exposure as the hedged item and the hedge relationship is viewed at a micro level, considering only the relationship between the hedged item and the hedging instrument.

Where the Bank hedges a portfolio of loans in respect of interest rate risk it groups the loans into homogenous layers, each with specific maturities.

The Bank designates hedge relationships only for fair value hedge accounting and net investments in foreign operations.

The treatment of changes in fair value depends on their classification into the following categories:

a) *Fair value hedges*

Fair value hedges seek to eliminate risks of changes in the fair value of a recognised asset or liability or firm commitment that will give rise to a gain or loss that will be recognised in the Income Statement.

When a derivative hedges the changes in fair value of recognised assets or liabilities or an identified portion of such assets or liabilities, any gain or loss on the hedging instrument is recognised in the Income Statement. The hedged items are also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the Income Statement. The gains and losses on the hedging instruments and hedge items, are presented together in the Income Statement as part of Net financial income except for the changes in fair values of derivatives used as hedging instruments that relate to interest income (see note 9). Fair value changes of derivatives used as hedging instruments are included in Net interest income.

If the derivative expires or is sold, terminated or exercised, it no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

b) *Other non-trading derivatives*

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of Net financial income and Net interest income.

10. cont'd

c) *Hedges of net investments in foreign operations*

Hedges of net investments in foreign operations seek to eliminate the exposure to foreign currency risks of the net investments.

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges are taken to Translation reserve in equity. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in Net financial income. They are recycled and recognised in Net financial income upon disposal of the operation. In respect of all foreign operations, any differences that have arisen before 1 January 2004, the date of transition to IFRS, are presented as retained earnings in the equity statement.

11. Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Cash Flows consist of cash, demand deposits with the central banks and demand deposits with other credit institutions.

12. Loans

Loans are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans include loans provided by the Bank to credit institutions and to its customers, participation in loans from other lenders and purchased loans.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date reverse repo or stock borrowing, the arrangement is accounted for as a loan, and the underlying asset is not recognised in the Bank's Financial Statements.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans at fair value through profit or loss as described in accounting policy 13b. Accrued interest is included in the carrying amount of the loans.

13. Financial assets measured at fair value through profit and loss.

a) *Trading assets*

Trading assets are financial instruments acquired principally for the purpose of generating profits from short-term price fluctuations or from a dealer's margin.

b) *Financial assets designated at fair value through profit or loss*

The Bank classifies certain financial assets upon their initial recognition as financial assets held at fair value with fair value changes recognised in the Income Statement as Net financial income if doing so results in more relevant information because:

i) the assets are managed, evaluated and reported internally on a fair value basis;

ii) the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

iii) the assets contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

The assets classified according to the above-mentioned conditions consist of:

i) fixed interest rate loans originated by the Bank whose fixed interest has been changed into floating by entering into corresponding interest rate swaps;

ii) equity and debt instruments which are acquired by the Bank with a view to profiting from their total return and which are managed and evaluated on a fair value basis, including equity instruments held by the venture capital organisation of the Bank which give the Bank significant influence over the issuer but not control;

13. cont'd

iii) structured products that contain embedded derivatives; and

iv) mortgage loans originated by the Bank's subsidiary in Denmark. These are financial assets that are granted by the Bank by providing money directly to a debtor. They are initially recorded at fair value, which is the cash given to originate the loan and are subsequently measured at fair value. The fair value of mortgage loans is based on the fair value of the underlying mortgage bonds.

Interest and dividend income that arises from these assets are included in Interest income and Net financial income, respectively. Interest income on debt instruments is recognised on an accrual basis.

14. Financial assets available-for-sale

Financial assets available-for-sale consists of unlisted equity instruments held for long time investment purposes.

Financial assets available-for-sale are recognised at fair value. Unrealised gains or losses on available-for-sale investments are recognised in equity, net of income taxes, until such investments are disposed of or until they are determined to be impaired. On disposal of an available-for-sale investment, the accumulated unrealised gain or loss included in equity is transferred to the Income Statement and recognised in Net gain on financial assets and liabilities not at fair value through profit or loss. Gains and losses on disposal are determined using the average cost method.

Dividend income on available-for-sale financial assets is included in Dividend income in the Income Statement. Exchange rate differences arising on equity instruments are recognised in equity.

15. Determination of fair value

The determination of fair value of financial assets and financial liabilities that are quoted in an active market is based on quoted prices. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Bank uses widely recognised valuation models for determining the fair value of common and more simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Bank uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the Balance Sheet.

16. Recognition and derecognition of financial assets and financial liabilities

Purchases and sales of financial assets are recognised using trade date accounting, i.e. they are recognised on the date on which the Bank commits to purchase or sell the asset, except for loans which are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the liability instrument. Financial liabilities are derecognised when the obligation of the Bank specified in the contract is discharged or cancelled or expires.

17. Offsetting financial assets and financial liabilities

Financial assets and liabilities are set off and the net amount reported in the Balance Sheet when, and only when, the Bank has a legal right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains or losses arising from a group of similar transactions such as in the Bank's trading activity.

18. Amortised cost measurement of financial assets and financial liabilities

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

19. Repurchase agreements

A repurchase agreement involves the sale of securities subject to the simultaneous agreement to repurchase the same securities at a certain later date and at an agreed price. In repurchase agreements, the cash received, including accrued interest is recognised in the Balance Sheet. The proceeds from the legal sale of these securities are reported as borrowings.

The control of the securities remains with the Bank throughout the entire term of the transaction and the securities continue to be reported in the Bank's Balance Sheet as Bonds and debt instruments, as appropriate. Interest incurred is recognised as interest expense over the life of each agreement.

20. Leases

The Bank classifies leases based on the extent of the transfer of risks and rewards incidental to ownership of leased assets. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans.

Operating leases - lessee

Property and equipment which the Bank leases to third parties under operating leases are classified in the Balance Sheet as Investment property or Property and equipment on a property-by-property basis. Lease payments under operating leases where the Bank is the lessee are recognised as an expense on a straight-line basis over the lease term.

21. Intangible assets

a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries.

Acquisitions prior to 1 January 2004

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recognised under previous GAAP.

Acquisitions on or after 1 January 2004

All business combinations after 1 January 2004 are accounted for by applying the purchase method. Goodwill has been recognised on the acquisition of subsidiaries and associates. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

21. cont'd

Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses.

b) *Other intangible assets*

Intangible assets other than goodwill that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses. Software and customer base are examples of other intangible assets.

c) *Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

d) *Amortisation*

Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Software	5 years
Customer base	10 years

22. Investment property

An investment property is a property which is held either to earn rental income or for capital appreciation or for both. Investment property is stated at fair value. The Bank uses independent professionally quailified valuers who determine the fair value of investment property by applying recognised valuation techniques. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

23. Property and equipment

a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

b) *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. All other costs are recognised in the Income Statement as an expense as incurred.

c) *Depreciation*

The depreciable amount of property and equipment is determined after deducting its residual value. Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

Real estate	25-50 years
Machinery and equipment	3-5 years
Operating lease	3-10 years

The depreciation methods, useful lives and residual values are reassessed annually.

24. Non-current assets and disposal groups held for sale

Immediately before classification as held for sale, the measurement of the qualifying assets and all assets and liabilities in a disposal group is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Investment property held for sale is carried at fair value. Impairment losses on initial classification as held for sale are included in the Income Statement, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

Non-current assets and disposal groups held for sale are mainly mortgages foreclosed and disposal entities. Disposal entities are consolidated.

25. Deposits

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

26. Borrowings

Some of the borrowings of the Bank are classified as other financial liabilities and are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between cost and redemption amount being recognised in the Income Statement over the period of the borrowings on an effective interest basis. Accrued interest is included in the carrying amount of the borrowings.

27. Subordinated loans

Subordinated loans are classified as other financial liabilities and consist of liabilities in the form of subordinated capital which, in case of the Bank's voluntary or compulsory winding-up, will not be repaid until after the claims of ordinary creditors have been met. In the calculation of the capital ratio, the bonds are included within Tier I and Tier II, as shown in note 83. On the one hand, there are subordinated loans with no maturity date that the Bank may not retire until 2011 and 2014 and then only with the permission of the Financial Supervisory Authority. These liabilities qualify as Tier I capital in the calculation of the equity ratio. On the other hand, there are subordinated loans with various dates of maturity over the next 25 years.

Subordinated loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, subordinated loans are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis.

28. Financial liabilities measured at fair value

a) *Trading liabilities*

Trading liabilities primarily consist of derivatives with negative fair values and delivery obligations for short sales of securities. Hedging derivatives such as those used for internal risk control but not qualifying for hedge accounting under IAS 39 are also disclosed under this item.

Trading liabilities are measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value of trading liabilities are reported as Net gain on financial assets and liabilities measured at fair value. Interest expenses on trading liabilities are included in Interest expenses.

b) *Financial liabilities designated at fair value through profit or loss*

The Bank classifies certain financial liabilities upon their initial recognition as financial liabilities at fair value with fair value changes recognised in profit or loss if doing so results in more relevant information because:

i) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different base or

ii) Financial assets and/or financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with the Bank's risk management or investment strategy, and information about it is provided internally on that basis to the Bank's key management personnel.

If the Bank becomes a party to instruments containing embedded derivatives which meet specific conditions, the Bank classifies the instruments into this category in order to avoid the complexity of applying the rules on separation and accounting for the embedded derivatives.

28. cont'd

The liabilities classified according to the above-mentioned conditions consist of:

– Mortgage bonds issued by the Bank are financial liabilities that are created by the Bank by issuing bonds that correspond to the terms of the underlying mortgage loans.

– Transaction costs related to financial liabilities designated at fair value through profit and loss are included in the Income Statement as interest expense.

– Mortgage funding is recognised when cash is advanced to the Bank from issuing bonds. They are initially recorded at fair value, which is the cash received and are subsequently measured at fair value. Fair value of issued mortgage bonds is the current market price. Illiquid mortgage bonds will be carried at a value calculated by discounting cash flows.

– Financial liabilities designated at fair value through profit or loss are measured at fair value and changes in their fair value are recognised in the Income Statement as Net financial income. Interest expenses that arises from these liabilities is recognised on an accrual basis in Interest expense.

29. Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

30. Other assets and other liabilities

Other assets and other liabilities are stated at cost.

31. Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, which is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within Other liabilities.

32. Employee benefits

a) *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement when they are due.

b) *Share-based payment transactions*

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

33. Share Capital

a) *Treasury shares*

Acquired own shares and other equity instruments (treasury shares) are deducted from equity. No gain or loss is recognised in Income Statement on the purchase, sale, issue or cancellation of treasury shares. Consideration paid or received is recognised directly in equity.

Incremental transaction costs of treasury share transaction are accounted for as a deduction from equity (net of any related income tax benefit).

When classifying a financial instrument (or component of it) in the Consolidated Financial Statements, all terms and conditions agreed between members of the Bank and the holders of the instrument are considered. To the extent there is an obligation that would give rise to a financial liability, the instrument is classified as financial liability, rather than an equity instrument.

b) *Dividend on shares*

Dividends on shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

34. Earnings per share

The Bank presents basic and diluted earnings per share data for its ordinary shares.

Earnings per share are calculated by dividing the net earnings attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Bank calculates dilutive potential ordinary shares by determining the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company´s shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

35. New Standards and Interpretations effective in 2007

IFRS 7 *Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements:* Capital Disclosures became mandatory for the Bank's 2007 financial statements. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank. In accordance with the transitional requirements of the standards, the Bank has provided full comparative informa-

IFRIC 7 – 10 became mandatory for the Bank's 2007 financial statements but their adoption had no impact on the Bank's 2007 Financial Statements.

36. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these Consolidated Financial Statements:

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 Financial Statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Bank presents segment information in respect of its business and geographical segments (see note 41-43). The Bank has not yet determined the potential effect of IFRS 8 on the Consolidated Financial Statements.

IAS 1 *Presentation of Financial Statements (revised in 2007)* replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. IAS 1 (Revised 2007) sets the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Unlike under current IAS 1, it is not permitted to present components of comprehensive income in the statement of changes in equity. IAS 1 (revised in 2007), which becomes mandatory for the Bank's 2009 Financial Statements if endorsed by the EU, is expected to impact the presentation of the Bank's income statement and statement of changes in equity.

36. cont'd

Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. If endorsed by the EU, the revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will have no effect on the Bank's accounting policies.

The amendments to IFRS 2 *Share Based Payment – Vesting Conditions and Cancellations (January 2008)* clarify the definition of vesting conditions and the accounting treatment of cancellations. If endorsed by the EU, the amendments become mandatory for the Bank's 2009 financial statements, with retrospective application required. The amendments are not expected to have any effect on the consolidated financial statements of the Bank.

IFRS 3 Business Combinations (revised in 2008) and amended IAS 27 Consolidated and Separate Financial Statements introduce changes to the accounting for business combinations and for non-controlling (minority) interest. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:

- IFRS 3 (2008) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
- the definition of a business combination has been revised to focus on control;
- the definition of a business has been amended;
- transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;
- acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
- disposals of equity interests while retaining control are accounted for as equity transactions;
- new disclosures are required.

IFRS 3 (revised in 2008) and amended IAS 27 will become mandatory for the Bank's 2010 Financial Statements, if endorsed by the EU. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. The Bank has not yet determined the potential effect of IFRS 3 (revised in 2008) and amended IAS 27 on the consolidated financial statements.

IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. IFRIC 11 is not expected to have any impact on the consolidated financial statements.

IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Bank's 2008 financial statements if endorsed by the EU, will have no effect on the consolidated financial statements.

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements if endorsed by the EU, is not expected to have a material impact on the consolidated financial statements.

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Bank's 2008 financial statements if endorsed by the EU, with retrospective application required. The Bank has not yet determined the potential effect of the interpretation on the consolidated financial statements.

37. Segment reporting

Business segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments. The Bank´s primary format for segment reporting is based on business segments.

38. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These disclosures supplement the risk management disclosure, provided elsewhere in these consolidated financial statements.

a) *Key sources of estimation uncertainty*

i) Impairment losses on loans

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the Income Statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

ii) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

iii) The Bank is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

b) *Critical accounting judgements in applying the Bank's accounting policies*

i) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Bank has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

ii) Securitisations

In applying its policies on securitised financial assets, the Bank has considered both the degree of transfer of risk and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

– When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's Balance Sheet.

– When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's Balance Sheet.

– When the Bank has transferred substantially all the risk and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's Balance Sheet.

Details of the Bank's securitisation activities are given in note 71.

39. Changes within the Bank

On 4 April the Bank sold all shares in the wholly owned subsidiary Eik fasteignafélag hf. The total sale price was ISK 6,109 million and the Bank generated a profit before taxes of ISK 4,262 million on this transaction, which was booked in the second quarter of 2007. Total assets of Eik fasteignafélag hf. at the end of March 2007 amounted to ISK 37,645 million, of which investment properties totalled ISK 6,807 million.

In December the Bank sold its operation in the Faroe Islands to Eik Banki P/F.

Segment Reporting

40. 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

The Bank comprises the following main business segments:

Capital Markets is divided into two parts: Capital Markets and Proprietary Trading. Capital Markets handles securities, derivatives and foreign exchange trading and 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.

Investment Banking provides various services to corporate clients through its four main products areas: M&A advisory, Capital Markets Advisory , Acquisition and Leverage Finance and Principle Investment.

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

Banking provides general banking services to retail customers in Iceland and services such as advice and assistance in financing to medium-sized and large companies, particularly in Iceland, Sweden, the United Kingdom and Denmark.

Asset Management and Private Banking manage financial assets for institutional, corporate and private clients. Asset Management is organised into three units: Alternative and Mutual Fund Management, Asset Management for Institutional Investors and Services for Institutional Investors. Private Banking consists of two units: Customer Relations and Portfolio Management.

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

Geographical segments

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

41. Summary of the Bank's business segments:

2007	Capital Markets	Investment Banking	Treasury	Banking	Asset Managem. and Private Banking	Elimination and Cost Centres	Total
Net interest income	2,436	(3,027)	22,759	60,664	1,183	(3,902)	80,113
Net fee and commission income	20,957	13,715	(707)	6,668	13,801	587	55,021
Net financial income	9,069	14,724	(17,793)	393	310	7,730	14,433
Other income	225	223	91	6,539	164	9,009	16,251
Operating income	32,687	25,635	4,350	74,264	15,458	13,424	165,818
Operating expense	(11,562)	(5,573)	(3,988)	(19,149)	(7,947)	(30,512)	(78,731)
Impairment	1	(24)	33	(6,162)	-	(28)	(6,180)
Total expense	(11,561)	(5,597)	(3,955)	(25,311)	(7,947)	(30,540)	(84,911)
Earnings before cost allocation	21,126	20,038	395	48,953	7,511	(17,116)	80,907
Allocated cost	(4,186)	(1,595)	(2,244)	(9,858)	(4,125)	22,008	-
Earnings before income tax	16,940	18,443	(1,849)	39,095	3,386	4,892	80,907

Amounts are in ISK millions

41. cont'd

2007	Capital Markets	Investment Banking	Treasury	Banking	Asset Managem. and Private Banking	Elimination and Cost Centres	Total
Net segment revenue from external customers	48,519	27,293	(117,868)	200,807	7,950	(883)	165,818
Net segment revenue from other segments	(15,832)	(1,658)	122,218	(126,543)	7,508	14,307	-
Operating income	32,687	25,635	4,350	74,264	15,458	13,424	165,818
Depreciation and amortisation	86	27	19	4,052	79	2,287	6,550
Total assets	289,634	177,278	2,580,162	3,209,018	49,197	(957,944)	5,347,345
Total liabilities	253,004	135,857	2,517,943	3,006,550	38,451	(960,891)	4,990,914
Allocated equity	36,630	41,421	62,219	202,468	10,746	2,947	356,431
Total liabilities and equity	289,634	177,278	2,580,162	3,209,018	49,197	(957,944)	5,347,345
Capital expenditure	192	23	140	3,163	95	11,493	15,106
2006							
Net interest income	(408)	(3,348)	10,386	45,903	817	(988)	52,362
Net fee and commission income	9,881	9,577	443	5,744	11,230	409	37,284
Net financial income	7,913	42,984	8,411	750	531	(432)	60,157
Other income	-	43	25	6,631	962	9,752	17,413
Operating income	17,386	49,256	19,265	59,028	13,540	8,741	167,216
Operating expense	(6,394)	(3,636)	(2,889)	(14,969)	(7,380)	(24,738)	(60,006)
Impairment	(123)	1	(5)	(4,851)	(1,138)	(11)	(6,127)
Total expense	(6,517)	(3,635)	(2,894)	(19,820)	(8,518)	(24,749)	(66,133)
Earnings before cost allocation	10,869	45,621	16,371	39,208	5,022	(16,008)	101,083
Allocated cost	(3,247)	(888)	(1,973)	(8,744)	(3,427)	18,279	-
Earnings before income tax	7,622	44,733	14,398	30,464	1,595	2,271	101,083
Net segment revenue from external customers	24,288	53,425	(55,757)	135,108	9,515	637	167,216
Net segment revenue from other segments	(6,902)	(4,169)	75,022	(76,080)	4,025	8,104	-
Operating income	17,386	49,256	19,265	59,028	13,540	8,741	167,216
Depreciation and amortisation	10	7	19	3,529	34	2,377	5,976
Total assets	328,176	108,946	1,536,197	2,597,032	12,386	(527,341)	4,055,396
Total liabilities	297,380	47,998	1,487,116	2,421,953	4,171	(538,114)	3,720,504
Allocated equity	30,796	60,948	49,081	175,079	8,215	10,773	334,892
Total liabilities and equity	328,176	108,946	1,536,197	2,597,032	12,386	(527,341)	4,055,396
Capital expenditure	259	38	285	6,957	705	7,383	15,627

Geographical analysis

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

The geographical analysis of operating income is provided in order to comply with IFRS and does not reflect the way the Bank is managed.

2007	Iceland	Scandi-navia	UK	Luxem-bourg	Other	Total
Net interest income	26,747	21,092	23,759	6,706	1,809	80,113
Net fee and commission income	22,241	9,319	16,270	6,115	1,076	55,021
Net financial income	446	6,272	7,411	369	(65)	14,433
Other income	5,315	6,117	4,517	284	18	16,251
Operating income	54,749	42,800	51,957	13,474	2,838	165,818
2006						
Net interest income	16,592	17,311	12,099	4,882	1,478	52,362
Net fee and commission income	14,724	5,935	10,543	4,355	1,727	37,284
Net financial income	34,995	17,181	5,975	1,842	164	60,157
Other income	12,233	993	4,168	-	19	17,413
Operating income	78,544	41,420	32,785	11,079	3,388	167,216

Financial gains relating to the sale of Exista hf. in 2006, amounting to ISK 26,084 million, is included in Net financial income in Iceland. Financial gains relating to the sale of VÍS hf. in 2006, amounting to ISK 7,421 million, is included in Other income in Iceland.

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

2007	Iceland	Scandi-navia	UK	Luxem-bourg	Other	Total
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
2006						
Cash and balances with central banks	964	40,616	65,007	42	332	106,961
Loans to credit institutions	88,421	126,909	139,308	50,414	80,282	485,334
Loans to customers	573,238	1,085,119	506,626	271,469	102,157	2,538,609
Financial assets measured at fair value	332,744	261,918	30,621	36,426	3,420	665,129
Other assets	76,149	111,686	66,316	4,899	313	259,363
Total assets	1,071,516	1,626,248	807,878	363,250	186,504	4,055,396

Notes to the Consolidated Income Statement

Net interest income

44. Interest income and expense is specified as follows:

2007	Interest income	Interest expense	Net interest income
Cash and balances with central banks	4,743	-	4,743
Loans, receivables and deposits	242,097	(90,375)	151,722
Borrowings	-	(114,642)	(114,642)
Subordinated loans	-	(15,130)	(15,130)
Securities	46,661	(2,153)	44,508
Finance leases	6,197	-	6,197
Other	4,633	(1,918)	2,715
Interest income and expense	304,331	(224,218)	80,113
Interest income and expenses from assets and liabilities at fair value	46,588	(2,153)	44,435
Interest income and expenses from assets and liabilities not at fair value through profit or loss	257,743	(222,065)	35,678
Interest income and expense	304,331	(224,218)	80,113

2006			
Cash and balances with central banks	911	-	911
Loans, receivables and deposits	150,405	(43,470)	106,935
Borrowings	-	(77,613)	(77,613)
Subordinated loans	-	(10,665)	(10,665)
Securities	28,191	(2,372)	25,819
Finance leases	5,359	-	5,359
Other	2,585	(969)	1,616
Interest income and expense	187,451	(135,089)	52,362
Interest income and expenses from assets and liabilities at fair value	28,164	(2,372)	25,792
Interest income and expenses from assets and liabilities not at fair value through profit or loss	159,287	(132,717)	26,570
Interest income and expense	187,451	(135,089)	52,362

Net fee and commission income

45. Fee and commission income and expense is specified as follows:

Fee and commission income	2007	2006
Securities trading	16,862	11,413
Derivatives	4,783	3,582
Lending	8,347	2,901
Asset management fees	7,492	6,548
Other fee and commission income	27,381	16,460
Fee and commission income	64,865	40,904
Fee and commission expense		
Purchased guarantees	(477)	(139)
Securities trading	(2,652)	(2,052)
Other fee and commission expense	(6,715)	(1,429)
Fee and commission expense	(9,844)	(3,620)
Net fee and commission income	55,021	37,284

Included above is fee and commission income of ISK 60,082 million (2006: ISK 37,321 million) and fee and commission expense of ISK 5,552 million (2006: ISK 2,623 million), (other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value.

Asset management fees are earned by the Bank on trust and fiduciary activities where the Bank holds or invests assets on behalf of the customers.

Net financial income

46. Net financial income is specified as follows:

Dividend income	5,658	5,074
Net (loss) gain on financial assets and liabilities at fair value	(1,426)	52,023
Net foreign exchange gain	10,151	2,918
Net gain on financial assets and liabilities not at fair value through profit or loss	50	142
Net financial income	14,433	60,157

Dividend income

47. Dividend income is specified as follows:

Dividend income on trading assets	5,341	3,757
Dividend income on assets at fair value through profit or loss	317	1,317
Dividend income	5,658	5,074

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

48. Net (loss) gain on financial assets and liabilities at fair value through profit or loss are specified as follows:

	2007	2006
Net (loss) gain on trading portfolio	(18,380)	12,997
Net gain on assets designated at fair value through profit or loss	16,512	38,668
Fair value adjustments on hedge accounting	442	358
Net (loss) gain on financial assets and liabilities at fair value	(1,426)	52,023

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

Net (loss) gain on equity instruments and related derivatives	(3,435)	11,226
Net (loss) gain on foreign exchange trading	(363)	463
Net loss on interest rate instruments and related derivatives	(305)	(3,643)
Net (loss) gain on other derivatives	(14,277)	4,951
Net (loss) gain on trading portfolio	(18,380)	12,997

50. Net 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	(6,814)	(2,623)
Net gain on equity instruments designated at fair value	23,326	41,291
Net gain on assets designated at fair value through profit and loss	16,512	38,668

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

51. 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	-	103
Net realised gain on available-for-sale assets	50	32
Other net realised gain	-	7
Net gain on financial assets and liabilities not at fair value	50	142

Other operating income

52. Other operating income is specified as follows:

Gain on disposals of assets other than held for sale	6,012	8,784
Income from operating leases	4,748	4,128
Fair value adjustments on investment property	(196)	513
Realised gain on investment property	-	216
Other income	2,228	2,578
Other operating income	12,792	16,219

Personnel

53. The Bank's total number of employees is as follows:

Average number of full time equivalent positions during the year	3,109	2,553
Full time equivalent positions at the end of the year	3,334	2,719

54. Salaries and related expenses are specified as follows:

	2007	2006
Salaries	21,902	16,388
Bonus payments	16,327	11,606
Salary related expenses	8,418	5,576
Salaries and related expense	46,647	33,570

A subsidiary of the Bank, Kaupthing Singer & Friedlander, has a defined benefit pension scheme. All accrued cost in respect of the plan has been entered into the Financial Statements. Based on actuarial calculation the total liability is ISK 1,242 million at year end 2007.

55. Salaries to the executives of the Bank, their stock options and shares owned at year-end are specified as follows:

	Salaries	Benefits	Bonuses	Pension fund payment	Stock options shares	Shares at year-end
CEO:						
Hreidar Már Sigurdsson	70.5	4.4	35.0	28.3	3.2	7.2
Directors:						
Sigurdur Einarsson, Chairman	70.5	37.3	35.0	26.7	3.2	8.2
Antonios P. Yerolemou	3.6					9.5
Ásgeir Thoroddsen	6.2					-
Bjarnfredur Ólafsson	7.5					-
Brynja Halldórsdóttir	6.2					-
Gunnar Páll Pálsson	6.2					-
Hjörleifur Thor Jakobsson	6.2					-
Niels de Coninck-Smith	5.9					-
Tommy Persson	6.2					-
Managing director of a division and CEO of subsidiaries which accounts for 25% or more of the Bank's equity and performance:						
Ingólfur Helgason CEO in Iceland	30.0	10.1	40.0		0.4	3.7
Lars Johansen CEO in Denmark	52.9	1.6	35.8		-	-
Bjarki Diego GCO	16.6	1.8	36.0		0.4	1.7
Five Group Managing Directors	140.0	9.6	127.4	7.1	1.5	5.3

The remuneration of the Chairman of the Board and the other directors of the Board is decided by the Annual General Meeting of shareholders. In addition Board members receive remuneration for work in committees of the Board, such as audit, compensation and credit committees.

Remuneration to the Chairman of the Board, CEO and other members of "senior management" consist of base salary, variable salary/bonus, other benefits, extra pension contributions and stock-based compensation. The other members of senior management comprise the five persons who together with the CEO make up senior management. For the Chairman of the Board and CEO, the bonus is maximized at 100% of base salary. For the other members of senior management bonus is generally maximized at 100% of the base salary. Bonus to the Chairman of the Board, CEO and other senior management is based on the Bank's 15% minimum return on equity. Pension contributions and remuneration in the form of stock-based compensation and other benefits to the CEO and other members of senior management are part of the total remuneration package.

55. cont'd

Remuneration to the CEO and the Chairman of the Board for the financial year 2007 was decided by the Board based on the recommendation from the compensation committee. Remuneration to other members of Group management was decided by the CEO.

Pension fund payments are extra pension contributions to the senior management and the Chairman of the Board. The Bank also pays pension contributions to Board members and senior management based on Icelandic law. There are no pension liabilities related to board members or senior management.

Bjarnfredur Ólafsson, a Board member of the Bank, is a partner in the law firm Logos. The firm has provided the Bank legal services. The total fee paid to the firm was ISK 17 million for the year 2007 (2006 ISK: 32 million).

The CEO and the Chairman of the Board exercised in 2007 stock options that were granted in 2003. The difference in exercise price and market price was ISK 599 million for each of them.

Should the Chairman of the Board resign he shall receive salary payments for 12 months onwards, but otherwise his salary payments shall continue for 48 months from the date of the termination of employment. The CEO's term of notice is 12 months, but should his employment terminate due to other reasons his salary payments shall continue for 48 months.

Additional information on stock options can be found in note 116.

Auditor's fee

56. Auditor's fee is specified as follows:	2007	2006
Audit of the Financial Statements and other related audit service	389	295
Review of Interim Financial Statements	32	36
Other service	74	121
Auditor's fee	495	452
Fee to others than the Parent Company's auditors, included in the above total	398	366

Impairment

57. Impairment is specified as follows:

	2007	2006
Impairment on loans	6,098	4,857
Impairment on goodwill	75	451
Impairment on intangible assets	7	819
Impairment on other assets	82	1,270
Impairment on assets	6,180	6,127

Income tax expense

58. Income tax recognised in the Income Statement are specified as follows:

	2007	2006
Current tax expense		
Current year	7,872	10,154
Deferred tax expense		
Changes in temporary differences	1,844	4,482
Total Income tax expense	9,716	14,636

58. cont'd

Reconciliation of effective tax rate:	2007		2006	
Earnings before income tax		80,907		101,083
Income tax using the domestic corporation tax rate	18.0%	14,447	18.0%	18,195
Effect of tax rates in foreign jurisdictions	3.4%	2,775	(0.3%)	(290)
Non-deductible expense	(1.6%)	(1,297)	1.4%	1,394
Tax exempt revenues	(5.1%)	(4,091)	(2.8%)	(2,786)
Tax incentives not recognised in the Income Statement	0.0%	0	0.2%	171
Other changes	(2.7%)	(2,118)	(2.0%)	(2,048)
Effective tax rate	12.0%	9,716	14.5%	14,636

Earnings per share

59. Earnings per share are specified as follows:

	2007	2006
Net earnings attributable to the shareholders of Kaupthing Bank hf.	70,020	85,302
Weighted average share capital:		
Weighted average of outstanding shares for the year	735.8	671.0
Effects of stock options	14.9	20.3
Weighted average of total shares for the year, diluted	750.7	691.3
Basic earnings per share	95.2	127.1
Diluted earnings per share	93.3	123.4
Number of outstanding shares at the end of the year, million	737.1	732.1
Number of total shares at the end of the year, million, diluted	752.0	752.4
Average number of own shares, million	8.8	8.4
Number of own shares at the end of the year, million	3.4	8.4

Notes to the Consolidated Balance Sheet

Cash and balances with central banks

60. Cash and balances with central banks are specified as follows:

Cash and cash balances	50,269	10,537
Cash equivalent	47,690	96,424
Cash and balances with central banks	97,959	106,961

Loans to credit institutions

61. Loans to credit institutions specified by types of loans:	2007	2006
Money market loans	228,348	242,284
Bank accounts	197,240	95,828
Overdrafts	3,855	7,902
Reverse repos	18,869	50,753
Other loans	140,129	88,567
Loans to credit institutions	588,441	485,334

Loans to customers

62. Loans to customers specified by types of loans:

Overdrafts	85,624	113,354
Finance leases	73,597	93,006
Reverse repos and related agreements	41,971	-
Subordinated loans	38,328	7,369
Other loans	3,084,291	2,341,462
Provision on loans	(19,403)	(16,582)
Loans to customers	3,304,408	2,538,609

63. Loans to customers specified by sectors:

Individuals	17.1%	16.6%
Holding companies	14.7%	13.5%
Industry	17.1%	20.3%
Real estate	20.7%	15.6%
Service	18.3%	19.9%
Trade	10.1%	12.5%
Transportation	2.0%	1.6%
Loans to customers	100.0%	100.0%

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

2007	Overdrafts	Finance leases	Subordinated loans	Other loans	Total
Balance at 1 January	899	619	516	14,548	16,582
Provision for losses during the year	94	226	42	5,949	6,311
Exchange rate difference on translation	-	(52)	(13)	(640)	(705)
Write-offs during the year	(269)	(245)	-	(2,071)	(2,585)
Payment of loans previously written off	-	(3)	-	(210)	(213)
Disposals due to sale of subsidiary	-	-	-	13	13
Balance at 31 December	724	545	545	17,589	19,403
Collective	273	105	8	5,618	6,004
Specific	451	440	537	11,971	13,399
	724	545	545	17,589	19,403
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	558	2,005	585	25,758	28,906
2006					
Balance at 1 January	1,008	310	413	11,222	12,953
Provision for losses during the year	168	397	(5)	4,395	4,955
Exchange rate difference on translation	-	174	109	1,875	2,158
Actual losses during the year	(277)	(262)	-	(2,847)	(3,386)
Payment of loans previously written off	-	-	-	(98)	(98)
Balance at 31 December	899	619	517	14,547	16,582
Collective	82	97	0	2,999	3,178
Specific	817	522	517	11,549	13,404
	899	619	517	14,548	16,582
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	853	2,204	604	20,196	23,857

Included within interest income is ISK 780 million (2006: ISK 568 million) with respect of interest income accrued on impaired financial assets and ISK 203 million (2006: ISK 148 million) with respect to the unwind of the impairment provision discount.

65. Impaired loans by geographical analysis:

	2007		2006	
	Impaired amount	Impaired loans	Impaired amount	Impaired loans
Iceland	3,323	4,792	5,081	6,474
Scandinavia	3,287	8,921	3,477	5,127
UK	6,265	13,952	3,997	10,763
Luxembourg	28	482	17	49
Other	496	759	832	1,444
Impairment on loans	13,399	28,906	13,404	23,857

66. Impaired loans by sector:

Individuals	1,081	2,034	1,780	2,280
Holding companies	910	2,562	166	849
Industry	3,116	7,955	4,537	6,503
Real estate	3,224	9,333	1,982	5,559
Service	2,474	3,252	3,192	5,222
Trade	2,461	3,243	1,340	2,471
Transportation	133	527	407	973
Impairment on loans	13,399	28,906	13,404	23,857

67. Status of monitoring of loans to customers:

	Neither past due nor specifically impaired						
2007	Standard Monitoring	Special Monitoring	Substandard Loans	Total	Past due	Specifically impaired	Total
Overdrafts	83,523	429	27	83,979	1,087	558	85,624
Finance leases	68,799	-	-	68,799	2,793	2,005	73,597
Subordinated loans	37,743	-	-	37,743	-	585	38,328
Other loans	3,011,258	27,496	25,970	3,064,724	35,780	25,758	3,126,262
Total	3,201,323	27,925	25,997	3,255,245	39,660	28,906	3,323,811
Provision on loans							(19,403)
Loans to customers							3,304,408

67. cont'd

2006	Neither past due nor specifically impaired: Standard Monitoring	Special Monitoring	Substandard Loans	Total	Past due	Specifically impaired	Total
Overdrafts	109,986	356	22	110,364	2,137	853	113,354
Finance leases	88,921	-	-	88,921	1,881	2,204	93,006
Subordinated loans	6,765	-	-	6,765	-	604	7,369
Other loans	2,259,595	18,924	16,439	2,294,958	26,308	20,196	2,341,462
Total	2,465,267	19,280	16,461	2,501,008	30,326	23,857	2,555,191
Provisions on loans							(16,582)
Loans to customers							2,538,609

68. Analysis of loans that are past due but not impaired:

2007	Overdrafts	Finance leases	Other loans	Total loans to customers
Past due up to 29 days	255	1,271	17,140	18,666
Past due 30-59 days	440	227	7,043	7,710
Past due 60-89 days	166	402	3,451	4,019
Past due 90-179 days	140	501	4,181	4,822
Past due 180-365 days	65	277	3,012	3,354
Above 365 days	21	115	953	1,089
Non-impaired loans	1,087	2,793	35,780	39,660
2006				
Past due up to 29 days	137	821	14,139	15,097
Past due 30-59 days	989	155	7,268	8,412
Past due 60-89 days	815	351	1,010	2,176
Past due 90-179 days	109	402	1,706	2,217
Past due 180-365 days	61	102	1,963	2,126
Above 365 days	26	51	221	298
Non-impaired loans	2,137	1,882	26,307	30,326

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Bank.

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 the year to ISK 32,503 million (2006: ISK 25,506 million), 0.98% of total loans to customers (2006: 1.00%).

Financial assets and liabilities

69. Financial assets and liabilities are specified as follows:

2007	Loans and receivables	Trading	Designated at fair value	Available for sale	Derivatives used for hedging	Financial liabilities at amort. cost	Total
Loans and receivables							
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
Bonds and debt instruments							
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
Shares and instruments with variable income							
Listed	-	51,980	15,256	-	-	-	67,236
Unlisted	-	4,142	82,745	165	-	-	87,052
Bond funds with variable income	-	5,172	1,337	-	-	-	6,509
Shares and instruments with variable income	-	61,294	99,338	165	-	-	160,797
Derivatives							
OTC derivatives	-	110,052	-	-	-	-	110,052
Other trading derivatives	-	24,804	-	-	-	-	24,804
Derivatives	-	134,856	-	-	-	-	134,856
Derivatives used for hedging							
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
Securities used for hedging							
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

69. cont'd

2007	Loans and receivables	Trading	Designated at fair value	Available for sale	Derivatives used for hedging	Financial liabilities at amort. cost	Total
Liabilities at amortised cost							
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
Financial liabilities measured at fair value							
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

2006							
Loans and receivables							
Cash and balances with central banks	106,961	-	-	-	-	-	106,961
Loans to credit institutions	485,334	-	-	-	-	-	485,334
Loans to customers	2,538,609	-	-	-	-	-	2,538,609
Loans and receivables	3,130,904	-	-	-	-	-	3,130,904
Bonds and debt instruments							
Listed	-	26,208	246,620	-	-	-	272,828
Unlisted	-	3,559	31,369	-	-	-	34,928
Mortgage loans	-	-	10,508	-	-	-	10,508
Bonds and debt instruments	-	29,767	288,497	-	-	-	318,264
Shares and instruments with variable income							
Listed	-	77,638	33,931	-	-	-	111,569
Unlisted	-	2,471	34,559	164	-	-	37,194
Bond funds with variable income	-	8,835	1,422	-	-	-	10,257
Shares and instruments with variable income	-	88,944	69,912	164	-	-	159,020

69. cont'd

2006	Loans and receivables	Trading	Designated at fair value	Available for sale	Derivatives used for hedging	Financial liabilities at amort. cost	Total
Derivatives							
OTC derivatives	-	50,011	-	-	-	-	50,011
Futures	-	15	-	-	-	-	15
Other trading derivatives	-	15,428	-	-	-	-	15,428
Derivatives	-	65,454	-	-	-	-	65,454
Derivatives used for hedging							
Fair value hedge	-	-	-	-	2,953	-	2,953
Portfolio hedge of interest rate risk	-	-	-	-	3,500	-	3,500
Derivatives used for hedging	-	-	-	-	6,453	-	6,453
Securities used for hedging							
Bonds and debt instruments	-	66,732	-	-	-	-	66,732
Shares and equity instruments	-	47,011	2,195	-	-	-	49,206
Securities used for hedging	-	113,743	2,195	-	-	-	115,938
Other financial assets	99,044	-	-	-	-	-	99,044
Financial assets	3,229,948	297,908	360,604	164	6,453	-	3,895,077
Liabilities at amortised cost							
Due to credit institutions and central banks	-	-	-	-	-	110,456	110,456
Deposits	-	-	-	-	-	750,658	750,658
Borrowings	-	-	-	-	-	2,399,939	2,399,939
Subordinated loans	-	-	-	-	-	216,030	216,030
Liabilities at amortised cost	-	-	-	-	-	3,477,083	3,477,083
Financial liabilities measured at fair value							
Short position in equity held for trading	-	2,122	-	-	-	-	2,122
Derivatives held for trading	-	48,973	-	-	-	-	48,973
Derivatives used for hedging	-	-	-	-	8,768	-	8,768
Mortgages funding	-	-	11,401	-	-	-	11,401
Financial liabilities measured at fair value	-	51,095	11,401	-	8,768	-	71,264
Other financial liabilities	-	-	-	-	-	96,072	96,072
Financial liabilities	-	51,095	11,401	-	8,768	3,573,155	3,644,419

69. cont'd

Hedges of net investments in foreign operations

The Bank's Consolidated Balance Sheet is affected by exchange differences between the Icelandic krona and all the non-Icelandic krona functional currencies of subsidiaries. The Bank uses forward foreign exchange contracts to hedge the forward foreign currency translation risk on its net investment in foreign subsidiaries.

The fair value of the forward contracts used to hedge the Bank's net investment in foreign subsidiaries is included in the amount shown in the table above.

The ineffectiveness recognised in Net financial income during the year ended 31 December 2007 that arose from hedges in foreign operations was nil (2006: nil).

Fair value hedges

Kaupthing's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in the Income Statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

Other derivatives held for risk management

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risks. The instruments used include interest rate swaps, cross-currency interest rate swaps, forward contracts, futures, options, credit swaps and equity swaps. The fair values of those derivatives are shown in the table above.

	2007	2006
70. Bonds and debt instruments designated at fair value specified by issuer:		
Financial institutions	293,845	270,879
Governments	11,375	1,032
Corporates	25,373	16,586
Other	2,392	-
Bonds and debt instruments designated at fair value	332,985	288,497

Derecognition

71. Pledged assets are specified as follows:

Mortgage loans in Kaupthing Mortgages Fund	88,374	84,165

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.

Pledged assets

	2007	2006
72. Financial assets that may be repledged or resold by counterparties		
Bonds	194,695	88,216
Shares	125,278	32,311
Pledged assets	319,973	120,527

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

73. Investment in associates are specified as follows:

	2007	2006
Carrying amount at the beginning of the year	5,304	13,888
Additions during the year	26,329	5,400
Sold during the year	(512)	(11,868)
Transferred from financial assets at fair value due to step acquisition	44,111	-
Share of profit	3,459	1,194
Dividend received	(149)	(4,103)
Exchange rate difference	5,289	793
Carrying amount at the end of the year	83,831	5,304

Main associates are specified as follows:

	Currency	Total assets	Total liabilities	Ownership	Share of profit	Nominal value	Book value
Storebrand ASA, Norway	NOK	2,874,809	2,589,505	20.0%	3,072	35,130	73,807
Kaupthing Capital Partners	GBP	9,666	3	40.0%	0	3,000	3,815
Drake Management LLC, USA	USD	13,122	8,748	20.0%	87	10	2,561
Valitor hf., Iceland	ISK	35,070	33,156	39.5%	19	400	1,657
FiNoble Advisors Private Ltd., India	USD	367	52	20.0%	(4)	314	310
Mezzanin Kapital A/S, Denmark	DKK	5,839	3,754	22.7%	(49)	154	474
FMS Holding af 2004 A/S, Denmark	DKK	1,157	66	25.0%	16	109	274
Reiknistofa Bankanna, Iceland	ISK	1,740	222	17.3%	-	-	263
Other associates					318		670
					3,459		83,831

On 14 May 2007 the Bank increased its holding in the Norwegian insurance and financial services company Storebrand ASA to 20.0% of the company's outstanding shares. This entails that the Bank will hereafter book 20.0% of Storebrand's earnings through the Income Statement. The effects of these changes, net of tax, were a decrease in equity of ISK 5,111 million. The investment, ISK 44,111, was transferred from shares and equity instruments to investments in associates. At year end the fair value of the investment in Storebrand ASA was ISK 59,496 million.

On 18 June 2007 the Bank signed an agreement to acquire a 20.0% stake in the Indian investment services company FiNoble Advisors Private Ltd. with an option to acquire the remaining 80.0% in five years. The investment creates a foothold for the Bank in the fast growing Indian financial market.

Intangible assets

74. The Bank performed an impairment test on the carrying amount of goodwill as at 31 December 2007. Impairment tests are performed in the 4th quarter each year, based on the budgets and business plans approved by the Board of Directors and other assumptions.

Goodwill is distributed among cash-generating units (CGU) in keeping with the main emphasis of monitoring and managing activities. The emphasis of the Bank has been shifting such that the subsidiaries are less considered as the core of operations. Instead, operations are tending more towards placing emphasis on the Bank's operational units.

The Bank has defined the five independent CGU of the Bank's operation, each devising its own budget and responsible for its own results. The costs of the ancillary units are distributed to each CGU. The CGU are as follows: 1) Capital Markets, 2) Investment Banking, 3) Asset Management & Private Banking, 4) Treasury, and 5) Banking. With regard to this operational restructuring and planning within the group, goodwill in the Bank's accounts has been distributed among the CGU according to its origin. As part of the apportioning of the Bank's goodwill, the recoverable amount is measured by value in use.

74. cont'd

Each CGU is assessed on its own, in which expectations for return on equity, payout ratio, equity and yield are the main variables in the assessment of each CGU. An independent operating budget acts as the basis for results for the first year of the scheme, after which the next three years are based on the return objectives for each CGU and after that it is based on long-term yield of comparable units. The Bank aims to achieve consolidated 15% return on equity over the next four years. Return objectives are different within each CGU.

2007	Goodwill	Discount rate	Net earnings: Est. CAGR, year 1-4
Capital Markets	5,524	13.6%	<2%
Investment Banking	8,140	13.6%	<2%
Treasury	4,767	13.6%	<2%
Asset Management and Private Banking	5,120	11.3%	<2%
Banking	36,463	10.2%	<2%
Goodwill	60,014		
2006			
Capital Markets	5,815	12.7%	<2%
Investment Banking	8,596	12.7%	<2%
Treasury	5,001	12.7%	<2%
Asset Management and Private Banking	5,454	10.6%	18.0%
Banking	38,252	9.6%	<2%
Goodwill	63,118		

The management assesses that likely changes in the key parameters discussed will not cause the carrying amount of goodwill to exceed the recoverable amount.

75. Intangible assets are specified as follows:

2007	Goodwill	Other intangible assets	Total
Balance at the beginning of the year	63,118	5,183	68,301
Exchange rate difference	(2,952)	(246)	(3,198)
Additions during the year	-	2,654	2,654
Sold during the year	(77)	-	(77)
Impairment	(75)	-	(75)
Amortisation	-	(831)	(831)
Intangible assets	60,014	6,760	66,774
2006			
Balance at the beginning of the year	50,481	4,462	54,943
Exchange rate difference	13,088	792	13,880
Additions during the year	-	1,810	1,810
Impairment	(451)	(819)	(1,270)
Amortisation	-	(1,062)	(1,062)
Intangible assets	63,118	5,183	68,301

Investment property

76. Investment property are specified as follows:

	2007	2006
Balance at the beginning of the year	31,584	24,156
Exchange rate difference	(30)	3,426
Additions during the year	1,586	3,475
Disposals through the sale of a subsidiary	(13,473)	-
Other disposals during the year	-	(2,347)
Fair value adjustments	(219)	96
Transferred to investment property	8,707	2,778
Investment property	28,155	31,584

The Bank's investment properties were revalued at 31 December 2007 by independent professionally qualified valuers which have recent experience in the location and category of the investment property being valued. Valuations were based on current prices in an active market for all properties except for the properties located in Iceland where the Bank used discounted cash flow projections.

77. Leases as lessor

The Bank leases investment property as operating leases (see note 20). The future minimum lease payments under non-cancellable leases are as follows:

	2007	2006
Less than one year	952	1,682
Over 1 year and up to 5 years	2,172	4,391
Over 5 years	15,146	21,682
Minimum lease payments under non-cancellable leases	18,270	27,755

During the year 2007 ISK 1,263 million (2006: ISK 2,274 million) was recognised as rental income in the Income Statement and ISK 38 million (2006: ISK 20 million) in respect of repairs and maintenance was recognised as an expense in the Income Statement relating to Investment Property.

In the Income Statement, direct operating expenses include ISK 1 million relating to Investment Property that was unlet compared to ISK 32 million for the year before.

Property and equipment

78. Property and equipment are specified as follows:

	Real estate	Machinery and equipm.	Operating lease	Total 2007	Total 2006
Balance at the beginning of the year	9,084	11,702	29,082	49,868	35,642
Acquisitions through business combination	-	304	-	304	-
Exchange rate difference	(173)	(710)	(3,384)	(4,267)	7,848
Additions during the year	5,666	3,674	3,113	12,453	13,818
Disposals during the year	(832)	(1,020)	(431)	(2,283)	(4,627)
Transfers	-	-	(1,237)	(1,237)	(2,813)
Impairment	-	(7)	-	(7)	-
Gross carrying amount at the end of the year	13,745	13,943	27,143	54,831	49,868
Previously depreciated	2,044	7,524	9,834	19,402	13,209
Acquisitions through business combination	-	269	-	269	-
Exchange rate difference	(68)	(572)	(1,206)	(1,846)	2,961
Depreciation during the year	455	1,760	3,505	5,720	4,914
Transfers	-	-	(583)	(583)	(35)
Disposals during the year	(101)	(479)	(265)	(845)	(1,647)
Total depreciation at the end of the year	2,330	8,502	11,285	22,117	19,402
Property and equipment	11,415	5,441	15,858	32,714	30,466

79. Depreciation and amortisation in the Income Statement is specified as follows:

	2007	2006
Depreciation of property and equipment	5,720	4,914
Amortisation of intangible assets	830	1,062
Depreciation and amortisation	6,550	5,976

80. Leases as lessor

The Bank leases out property and equipment under operating leases (see note 20). The future minimum lease payments under non-cancellable leases are as follows:

	2007	2006
Less than one year	4,286	851
Over 1 year and up to 5 years	9,450	3,322
Over 5 years	1,099	4,414
Minimum lease payments under non-cancellable leases	14,835	8,587

During the year ended 31 December 2007 ISK 300 million was recognised as rental income in the Income Statement and ISK 0 million in respect of repairs and maintenance was recognised as an expense in the Income Statement relating to property and equipment. Comparative amounts for 2006 amounted to ISK 2,033 million and ISK 8 million, respectively.

Other assets

81. Other assets are specified as follows:

	2007	2006
Unsettled securities trading	239,988	90,427
Accounts receivables	24,005	8,617
Accrued income	15,808	8,004
Prepaid expenses	2,879	2,846
Non-current assets and disposal groups classified as held for sale	1,842	2,334
Sundry assets	8,187	5,646
Other assets	292,709	117,874

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

Borrowings

82. Borrowings are specified as follows:

Bonds issued	1,638,113	1,762,483
Bills issued	136,813	156,203
Money market loans	555,606	373,285
Other loans	285,428	107,968
Borrowings	2,615,960	2,399,939

Included are Repurchase agreements with banks amounting to ISK 178,014 million at the end of the year compared to ISK 94,913 millon at year end 2006.

Subordinated loans

83. Subordinated loans are specified as follows:

	2007	2006
Tier I - Non-innovative hybrid capital	74,403	23,614
Tier I - Innovative hybrid capital	26,427	28,203
Tier II	166,459	164,213
Subordinated loans	267,289	216,030

	Currency	Orginal interest	Interest change	Interest after change	Maturity date	2007 Book value	2006 Book value
Loans that qualify as Tier I capital:							
Issued in 2001	ISK	8.65%	2011	Min 8,75 %[1]	No maturity date	1,369	1,310
Issued in 2004	EUR	5.90%	2014	3 m Euribor + 245bp	No maturity date	14,291	15,095
Issued in 2005	EUR	6.25%			No maturity date	15,978	16,685
Issued in 2005	ISK	3 m Reibor + 1,4%			No maturity date	3,353	3,353
Issued in 2005	USD	6.60%	2015	3 m USD Libor + 248bp	No maturity date	10,767	11,798
Issued in 2006	ISK	3 m Reibor + 1,4%			No maturity date	3,577	3,576
Issued in 2007	EUR	6.75%			No maturity date	23,976	-
Issued in 2007	USD	9.00%			No maturity date	27,519	-
						100,830	51,817
Loans that qualify as Tier II capital:							
Issued in 1996	DKK	0.00%			2007	-	228
Issued in 1999	EUR	6.40%			2009	2,893	3,067
Issued in 1999	JPY	4.80%			2032	6,787	7,461
Issued in 2000	ISK	7.00%	2007	9.00%	2012	29	2,135
Issued in 2001	ISK	6.00%	2006	7.50%	2011	-	122
Issued in 2002	ISK	6.00%	2007	7.50%	2012	-	1,021
Issued in 2002	ISK	7.50%	2009	10.00%	2014	1,514	1,429
Issued in 2002	ISK	8.00%			2026	-	264
Issued in 2002	EUR	3 m Euribor + 115bp	2007	3 m Euribor + 365bp	2012	-	474
Issued in 2003	GBP	7.50%			2019	6,252	6,976
Issued in 2004	ISK	5.40%	2009	7.4%	2014	1,764	1,666
Issued in 2004	EUR	3 m Euribor + 65bp	2009	3 m Euribor + 165bp	2014	27,408	28,281
Issued in 2004	DKK	3.00%			2008	-	142
Issued in 2005	USD	7.50%	2010	4x(CMS 10y/2y) 10%/3,75%	2045	4,816	5,512
Issued in 2005	EUR	6.50%	2010	4x(CMS 10y/2y) 9%/3%	2045	7,667	7,903
Issued in 2005	EUR	3 m Euribor + 40bp	2012	3 m Euribor + 140bp	2017	4,616	4,758
Issued in 2006	USD	7.13%			2016	84,401	92,774
Issued in 2007	EUR	4.30%	2007	5.10%	2013	18,312	-
						166,459	164,213
Subordinated loans						267,289	216,030

1. Maximum of i) 8.75% or ii) Yield of 10 year Icelandic inflation linked government bonds + 5.73%

Financial liabilities measured at fair value

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

	2007	2006
Trading liabilities	199,443	51,095
Derivatives used for hedging - portfolio hedge of interest rate risk	10,815	8,768
Mortgage funding measured at fair value	7,687	11,401
Financial liabilities measured at fair value	217,945	71,264

85. Trading liabilities are specified as follows:

Short position in equity instruments held for trading	2,305	2,122
Derivatives held for trading	100,273	48,788
Repos and related agreements held for trading	96,865	-
Other liabilities held for trading	-	185
Trading liabilities	199,443	51,095

86. Derivatives used for hedging are specified as follows:

Fair value hedge	1,859	1,070
Portfolio hedge of interest rate risk	8,956	7,698
Derivatives used for hedging	10,815	8,768

Tax assets and tax liabilities

87. Tax assets and liabilities are specified as follows:

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Current tax	1,766	9,636	26	10,179
Deferred tax	5,133	12,842	5,808	13,030
Tax assets and liabilities	6,899	22,478	5,834	23,209

88. Deferred tax assets and liabilities are specified as follows:

2007	Assets	Liabilities	Net
Balance at the beginning of the year	5,808	13,030	(7,222)
Acquisition through business combination	47	(39)	86
Disposals during the year	-	395	(395)
Exchange rate difference on translation	632	1,168	(536)
Calculated income tax for the year	412	10,128	(9,716)
Income tax recognised in equity	-	(2,202)	2,202
Income tax to be paid in next year	(1,766)	(9,638)	7,872
Net tax assets and (liabilities)	5,133	12,842	(7,709)

88. cont'd

2006	Assets	Liabilities	Net
Balance at the beginning of the year	5,004	10,343	(5,339)
Exchange rate difference on translation	234	689	(455)
Other changes	-	(581)	581
Calculated income tax for the year	596	15,232	(14,636)
Income tax recognised in equity	-	(2,474)	2,474
Income tax to be paid in next year	(26)	(10,179)	10,153
Net tax assets and (liabilities)	5,808	13,030	(7,222)

89. Changes in deferred tax assets and liabilities are specified as follows:

2007	At Jan. 1	Exchange rate and other adjustment	Addition/ disposal during the year	Recognised in profit or loss	Recognised in equity	At Dec. 31
Shares in other companies	3,032	225	(196)	1,294	-	4,355
Foreign currency denominated assets and liabilities	1,540	116	-	4,589	(2,202)	4,043
Loans	5,425	402	(3)	(5,644)	-	180
Derivatives	97	7	-	(113)	-	(9)
Investment property and property and equipment	1,447	107	(1)	3,769	-	5,322
Other assets and liabilities	(2,704)	(201)	(83)	1,206	-	(1,782)
Tax loss carry forward	(1,615)	(119)	591	(3,257)	-	(4,400)
Change in deferred tax	7,222	537	308	1,844	(2,202)	7,709
2006						
Shares in other companies	1,516	190	-	1,326	-	3,032
Foreign currency denominated assets and liabilities	502	65	-	3,447	(2,474)	1,540
Loans	5,643	724	-	(942)	-	5,425
Derivatives	(841)	(183)	-	1,121	-	97
Investment property and property and equipment	455	104	-	888	-	1,447
Other assets and liabilities	(667)	(734)	-	(1,303)	-	(2,704)
Tax loss carry forward	(1,269)	(291)	-	(55)	-	(1,615)
Change in deferred tax	5,339	(125)	-	4,482	(2,474)	7,222

90. Deferred tax assets and liabilities are attributable to the following:

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Shares in other companies	-	4,355	(18)	3,015
Foreign currency denominated assets and liabilities	54	4,096	35	1,574
Loans	2	182	291	5,716
Derivatives	75	66	(32)	65
Investment property and property and equipment	-	5,323	1,454	2,901
Other assets and liabilities	1,783	-	1,788	(917)
Tax loss carry forward	3,219	(1,180)	2,290	676
Deferred tax assets and liabilities at the end of the year	5,133	12,842	5,808	13,030

Other liabilities

91. Other liabilities are specified as follows:

	2007	2006
Unsettled securities trading	64,560	91,661
Provisions	2,303	4,666
Accounts payable	7,652	4,410
Sundry liabilities	72,182	48,211
Other liabilities	146,697	148,948

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

92. Provisions are specified as follows:

Provision for pensions	1,738	3,679
Provision for losses on guarantees	61	263
Other provisions	504	724
Provisions	2,303	4,666

Equity

Shareholders' equity

93. According to the Parent Company's Articles of Association, total share capital amounts to ISK 7,405 million. At year end 2007 own shares amounted to ISK 34 million and share capital, according to the Balance Sheet, thus amounted to ISK 7,371 million. One share has a nominal value of ISK 10. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank.

Increase of share capital during the year is broken down as follows:	2007		2006	
	Share capital	Market value	Share capital	Market value
Shares outstanding at 1 January	7,321	615,696	6,638	495,195
Issued new shares	-	-	759	55,558
Purchases and sales of treasury stock	50	(4,045)	(76)	(5,730)
Changes in market value		36,997	-	70,673
Shares outstanding at 31 December	7,371	648,648	7,321	615,696
Own shares	34	2,992	84	7,064

94. Movement in share capital during the year segregates as follows:

2007	Share capital	Share premium	Stock options	Total
Balance at 1 January	7,321	163,512	516	171,349
Purchases and sales of treasury stock	50	(4,045)	-	(3,995)
Exercised stock options	-	1,220	(504)	716
Stock option expense	-	-	1,522	1,522
Balance 31 December	7,371	160,687	1,534	169,592
2006				
Balance at 1 January	6,638	114,437	169	121,244
Issued new shares	759	54,799	-	55,558
Purchases and sales of treasury stock	(76)	(5,948)	-	(6,024)
Exercised stock options	-	224	(224)	-
Stock option expense	-	-	571	571
Balance 31 December	7,321	163,512	516	171,349

Share premium represents excess of payment above nominal value (ISK 10 per share) that shareholders have paid for shares sold by the Bank. According to the Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

The share option reserve includes the accrued part of the fair value of share options. This reserve is reversed if share options are exercised or forfeited.

Other reserves

95. Movement in other reserves were as follows:

2007	Fair value reserve	Translation reserve	Total
Balance at 1 January	(11)	17,231	17,220
Translation difference	-	(31,866)	(31,866)
Deferred pension reserve	19	-	19
Balance 31 December	8	(14,635)	(14,627)

2006	Pension reserve	Fair value reserve	Translation reserve	Total
Balance at 1 January	(480)	(2)	(1,058)	(1,540)
Translation difference	-	-	18,289	18,289
Changes in fair value of available-for-sale financial assets	-	(9)	-	(9)
Deferred pension reserve	480	-	-	480
Balance 31 December	-	(11)	17,231	17,220

Fair value reserve

The fair value reserve includes the cumulative portion of the cumulative net change in fair value of available-for-sale investments until the investment is derecognised.

Translation reserve

The translation reserve compromises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Bank, as well as from the translation liabilities that hedge the Bank's net investment in foreign subsidiaries.

Pension reserve

The pension reserve includes the changes in the pension obligation.

Derivatives

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

2007	Principal				Book value	
	Up to 3 months	Over 3 months and up to a year	Over 1 year	Total	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
	3,198,300	696,613	2,847,233	6,742,146	91,934	64,806
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
	246,337	17,204	422,151	685,692	50,820	25,308
Credit derivative contracts:						
Credit default swap and 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
	40,992	24,617	36,528	102,137	12,723	7,670
Derivatives	3,485,629	738,434	3,386,045	7,610,108	157,359	111,088

96. cont'd

2006	Principal: Up to 3 months	Principal: Over 3 months and up to a year	Principal: Over 1 year	Principal: Total	Book value: Assets	Book value: Liabilities
Currency and interests rate derivatives, agreements unlisted:						
Forward exchange rate agreements	1,428,174	137,042	4,879	1,570,095	13,178	12,575
Interest rate and exchange rate agreements	117,595	364,708	1,942,931	2,425,234	37,976	30,529
Options - purchased agreements	53,139	22,730	62,242	138,111	2,870	63
Options - sold agreements	48,438	24,876	40,738	114,052	93	2,452
	1,647,346	549,356	2,050,790	4,247,492	54,117	45,619
Equity derivatives:						
Equity swaps, agreements unlisted	35,888	9,076	4,886	49,850	8,430	3,369
Equity options, purchased unlisted agreements	4,308	-	2,700	7,008	90	73
Equity options, sold unlisted agreements	338	-	2,700	3,038	151	10
Futures, agreements listed	1,527	-	-	1,527	15	-
Contracts for differences	3,959	-	-	3,959	32	-
	46,020	9,076	10,286	65,382	8,718	3,452
Credit derivative contracts:						
Credit default swap and Corporate Synthetic CDOs	4,257	-	212,929	217,186	36	8
Total rate of return swaps	-	-	45,999	45,999	-	1,733
	4,257	-	258,928	263,185	36	1,741
Bond derivatives:						
Bond swaps, agreements unlisted	22,360	2,939	25,471	50,770	2,307	102
Options - purchased agreements	-	401	13,931	14,332	6,729	-
Options - sold agreements	-	401	13,931	14,332	-	6,717
	22,360	3,741	53,333	79,434	9,036	6,819
Derivatives	1,719,983	562,173	2,373,337	4,655,493	71,907	57,631

The objective of the above-mentioned agreements is to control the currency and interest rate risk of the Bank. The credit risk is valued at ISK 71,379 million when calculating the capital ratio of the Bank at 31 December 2007 and ISK 30,575 million at 31 December 2006.

Off Balance Sheet information

Obligations

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

	2007	2006
Guarantees	152,580	324,929
Credit default swaps, investment grade	319,065	217,186
Unused overdrafts	73,844	50,927
Loan commitments	278,481	317,689

The credit risk is valued at ISK 235 billion at the end of the year 2007 (2006: ISK 226 billion) for guarantees, credit default swaps, unused overdrafts and loan commitments when calculating the capital ratio of the Bank.

Operating lease commitments

98. At 31 December 2007, the Bank was obligated under a number of non-cancellable operating leases for premises and equipment. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options.

99. The Bank has concluded lease agreements regarding the real estate it uses for its operations. The lease agreement is for a period of up to 14 years and the Bank has priority right of purchase or right to extend the lease agreement at the end of that period.

Future minimum lease payments	10,528

Risk management disclosures

100. Kaupthing is a Northern European bank offering comprehensive retail, corporate and investment banking services to individuals, companies and institutional investors. The Bank has five core business areas: Banking; Asset Management and Private Banking; Investment Banking; Capital Markets and Treasury (see note 40). It also has ancillary divisions such as Risk Management, IT, Finance and Sales and Marketing.

The Bank faces various types of risks related to its business as a financial institution arising from its day-to-day operations. Management devotes a significant portion of its time to the management of these risks. The mainstays of effective risk management are the identification of significant risk, the quantification of the risk exposure, actions to limit risk and the constant monitoring of risk. The most significant of these risks are discussed below.

Material risks

a) *Credit risk*

Credit risk is the current or prospective risk to earnings and capital arising from the failure of an obligor to repay principal or interest at the stipulated time or otherwise to perform as agreed. This risk is enhanced if the assigned collateral only partly covers the claims made on the borrower or if its value is variable or uncertain. Credit risk arises anytime the Bank commits its funds, resulting in capital or earnings being dependent on counterparty, issuer or borrower performance. The risk comprises concentration risk, residual risk, credit risk in securitisation, cross border (or transfer) risk and more.

b) *Market risk*

Market risk is the current or prospective risk that changes in financial market prices and rates will fluctuate the value and cash flows of financial instruments. The risk arises from market making, dealing, and position taking in bonds, securities, currencies, commodities, derivatives, and any other commitment depending on market prices and rates.

c) *Liquidity risk*

Liquidity risk is the risk arising from the possible inability of the Bank to meet its liabilities when they come due. It is an unavoidable source of risk in the Bank's operations as the Bank requires funding to support its investments.

100. cont'd

d) *Operational risk*

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, human and system error, or from external events that affect the Bank's operations and can result in direct losses. The risk is present in all five core business areas and in the ancillary divisions.

Credit Risk Strategy

Carefully monitored credit risk is a base for stable profits. Undertaking credit risk is a cornerstone in the Bank's strategy for maintaining at least 15% long-term return on equity. The main asset of the Bank is its loan portfolio, and therefore managing and analysing the loan portfolio is very important. The emphasis is on keeping a high quality credit portfolio, by seeking business with strong parties, maintaining a strict credit process, critically inspecting loan applications, identifying and reacting to possible problem loans at an early stage and other measures.

a) *Credit structure*

A fundamental requirement is to have a comprehensive structure for credits which is coherent across the Bank and within each subsidiary as well. The highest authority in credits is the Parent Company Board Credit Committee. The structure is based on a hierarchy of Credit Committees below the Board Credit Committee which operate on 2-3 levels and within different limits depending on the size of subsidiaries. The principle of central management of risk is maintained by having the Bank's CEO or his deputy as a member of the Board Credit Committee in each subsidiary. This is necessary since the CEO is responsible for maintaining the Bank's exposures within legal and policy limits.

The pricing of each credit granted must reflect the risk taken. The client's interests must be guarded at all times and it must be considered likely that the client will be able to repay a given loan. In particular, the quality of collateral can never be the sole reason for a positive credit decision.

It is the aim of the credit strategy that, in the long run, write-offs should be less than 5% of interest income. All aspects of the credit process should be designed and implemented with this long-term goal in mind.

Provisions for losses reflect the incurred loss, both for loans for which specific provisions exist as well as for portfolios of performing loans. The collective assessment of such portfolios is based on default predictions and loss given default parameters.

The Bank's total credit risk should be limited through diversification of the loan portfolio across sectors and by limiting large exposures.

b) *Quantification and Rating model description*

The basic elements for the quantification of credit risk are the probability of default, the loss given default, and exposure at default. These quantities need to be measured with an effective and accurate credit rating system. Information, both quantitative and qualitative, must be gathered, both specifically in regard to the counterparty and to its general economic situation in order to estimate its creditworthiness. Furthermore, a facility rating should be performed to determine the loss parameters in case of a default.

The policy of the Bank is to apply sophisticated credit models to monitor credit risk. These credit models are also the foundation for the application of internal rating based approach to calculate capital requirements. Therefore, the development, implementation and application of these models must be in accordance with the Bank's Basel II strategy.

Sources of Credit Risk

a) *Loan portfolio*

The main assets of the Bank are its loans. To maintain and further improve the quality of the loan portfolio it is imperative to scrutinise all applications and weed out potential problem loans as early as possible, as well as constantly monitor the current loan portfolio. However, it is not the policy of the Bank to solely issue credit of very low risk but it is important that the price of issued credit reflects both risk and costs incurred. This means that a detailed assessment of individual customers, their financial position and the collateral is a prerequisite for granted credits.

b) *Commitments and guarantees*

The Bank often commits itself to and ensures that funds are available to customers as required. The most common commitments to extend credit are in the form of limits on check accounts, credit cards and credit lines. Potential loss on these accounts is equal to the amount of the limits although they may only be partly used at any one time. In practice, the potential loss is less severe since many of these commitments can be recalled immediately by the Bank in case the clients do not meet credit standards.

100. cont'd

Guarantees carry the credit risk to the full amount similar as loans, since they represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties.

c) *Derivatives trading*

Derivative financial instruments used by the Bank include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, security prices, commodity prices or price indices. Limits on the net open derivative positions on these types of contracts are strictly controlled by the Bank. These limits are generally client specific and may refer specifically to different categories of contracts. Generally, collateral is required to cover potential losses on a contract. Acceptable collateral for margin accounts is in the front of very liquid assets, e.g. cash or traded stocks. In case the net negative position of the contract falls below a certain level a call for added collateral is made. If extra collateral is not supplied the contract is closed.

d) *Master netting agreements*

Frequently, exposure to credit losses is reduced by entering into master netting agreements with clients that counterparties have significant and/or diverse credit related business with the Bank. Master netting agreements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by these types of agreements since in the case of default all amounts of the counterparty are terminated and settled on a net basis.

Loan provisioning

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

a) *Counterparty-specific*

A claim is considered impaired when there is objective evidence that it is probable that the Bank will not be able to collect all amounts due according to the original contractual terms or the equivalent value. Individual credit exposures are evaluated based upon the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realisable value of any collateral.

The estimated recoverable amount is the present value, using the loan's original effective interest rate, of expected future cash flows, which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of impaired claims due to the passage of time is reported as interest income.

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

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

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

b) *Collectively*

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

101. Maximum exposure to credit risk by geographical location of customer / issuer:

Maximum exposure to credit risk related to on-balance sheet assets:

2007	Iceland	Scandi-navia	UK	Luxem-bourg	Other	Total
Cash and balances with central banks	1,034	14,632	79,719	1,653	921	97,959
Loans to credit institutions	207,884	138,275	98,720	7,902	135,660	588,441
Loans to customers	837,761	1,100,163	735,344	62,643	568,497	3,304,408
Overdrafts	83,550	1,814	260	-	-	85,624
Finance leases	-	39,845	31,110	-	2,642	73,597
Subordinated loans	30,303	7,714	311	-	-	38,328
Other loans	723,908	1,050,790	703,663	62,643	565,855	3,106,859
Bonds and debt instruments	23,499	193,555	17,052	4,168	129,076	367,350
Listed	21,452	179,955	13,546	4,168	116,742	335,863
Unlisted	2,047	5,689	3,506	-	12,334	23,576
Mortgage loans - Real credit loans	-	7,911	-	-	-	7,911
Derivatives	35,003	11,533	48,672	199	39,449	134,856
Derivatives used for hedging	16,617	1,872	1,724	-	2,290	22,503
Bonds and debt instruments used for hedging	63,723	867	3,102	-	359	68,051
Listed	63,349	128	2,531	-	38	66,046
Unlisted	374	739	571	-	321	2,005
Other financial assets	28,933	201,270	26,538	1,638	5,614	263,993
Total on-balance sheet maximum exposure to credit risk	1,214,454	1,662,167	1,010,871	78,203	881,866	4,847,561

Maximum exposure to credit risk related to off-balance sheet items:

Financial Guarantees	29,795	43,970	65,135	44	13,636	152,580
Credit default swaps, investment grade	-	4,583	45,280	-	269,202	319,065
Unused overdrafts	56,296	14,906	-	-	2,642	73,844
Loan Commitments	31,242	125,854	87,558	-	33,827	278,481
Total off-balance sheet maximum exposure to credit risk	117,333	189,313	197,973	44	319,307	823,970

101. cont'd

2006	Iceland	Scandi-navia	UK	Luxem-bourg	Other	Total
Cash and balances with central banks	986	40,616	64,677	-	682	106,961
Loans to credit institutions	306,849	98,755	70,668	4,754	4,308	485,334
Loans to customers	635,057	1,016,529	615,168	56,793	215,062	2,538,609
Overdrafts	69,979	-	25,116	18,259	-	113,354
Finance lease	-	62,337	27,678	-	2,991	93,006
Subordinated loans	7,369	-	-	-	-	7,369
Other loans	557,709	954,192	562,374	38,534	212,071	2,324,880
Bonds and debt instruments	20,091	189,461	5,165	1,911	101,636	318,264
Listed	17,154	152,048	2,452	10	101,164	272,828
Unlisted	2,937	26,904	2,713	1,901	472	34,927
Mortgage loans - Real credit loans	-	10,509	-	-	-	10,509
Derivatives	18,387	6,533	15,680	4,204	20,650	65,454
Derivatives used for hedging	-	1,474	1,899	-	3,080	6,453
Bonds and debt instruments used for hedging	64,831	538	788	-	575	66,732
Listed	64,452	66	259	-	563	65,340
Unlisted	379	472	529	-	12	1,392
Other financial assets	11,644	79,187	6,392	1,331	490	99,044
Total on-balance sheet maximum exposure to credit risk	1,057,845	1,433,093	780,437	68,993	346,483	3,686,851

Maximum exposure to credit risk related to off-balance sheet items:

	Iceland	Scandi-navia	UK	Luxem-bourg	Other	Total
Financial Guarantees	11,886	34,233	184,892	83,861	10,057	324,929
Credit default swaps, investment grade	-	231	93,270	-	123,685	217,186
Unused overdrafts	50,557	370	-	-	-	50,927
Loan Commitments	23,002	168,981	112,214	986	12,506	317,689
Total off-balance sheet maximum exposure to credit risk	85,445	203,815	390,376	84,847	146,248	910,731

102. Maximum exposure to credit risk by sector

Maximum exposure to credit risk related to on-balance sheet assets:

2007	Individuals	Holding companies	Industry	Real estate	Service[1]	Other	Total
Cash and balances with central banks	-	-	-	-	97,959	-	97,959
Loans to credit institutions	-	-	-	-	588,441	-	588,441
Loans to customers	563,592	488,957	564,943	684,224	604,589	398,103	3,304,408
Overdrafts	54,744	-	6,437	15	16,547	7,881	85,624
Finance lease	5,477	-	17,464	744	41,192	8,720	73,597
Subordinated loans	-	28,815	224	2,307	6,982	-	38,328
Other loans	503,371	460,142	540,818	681,158	539,868	381,502	3,106,859
Bonds and debt instruments	-	2,865	26,149	5,435	201,201	131,700	367,350
Listed	-	79	22,623	1	183,309	129,851	335,863
Unlisted	-	2,786	426	5,192	15,141	31	23,576
Mortgage loans - Real credit loans	-	-	3,100	242	2,751	1,818	7,911
Derivatives	4,909	24,969	5,622	1,379	80,318	17,659	134,856
Derivatives used for hedging	-	773	410	31	14,882	6,407	22,503
Bonds and debt instruments used for hedging	-	571	2,641	-	64,839	-	68,051
Listed	-	-	2,215	-	63,831	-	66,046
Unlisted	-	571	426	-	1,008	-	2,005
Other fianancial assets	420	7,587	1,443	18	246,780	7,745	263,993
Total on-balance sheet maximum exposure to credit risk	568,921	525,722	601,208	691,087	1,899,009	561,614	4,847,561

Maximum exposure to credit risk related to off-balance sheet items:

	Individuals	Holding companies	Industry	Real estate	Service[1]	Other	Total
Financial guarantees	3,372	6,170	23,465	13,461	87,872	18,240	152,580
Credit default swaps, investment grade	-	9,804	4,950	4,239	299,155	917	319,065
Unused overdrafts	55,295	-	9,118	377	7,382	1,672	73,844
Loan Commitments	1,674	8,882	153,728	23,189	87,864	3,144	278,481
Total on-balance sheet maximum exposure to credit risk	60,341	24,856	191,261	41,266	482,273	23,973	823,970

1. Included is financial service.

102. cont'd

2006	Individuals	Holding companies	Industry	Real estate	Service[1]	Other	Total
Cash and balances with central banks	-	-	-	-	106,961	-	106,961
Loans to credit institutions	-	-	-	-	485,334	-	485,334
Loans to customers	421,409	342,712	616,882	396,023	505,184	256,399	2,538,609
Overdrafts	25,602	73,259	3,078	45	7,684	3,686	113,354
Finance lease	3,178	1,195	16,484	14	63,962	8,173	93,006
Subordinated loans	-	440	951	2,222	3,756	-	7,369
Other loans	392,629	267,818	596,369	393,742	429,782	244,540	2,324,880
Bonds and debt instruments	-	-	36,867	7,237	159,802	114,358	318,264
Listed	-	-	29,236	4,565	137,467	101,560	272,828
Unlisted	-	-	3,631	2,314	18,768	10,214	34,927
Mortgage loans - Real credit loans	-	-	4,000	358	3,567	2,584	10,509
Derivatives	754	15,425	6,104	466	34,526	8,179	65,454
Derivatives used for hedging	-	-	-	-	2,953	3,500	6,453
Bonds and debt instruments used for hedging	-	529	256	257	65,573	117	66,732
Listed	-	-	256	257	64,710	117	65,340
Unlisted	-	529	-	-	863	-	1,392
Other financial assets	155	10,940	192	7	51,736	36,014	99,044
Total on-balance sheet maximum exposure to credit risk	422,318	369,606	660,301	403,990	1,412,069	418,567	3,686,851
Maximum exposure to credit risk related to off-balance sheet assets:							
Financial Guarantees	487	1,855	6,835	441	308,381	6,930	324,929
Credit default swaps, investment grade	-	-	-	-	217,186	-	217,186
Unused overdrafts	36,044	-	3,455	559	8,101	2,768	50,927
Loan Commitments	-	20,908	25,142	-	260,470	11,169	317,689
Total on-balance sheet maximum exposure to credit risk	36,531	22,763	35,432	1,000	794,138	20,867	910,731

Market Risk Strategy

The Bank's strategy is to invest its own capital on a limited and carefully selected basis in transactions, underwritings and other activities that involve market risk. The main types of market risk are equity price risk, interest rate risk and foreign exchange risk.

The Bank keeps firm track of the market risk embedded in market investments at group level and makes sure that the total measured market risk does not exceed the market risk limits set by the Bank's Board of Directors.

It is essential that procedures in deciding proprietary trading limits are clear and that the roles and responsibilities of everyone involved are unambiguous. The Board of Directors decides how much market risk exposure the proprietary trading units within the Bank are allowed to assume expressed as a maximum overnight as well as intraday exposure in equities, fixed income and derivatives. The Board entrusts the Group CEO and the CEOs of the subsidiaries with the enforcement of this policy and the Risk Management with the evaluation and monitoring of positions and limits.

102. cont'd

The Board of Directors has set a global equity limit based on equity exposure as a percentage of risk capital. At year end 2007 the global equity limit was 35% of risk capital and thereof the total unlisted exposure or private equity should not exceed 15% of risk capital.

The Board of Directors has also limited interest rate risk, measuring the change in value of underlying positions when shifting all yield curves 100bp up, to 8% of risk capital and thereof 3% to trading book exposure.

Derivatives

103. The Bank's use of derivatives is mainly through derivative sales, but derivatives are also in trading portfolios. The types of derivatives used by the Bank include swaps, futures, forwards, options, credit derivatives, and other similar types of contracts.

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

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

Interest rate risk

104. Interest rate risk increased quite significantly at year-end 2004 following the introduction of fixed-interest mortgage products in our banking book. The table below shows the interest rate risk by currency and duration. Trading interest rate risk refers to exposures in trading book where positions are marked-to-market and profit or loss is recognised immediately but banking interest rate risk refers to exposure in banking book where profit or loss is realised over the lifetime of the exposure.

At year end 2007 the Bank's interest rate risk based on 100bp shift of the yield curve was in the banking 3.5% (2006: 5.1%) of risk capital and in the trading book 0.8% (2006: 0.6%) of risk capital.

The Bank is exposed to inflation risk when there is a mismatch between inflation linked assets and liabilities.

The total amount of indexed assets of the Bank amounted to ISK 339,670 million (2006: ISK 325,845 million), and the total amount of indexed liabilities amounted to ISK 192,554 million (2006: ISK 180,241 million), respectively, at year-end.

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

Interest rate risk by currency and duration. Interest rate risk is measured by shifting all yield curves by 100 bp simultaneously. The table lists the resulting changes in values broken down by currency and duration buckets for both banking and trading book.

The folllowing table shows the fair value change of interest rate risk by currency and maturity in millions of ISK in the Bank. Risk is measured by assuming a 100bp simultaneous upward shift in all yields curves in the relevant duration band.

104. cont'd

2007 Currency:		Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Fair value change Total
ISK	Trading	(1)	127	251	454	(579)	252
	Banking	13	(68)	(682)	1,724	(17,957)	(16,970)
DKK	Trading	36	70	116	(1,113)	(3,673)	(4,564)
	Banking	26	91	(12)	479	(1,679)	(1,095)
EUR	Trading	(111)	(112)	298	505	351	931
	Banking	65	139	349	648	(57)	1,144
GBP	Trading	9	(85)	(14)	(15)	5	(100)
	Banking	40	185	(666)	(72)	(84)	(597)
USD	Trading	(29)	(66)	(77)	(285)	125	(332)
	Banking	25	24	4	964	(115)	902
Other	Trading	80	(7)	(193)	(11)	63	(68)
	Banking	(1)	213	(51)	2,022	(2,701)	(518)
2006							
ISK	Trading	(712)	33	535	1,916	(254)	1,518
	Banking	(903)	(109)	(313)	(738)	(15,048)	(17,111)
DKK	Trading	106	1,120	134	103	(2,745)	(1,282)
	Banking	(10)	(37)	(30)	360	(3,673)	(3,390)
EUR	Trading	(40)	135	416	(529)	1,493	1,475
	Banking	55	50	(123)	518	(692)	(192)
GBP	Trading	2	503	(126)	(151)	(2)	226
	Banking	(19)	(87)	(644)	(120)	(853)	(1,723)
USD	Trading	1	(302)	83	828	2	612
	Banking	(8)	(34)	(86)	(72)	(133)	(333)
Other	Trading	(712)	284	(99)	738	(15)	196
	Banking	(11)	(109)	(205)	51	(369)	(643)

Table shows interest rate risk by currency and maturity in millions of ISK. Risk is measured by assuming a 1% simultaneous upward shift in all yields curves in the relevant maturity band.

Market price risk

105. Market price risk is the risk of loss due to changes in market prices. The Bank's main exposures are through equities and fixed income products, but the management of currency risk is handled separately. Market price risk measured with Value-at-Risk (99%, 10 days) was ISK 5.4 billion (2006: ISK 5.5 billion) at year end 2007. Value-at-Risk is primarily used for sensitivity analysis and is not applied within the Bank's limit framework.

The following table shows the calculated VaR (99% confidence interval 10 day holding period). Results are itemised by type of market risk and market location:

2007	Iceland	Scandinavia	Other
Equity price risk	1,901	3,083	405
Interest risk	175	500	20
Diversification			(687)
VaR			5,398
2006			
Equity price risk	989	4,374	10
Interest risk	306	697	
Diversification			(900)
VaR			5,476

The following table shows high, low and average values for the calculated VaR (99% confidence interval 10 day holding period).

2007	High	Low	Average
Equity price risk	9,432	2,613	5,030
Interest risk	988	493	696
Overall risk	9,434	2,659	5,064
2006			
Equity price risk	6,422	1,837	3,623
Interest risk	1,522	474	814
Overall risk	6,302	2,218	3,719

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during that trading day.

105. cont'd

The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

Currency risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates. The Bank is exposed to some foreign exchange risk, in particular regarding the repatriation of non-ISK results. The Bank hedges part of the equity base against adverse movements in foreign exchange rates. The objective of the hedging is to minimise fluctuations in the capital ratio due to currency fluctuations. Net exposures per currency are monitored centrally in the Bank.

By obtaining the optimal currency hedging ratio the devaluation of the ISK currency can be immunised. If the ISK exchange rate index depreciated by 25% from its year end 2007 level then it would affect the CAD-ratio of the Bank by 0%.

106. Breakdown of assets and liabilities by currency:

Assets	ISK	EUR	DKK	GBP	USD	Other	Total
Cash and balances with central banks	1,034	7,615	3,799	79,854	530	5,127	97,959
Loans to credit institutions	52,326	242,391	81,640	71,692	74,360	66,032	588,441
Loans to customers	440,653	713,534	622,303	742,916	300,194	484,808	3,304,408
Bonds and debt instruments	22,071	131,361	157,031	8,676	43,422	4,789	367,350
Shares and equity instruments	45,139	20,304	15,973	15,329	22,819	41,233	160,797
Derivatives	31,000	61,350	12,935	9,714	12,328	7,529	134,856
Derivatives used for hedging	154	2,559	5,886	1	13,134	769	22,503
Securities used for hedging	86,810	5,749	1,666	47,392	473	17,859	159,949
Investments in associates	2,320	113	902	3,815	2,871	73,810	83,831
Intangible assets	7,619	413	31,199	26,346	143	1,054	66,774
Investment property	1,305	13,598	9,951	3,301	-	-	28,155
Property and equipment	8,343	3,932	398	19,247	56	738	32,714
Tax assets	14	220	-	4,717	-	1,948	6,899
Other assets	22,687	21,855	182,503	33,350	1,900	30,414	292,709
Total assets	721,475	1,224,994	1,126,186	1,066,350	472,230	736,110	5,347,345

106. cont'd

Liabilities	ISK	EUR	DKK	GBP	USD	Other	Total
Due to credit institutions and central banks	15,755	160,438	135,497	172	18,962	8,264	339,088
Deposits	266,283	331,026	93,841	492,665	76,633	121,009	1,381,457
Financial liabilities measured at fair value	22,230	108,775	62,541	8,720	9,329	6,350	217,945
Borrowings	185,816	1,373,278	165,555	199,780	423,172	268,359	2,615,960
Subordinated loans	11,428	115,318	-	6,252	130,961	3,330	267,289
Tax liabilities	7,296	3,658	6,083	5,315	-	126	22,478
Other liabilities	25,845	24,924	30,914	25,486	6,041	33,487	146,697
Equity and minority interest	345,607	10,141	427	256	-	-	356,431
Total liabilities	880,260	2,127,558	494,858	738,646	665,098	440,925	5,347,345
Net on-balance sheet position	(158,785)	(902,564)	631,328	327,704	(192,868)	295,185	
Net off-balance sheet position	(205,290)	1,043,441	(518,621)	(255,375)	190,235	(254,390)	
Net position 2007	(364,075)	140,877	112,707	72,329	(2,633)	40,795	
Net position 2006	(172,784)	53,438	59,563	43,737	(1,155)	17,201	

Liquidity Risk Strategy

107. Liquidity risk is an unavoidable source of risk in the Bank's operations. Liquidity risk is the current or prospective risk that the Bank, though solvent, either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources. The funding liquidity risk limit is quantified by calculating liquidity ratios, including the number of days currently covered by expected cash flow.

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

At year end the number of days covered by the secured liquidity was 440 days.

Liquidity of Kaupthing Bank:	Up to 1 month	1-3 months	3-6 months	6-12 months	12-18 months	18-24 months
Secured liquidity	647,000	420,000	247,000	102,000	(95,000)	(471,000)

108. 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	97,959	-	-	-	-	97,959
Loans to credit institutions	222,264	338,345	17,074	7,780	2,978	588,441
Loans to customers	246,355	659,348	436,019	1,105,372	857,314	3,304,408
Bonds and debt instruments	34,364	69,026	15,555	132,645	115,760	367,350
Shares and equity instruments	61,294	99,338	-	-	165	160,797
Derivatives	28,735	36,636	11,598	46,479	11,408	134,856
Derivatives used for hedging	-	2,845	88	10,047	9,523	22,503
Securities used for hedging	159,949	-	-	-	-	159,949
Investments in associates	-	-	-	-	83,831	83,831
Intangible assets	-	-	-	-	66,774	66,774
Investment property	-	-	-	-	28,155	28,155
Property and equipment	-	-	-	-	32,714	32,714
Tax assets	-	-	1,766	5,133	-	6,899
Other assets	239,989	-	52,720	-	-	292,709
Total Assets 31.12.2007	1,090,909	1,205,538	534,820	1,307,456	1,208,622	5,347,345
Total Assets 31.12.2006	693,178	900,669	394,934	1,033,881	1,032,734	4,055,396
Liabilities						
Due to credit institutions and central banks	15,756	268,668	21,429	31,335	1,900	339,088
Deposits	409,995	752,544	151,599	23,237	44,082	1,381,457
Financial liabilities measured at fair value	118,443	17,477	19,843	38,114	24,068	217,945
Borrowings	62,024	527,799	284,895	1,427,770	313,472	2,615,960
Subordinated loans	-	-	337	58,589	208,363	267,289
Tax liabilities	-	-	9,637	12,841	-	22,478
Other liabilities	64,560	-	79,835	2,302	-	146,697
Total Liabilities 31.12.2007	670,778	1,566,488	567,575	1,594,188	591,885	4,990,914
Total Liabilities 31.12.2006	336,083	1,004,574	608,811	1,179,243	591,793	3,720,504
Assets - liabilities 31.12.2007	420,131	(360,950)	(32,755)	(286,732)	616,737	356,431
Assets - liabilities 31.12.2006	357,095	(103,905)	(213,877)	(145,362)	440,941	334,892

109. Liquidity risk - Residual contractual maturities of financial liabilities:

2007	Carrying amount	Gross nominal inflow / (outflow)	On Demand	0-3 months	3-12 months	1-5 years	More than 5 years
Non-derivative liabilities							
Trading liabilities	-	99,170	99,170	-	-	-	-
Due from credit institutions	339,088	339,088	15,756	268,668	21,429	31,335	1,900
Deposits from customers	1,381,457	1,381,458	409,995	752,544	151,600	23,237	44,082
Borrowings	2,615,960	2,619,945	63,207	529,970	285,332	1,427,837	313,599
Subordinated liabilities	267,289	267,289	-	-	-	2,893	264,396
	4,603,794	4,706,950	588,128	1,551,182	458,361	1,485,302	623,977
Derivative liabilities							
Trading: outflow	-	2,281,449	82,055	1,179,469	180,918	580,644	258,363
Trading: inflow	100,272	(2,181,177)	(61,979)	(1,160,687)	(168,304)	(544,583)	(245,624)
Risk management: outflow	-	196,927	-	546	17,408	94,025	84,948
Risk management: inflow	10,815	(186,112)	-	(223)	(17,282)	(91,633)	(76,974)
	111,087	111,087	20,076	19,105	12,740	38,453	20,713
	4,714,881	4,818,037	608,204	1,570,287	471,101	1,523,755	644,690
2006							
Non-derivative liabilities							
Trading liabilities	-	2,306	2,306	-	-	-	-
Due from credit institutions	110,456	110,455	10,384	90,269	4,045	3,605	2,152
Deposits from customers	750,658	750,658	226,966	409,317	86,755	21,459	6,161
Borrowings	2,399,939	2,402,923	253,452	554,624	696,104	820,554	78,189
Subordinated liabilities	216,030	216,030	-	-	-	3,437	212,593
	3,477,083	3,482,372	493,108	1,054,210	786,904	849,055	299,095
Derivative liabilities							
Trading: outflow	-	1,404,270	-	425,523	129,608	664,364	184,775
Trading: inflow	47,479	(1,356,791)	-	(412,460)	(122,494)	(641,713)	(180,124)
Risk management: outflow	-	190,449	-	-	11,894	65,867	112,688
Risk management: inflow	8,767	(181,682)	-	(2)	(10,739)	(61,783)	(109,158)
	56,246	56,246	-	13,061	8,269	26,735	8,181
	3,533,329	3,538,618	493,108	1,067,271	795,173	875,790	307,276

110. Capital management and allocation

Capital management

The Bank's capital policy is to maintain a strong capital base to support business development and to meet regulatory capital requirements, even in times of stress. Long-term capital planning at Kaupthing Bank is currently based on a benchmark minimum Tier 1 capital ratio of 8% and a minimum equity ratio (CAD) of 11%. The Bank recognises that a strong capital base must be balanced against the greater leverage required to achieve its stated goal of achieving a long-term return on equity greater than 15% for its shareholders. Solid growth must be sustained without compromising profitability.

The Bank's capital is divided into two tiers:

Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative tier 1 securities), retained earnings, translation reserve and minority interest after adjusting for items reflected in shareholders equity which are treated differently for capital adequacy purposes. The book values of goodwill and intangible assets are deducted in arriving at tier 1 capital.

Tier 2 capital, which includes qualifying subordinated loan capital and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15% of overall tier 1 capital, qualifying tier 2 capital cannot exceed tier 1 capital, and qualifying term subordinated loan capital may not exceed 50% of tier 1 capital. From the total of tier 1 and tier 2 capital are deducted the carrying amounts of unconsolidated investments, investments in the capital of banks, and certain regulatory items.

Kaupthing's Board of Directors periodically reviews both the level and the optimal composition of capital. Capital can be raised and held either at the group level or at the subsidiary level.

There have been no material changes in the Bank's management of capital during 2007.

Capital adequacy and the Basel I and II capital adequacy standards

The Icelandic Financial Supervisory Authority (FME) supervises Kaupthing on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Bank as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements relative to risk-weighted assets. In most jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

Banking operations are categorised as either trading book or banking book and the calculation of risk-weighted assets is conducted differently for the assets in different books. Banking book risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. Banking book off-balance-sheet items giving rise to credit, foreign exchange or interest rate risk are assigned risk-weights appropriate to the category of the counterparty, again accounting for eligible collateral or guarantees. Trading book risk-weighted assets are determined by taking into account market related risks such as foreign exchange, interest rate and equity position risks, and counterparty risk.

Bank supervision is currently transitioning from the Basel I capital adequacy standard to the Basel II supervisory framework. Basel II introduces a three pillar approach to banking supervision. Pillar 1 addresses minimum capital requirements through the introduction of new calculation rules for risk weighted assets. In Pillar 2 the Bank's internal capital adequacy assessment process (ICAAP) is subject to the FME's supervisory review process (SREP). Pillar 3 introduces requirements for transparent reporting of the Bank's risk profile and risk-management methods and processes.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year 2007. During 2007 Kaupthing continued to work under Basel I while preparing a migration to Basel II. Kaupthing has applied to FME for permission to use the Basel II Foundation Internal Ratings Based method to calculate the capital requirements for credit risk as of 1 January 2008. FME's ruling is pending. Standardised Basel II methods will be adopted for market risk and operational risk.

An initial ICAAP document has been submitted to FME for review. It outlines Kaupthing's internal capital requirements, which are based on Pillar 1 regulatory capital with diversification discounts and add-ons for stress-scenarios, credit concentration risk, interest rate risk in the banking book and other risks not adequately addressed by Pillar 1.

110. cont'd

In the absence of FME's rulings it is premature to draw conclusions about the effect of Basel II on Kaupthing's capital requirements or whether the capital charge on Kaupthing will be reduced when the Basel II rules have gradually taken full effect which is expected to occur at the end of 2010.

Equity at the end of 2007 amounts to ISK 356,431 million. The equity ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 11.8%. According to the law the ratio may not be lower than 8.0%.

The ratio is calculated as follows:

	2007		2006	
	Book value	Weighted value	Book value	Weighted value
Risk base:				
Assets recorded in the Financial Statements	5,347,345	3,917,079	4,055,396	2,875,539
Assets deducted from equity		(135,600)		(66,922)
Guarantees and other items not included in the Balance Sheet		331,953		259,023
		4,113,432		3,067,640
Equity:				
Tier I capital:				
Equity		356,431		334,892
Intangible assets		(61,757)		(65,276)
Subordinated loans		100,830		51,817
Tier II capital:				
Subordinated loans		164,483		160,717
Investment in credit institutions		(73,843)		(21,324)
		486,144		460,826
Equity ratio		11.8%		15.0%
Thereof Tier I ratio		9.6%		10.5%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by the optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the internal capital requirements may be inflated to reflect different risk profiles. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALCO as appropriate.

Although the maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with Bank´s longer term strategic objectives. The Bank´s policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Operational Risk Strategy

111. Operational Risk is inherent in every activity undertaken within the Bank, in outsourced activities and in all interaction with external parties. The Bank aims to reduce the frequency and impact of operational risk events in a cost-effective manner. The Bank can reduce its exposure to operational risk with selection of internal control and quality management, well educated and qualified staff. The Bank can choose to transfer operational risk through outsourcing the activity or to transfer the financial consequences through insurance programs.

The Bank keeps firm track of the operational risk that the Bank is exposed to. Measurements are made by the means of Control and Risk Self Assessment, registration of loss events, near misses and quality deficiencies and by monitoring potential risk indicators and other early-warning signals. Operational risk is reduced through staff training, process re-design and enhancement of the control environment.

Risk Capital for Operational Risk is measured as a fixed percentage of gross income for each business unit, measured according to the Standardised approach outlined in the Capital Requirements Directive (CRD). The fixed percentage serves as a proxy for the likely scale of operational risk exposure within the business line. The fixed percentage is as follows:

Business lines:	
Corporate finance	18.0%
Trading and sales	18.0%
Payment and settlement	18.0%
Commercial banking	15.0%
Agency services	15.0%
Asset management	12.0%
Retail brokerage	12.0%

The Bank's business units are mapped onto above business lines.

Fair Value of financial instruments

112. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, i.e. not during a forced sale or liquidation. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used by the Bank to measure financial assets and financial liabilities. If quoted prices for a financial instrument fail to represent actual and regularly occurring transactions in active market transactions or if quoted prices are not available at all, fair value is established by using an appropriate valuation technique.

The following table presents the fair value of financial instruments, including those not reflected in the Financial Statements at fair value. It is accompanied by a discussion of the methods used to determine fair value for financial instruments.

2007 Financial assets	Valuation technique	Carrying value	Fair value	Unrealised gain (loss)
Cash and balances with central banks	c	97,959	97,959	-
Loans to credit institutions	c	588,441	587,263	(1,178)
Loans to customers	c	3,304,408	3,284,405	(20,003)
Bonds and debt instruments	a,b	367,350	367,350	-
Shares and instruments with variable income	a,b	160,797	160,797	-
Derivatives	c	134,856	134,856	-
Derivatives used for hedging	c	22,503	22,503	-
Securities used for hedging	a	159,949	159,949	-

112. cont'd

2007 Financial liabilities	Valuation technique	Carrying value	Fair value	Unrealised gain (loss)
Due to credit institutions and central banks	c	339,088	339,088	-
Deposits	c	1,381,457	1,380,523	934
Financial liabilities measured at fair value	a,b	217,945	217,945	-
Borrowings	c	2,615,960	2,599,269	16,691
Subordinated loans	c	267,289	265,368	1,921
Net unrealised loss not recognised in the Income Statement				(1,635)
2006				
Financial assets				
Cash and balances with central banks	c	106,961	106,961	-
Loans to credit institutions	c	485,334	489,318	3,984
Loans to customers	c	2,538,609	2,539,605	996
Bonds and debt instruments	a,b	318,264	318,264	-
Shares and instruments with variable income	a,b	159,020	159,020	-
Derivatives	c	65,454	65,454	-
Derivatives used for hedging	c	6,453	6,453	-
Securities used for hedging	a	115,938	115,938	-
Financial liabilities				
Due to credit institutions and central banks	c	110,456	110,456	-
Deposits	c	750,658	750,292	366
Financial liabilities measured at fair value	a,b	71,264	71,264	-
Borrowings	c	2,399,939	2,397,319	2,620
Subordinated loans	c	216,030	217,850	(1,820)
Net unrealised gain not recognised in the Income Statement				6,146

Methods for establishing fair value

a) *Fair value established from quoted market prices*

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, unless the fair value can be evidenced by comparison with other observable current market transactions, or is based on a valuation technique whose variables include only data from observable markets.

In some cases, the carrying value of the financial instrument is in note 69 used as an approximation for the fair value of the instrument. This is straight-forward for cash and cash equivalents but is also used for short-term investments and borrowings to highly rated counterparties, such as credit institutions, on contracts that carry interests close to or equal to market rates and expose the Bank to little or no credit risk.

For listed and liquid stocks and bonds, certain financial derivatives and other market traded securities, such as commodities, the fair value is derived directly from the market prices. These instruments are disclosed in following balance sheet items; Trading assets and Trading liabilities.

b) *Fair value established using valuation techniques with observable market information*

For financial instruments, for which the market is not active, the Bank applies specific working procedures and valuation techniques to attain a fair value using as much market information as available. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models or other commonly accepted valuations techniques used by market participants to price the instrument.

For financial instruments for which quoted prices on active markets are not available, the fair values are derived using various valuation techniques. This applies in particular to OTC-derivatives such as options, swaps, futures and unlisted equities but also some other assets and liabilities.

In most cases the valuation are based on theoretical financial models, such as the Black-Scholes models or variations thereof. These techniques also include forward pricing and swap models using present value calculations.

The fair value for deposits with stated maturities was calculated by discounting estimated cash flows using current market rates for similar maturities. For deposits that can be withdrawn immediately, the fair value is the amount payable on demand, which is equal to the carrying amount in the Balance Sheet.

c) *Fair value established using valuation techniques with significant unobservable market information*

In many cases there is little or no market data to rely on for fair value calculations. The most common valuation technique is present value calculations. Such calculations involve the estimation of future cash flow and the assessment of appropriate discount rate. The discount rate should both reflect current market rates and the uncertainty in the future cash flow. In such cases internal models and methods are used to calculate the fair value. The models may be statistical in nature, based on internal or external history of financial instruments with similar characteristics and/or based on internal knowledge and experience. For example, the credit margin on most loans to customers - which is added to the current and suitable interest rate to arrive at an appropriate discount rate - is estimated using credit rating and loss parameters in case of default that have been derived from internal models.

Equity instruments that do not have a quoted market price are evaluated using methods and guidelines from pertinent international organisations. In most cases intrinsic value is the basis for the assessment but other factors, such as cash flow analysis, can also modify the results.

Although the Bank follows market standards and relies on well accepted methods there is still wide room for choice, both in the models themselves and the assumptions that must be supplied and cannot be derived from market data. Consequently, different assumptions and choices could lead to different estimates.

113. Fair value of financial instruments.

For financial instruments whose fair value is estimated using valuation techniques with non-market observable inputs, the net unrealised amount recorded in the Income Statement in the year due to changes in the inputs amounts to ISK 369 million (2006: ISK 291 million)

The table below shows the movement in the aggregated profit not recognised when financial instruments where first recorded ('Day 1 profit'), because of the use of valuation techniques for which not all the inputs are observable in the market.

	2007	2006
Balance at 1 January	1,130	638
Deferral of profit on new transactions	676	724
Recognised in the Income Statement during the period:		
Subsequent to observability	(82)	(23)
Derecognition of the instruments	(369)	(291)
Exchange differences	30	82
Balance at 31 December	1,385	1,130

Other information

Assets under management and under custody

114. Assets under management and assets under custody are specified as follows:

	2007	2006
Assets under management	1,557,395	1,403,376
Assets under custody	2,276,875	1,952,813

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.

Related parties

115. 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 BV. and related companies (23.26%) and Egla Invest BV. (9.9%). Information regarding related parties are as follows:

Loans to significant related companies:	2007	2006
Balance at 1 January	109,556	36,888
Additions	54,810	91,274
Reductions	(57,641)	(18,606)
Balance at 31 December	106,725	109,556

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 the board members and its key management. The outstanding balance of loans to the board members, management and close family members amounted to ISK 34,408 million at the end of the year 2007 and ISK 17,716 million at 31 December 2006. 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 the year of 2007.

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

Stock options

116. There is still one year left of the option scheme from 2004 with the Executive Chairman and the CEO. According to the scheme they are each entitled to 812,000 shares in 2008. In March 2007 the Annual General Meeting approved to extend the scheme for three years. The amount is to be the same as in the current option scheme or 812,000 shares for each every year in 2009, 2010 and 2011. Stock option holders are entitled to exercise one third of their total stock option in March every year for three years. The option exercise price is ISK 1,007.

The Board of Directors of the Bank has also granted 28 employees stock options to buy 1.1 million shares over a three-year period, during which they can exercise one third of the stock option each year. The period in which options can be exercised is from 20 January to 20 February each year, with the first exercise period in 2010. The option has an exercise price of ISK 1,110 per share during the first exercise period, ISK 1,166 per share during the 2011 exercise period and ISK 1,224 per share during the 2012 exercise period. The exercise of the options can be postponed each time until last exercise date but the strike price will increase to the price indicated by the relevant exercise date.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares.

Grant date / employees entitled:	Number of shares in thousands	Vesting conditions:	Contractual life of options	Exercise price
March 2004	1,624	Four years of service. The stock option is exercisable 2007-2008	4 years	303
December 2002	277	Six years of service. One third of total stock option is exercisable each year 2007-2008	6 years	51
November 2005	1,714	Three years of service. One third of total stock option is exercisable each year 2007-2009	3 years	600
November 2005	5,782	Three years of service. One third of total stock option is exercisable each year 2007-2009	3 years	600 / 630 / 660
December 2006	415	Three years of service. One third of total stock option is exercisable each year 2008-2010	3 years	840
December 2006	20,955	Five years of service. One third of total stock option is exercisable each year 2010-2012	5 years	830 / 872 / 916
March 2007	4,872	Four years of service. The stock option is exercisable 2009-2011	4 years	1,007
July 2007	1,110	Five years of service. One third of total stock option is exercisable each year 2010-2012	5 years	1,110 / 1,166 / 1,224
Total share options	36,749			

The number and weighted average exercise prices of share options is as follows:	2007 Weighted average exercise price	2007 Number of options	2006 Weighted average exercise price	2006 Number of options
Outstanding at the beginning of the year	735	38,034	494	20,811
Forfeited during the year	744	(1,779)	521	(1,447)
Exercised during the year	437	(5,488)	278	(3,641)
Granted during the year	1,037	5,982	871	22,311
Outstanding at the end of the year	861	36,749	735	38,034

The options outstanding at 31 December 2007 have an exercise price in the range of ISK 51.22 to ISK 1,224 and a weighted average contractual life of 4.4 years. The weighted average share price at the date of exercise was ISK 992.

116. cont'd

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model. Expectations of early exercise are not incorporated into the Black-Scholes model.

The fair value of options granted to the Executive Chairman and the CEO determined using the Black-Scholes valuations model was ISK 1,433 millions which will be amortised over contractual life of options. The significant inputs into the model were share prices of ISK 1,007, expected volatility of 25%, option life disclosed above, annual risk free interest rate of 8.8%, and expected dividends yield of 2.0%. The expected volatility is based on the historic volatility over the last 36 months before the grant date.

The fair value of options granted during the year determined using the Black-Scholes valuations model was ISK 223 million which will be amortised over contractual life of options. The significant inputs into the model were share prices of ISK 1.110, ISK 1.166 and ISK1.224, expected volatility of 30%, option life disclosed above, annual risk free interest rate of 8.5%, and expected dividends yield of 2.0%. The expected volatility is based on the historic volatility over the last 36 months before the grant date.

The fair value of options granted in 2006 determined using the Black-Scholes valuations model was ISK 3,449 millions which will be amortised over contractual life of options. The significant inputs into the model were share prices of ISK 840 (830, 872 and 916 for key management), expected volatility of 22.2%, option life disclosed above, annual risk free interest rate of 8.9%, and expected dividends yield of 2.0%. The expected volatility is based on the historic volatility over the last 36 months before the grant date.

The stock option plan led to personnel expenses of ISK1,522 millions in fiscal year 2007.

The Board of Directors of FIH Erhvervsbank has granted the employees of FIH a stock option scheme which can be exercised 2008, 2009 and 2010. The options can only be exercised for 30 days after the Financial Statements have been published. During 2007 ISK 465 million (2006: ISK 347 million) has been entered among Salaries and related expenses and ISK 713 million (2006: ISK 360 million) in the Balance Sheet as liability.

Events after the Balance Sheet date

117. In August 2007 the Bank entered into an agreement to purchase the entire share capital of NIBC N.V. for EUR 2,985 million. On 29 January 2008 the Bank came to an agreement with the Sellers that both parties relinquish from their prior agreement.

Subsidiaries and branches

118. Shares in main subsidiaries and main branches are specified as follows:

Company:	Country	Currency	Business Group[1]	Share Capital in millions	Equity interest accum. %
Arion Custody Service hf.	Iceland	ISK	OD	115	100.0
FIH Erhversbank A/S	Denmark	DKK	IB, CM, Tr, Ba, AM & PB	5,917	99.9
Kaupthing Bank Luxembourg S.A.	Luxembourg	EUR	IB, CM, Tr, Ba, AM & PB	16,611	100.0
Kaupthing Holding (Isle of Man) Ltd	UK	GBP	Tr, Ba, AM & PB	1,043	100.0
Kaupthing Holding UK Ltd. (KTSF)	UK	GBP	IB, CM, Tr, Ba, AM & PB	35,890	100.0
Kaupthing New York Inc.	USA	USD	CM	524	100.0
Kaupthing Norge AS	Norway	NOK	IB, CM, Tr, AM & PB	1,433	100.0
Kaupthing Sverige AB	Sweden	SEK	IB, CM, Tr, Ba, AM & PB	2,807	100.0
Kaupthing Líf hf.	Iceland	ISK	Ba	17	100.0
Kirna ehf.	Iceland	ISK	IB, Tr	36,370	100.0
New Bond Street Asset Management LLP	UK	GBP	Tr	43	100.0
Norvestia Oyj	Finland	EUR	CM	4,455	32.7
Rekstrarfélag Kaupthings banka hf.	Iceland	ISK	AM & PB	44	100.0
Sparisjódur Kaupthings hf.	Iceland	ISK	Ba	100	100.0
Branch:					
Kaupthing Bank hf. NUF	Norway	NOK	Tr		
Kaupthing Bank hf. Suomen sivuliike	Finland	EUR	IB, CM, Tr, Ba, AM & PB		
Kaupthing Bank hf. DIFC Branch	Dubai	USD	IB		
Kaupthing Bank hf. QFC Branch	Qatar	USD	IB		
Kaupthing Bank hf. Island, Filial	Sweden	SEK	Tr		

The Bank wields 56.0% of the votes in Norvestia Oyj and the company is thus considered to be a subsidiary of the Bank.

1. IB: Investment Banking, CM: Capital Markets, Tr: Treasury, Ba: Banking, AM & PB: Asset Management and Private Banking, OD: Other Divisions.

At Kaupthing we firmly believe in giving young people every opportunity to have access to safe, adventurous experiences through which they can raise their self-esteem, realise their full potential and achieve more than they ever thought possible.

BOARD OF DIRECTORS

The Board of Directors is composed of nine members, to be elected at Kaupthing Bank's Annual General Meeting for a term of one year. Nine substitute members are also elected.

Sigurdur Einarsson

Sigurdur Einarsson, Executive Chairman

Born in 1960
Member since 2003
Economics graduate from University of Copenhagen in 1987

Board Chairman: Arion Custody Services hf., Kaupthing Bank Luxembourg S.A., Kaupthing Bank hf. Finnish Branch, Kaupthing Ltd., Kaupthing New York Inc., Kaupthing Norge AS, Kaupthing ASA, Kaupthing Securities Inc., Kaupthing Singer & Friedlander Group Plc, Kaupthing Singer & Friedlander Ltd., Kaupthing Singer & Friedlander Capital Markets Ltd., Singer & Friedlander Investment Management Ltd.

Board member: FIH Erhvervsbank A/S, Norvestia Plc, Kaupthing Bank Sverige AB and Veidilækur ehf.

Employment experience:

1994 - 2003	Joined Kaupthing and became the Bank's CEO from 1997 to 2003
1988 - 1994	Deputy Director of the International Division and later served as Deputy Director of Treasury until he became Executive Director of Capital Markets at Íslandsbanki hf. (now Glitnir banki hf.)
1982 - 1988	Worked in the International Department and the Financial Department of Danske Bank

Holdings: 8,180.423 shares, 3,248,000 call options, 0 put options. Holdings of financially related parties: 14,111 shares.

Hjörleifur Thór Jakobsson

Hjörleifur Thór Jakobsson, Deputy Chairman

Born in 1957
Member since 2003
Mechanical Engineering graduate from University of Iceland in 1981
MSc in Engineering from Oklahoma State University in 1982

Board Chairman: Hekla hf., Iceland Seafood International ehf., Festing ehf., Bio Vörur ehf., Madur lifandi ehf. and Hafrahlíd ehf.

Board member: Samskip hf., Ker ehf., Stallasel ehf., Vatnsholt ehf., Bláfeldarhraun ehf., Tankurinn ehf., D-3 Eignarhaldsfélag ehf., Heidarás ehf., Jónar Transport hf., Orkuveita Stadarsveitar ehf., Hekla fasteignir ehf., Dseta ehf., Kilja ehf., Mundill ehf., Argyle ehf. and Framleidendur ehf.

Employment experience:

Since 2006	CEO of Kjalar hf., Ker hf., Stallasel ehf., Vatnsholt ehf., Bláfeldarhraun ehf., Egla hf., Kilja ehf. and Heidarás ehf.
2002 - 2006	CEO of Olíufélagid hf.
1999 - 2001	CEO of Hampidjan
1984 - 1999	In various management positions at Eimskip, including Senior Director of Operations

Holdings: 12,788 shares, 0 call options, 0 put options. Holdings of financially related parties: 73,162,179 shares.

Gunnar Páll Pálsson

Gunnar Páll Pálsson

Born in 1961
Member since 2001
Business Administration graduate from the University of Iceland in 1987

Board Chairman: Lífeyrissjódur verslunarmanna, Lífeyrissjódur starfsmanna Áburdarverksmidju ríkisins and Máttarstólpar ehf.

Employment experience:

Since 1991 Economist for twelve years, later the CFO and now the CEO of Commercial Workers' Union of Reykjavík (Verzlunarmannafélag Reykjavíkur)

Holdings: 6,074 shares, 0 call options, 0 put options. Holdings of financially related parties: 6,115 shares.

Tommy Persson

Tommy Persson

Born in 1948
Member since 2002

Board Vice-Chairman: Swedish Insurance Employers' Federation

Board member: Länsförsäkringar AB, Eureko BV, EurAPCO AG and Stockholm Chamber of Commerce

Employment experience:

Since 1996 CEO of Länsförsäkringar AB

Holdings: 5,000 shares, 0 call options, 0 put options. Holdings of financially related parties: 0 shares.

Ásgeir Thoroddsen

Ásgeir Thoroddsen

Born in 1942
Member since 2003
Cand. Jur. degree from the University of Iceland in 1967
Public Administration graduate from New York University in 1971

Board Chairman: Frjálsi lífeyrissjódurinn, Intrum á Íslandi ehf. and Íshestar ehf.

Board member: Liftryggingafelag Islands hf., ÁGT ehf., Vátryggingafelag Islands hf., Lýsing hf., Pera ehf. and Bakkavör Group hf.

Employment Experience:

Since 1977 Attorney to the Supreme Court of Iceland

Holdings: 718 shares, 0 call options, 0 put options. Holdings of financially related parties: 2,170,421.

Niels de Coninck-Smith

Niels de Coninck-Smith

Born in 1956
Member since 2005
MSc from the Copenhagen School of Business in 1980. Masters in Business Administration, specialisation in Finance, from the Wharton School of the University of Pennsylvania in 1982

Board member: Contura A/S, Carefarm A/S and FVS A/S

Employment Experience:

Since 2002 CEO of Ferrosan A/S

1982 – 2002 Employed by McKinsey & Co. in various positions, including as a consultant, engagement manager, principal and director

Holdings: 5,500 shares, 0 call options, 0 put options. Holdings of financially related parties: 0 shares.

Bjarnfredur H. Ólafsson

Bjarnfredur H. Ólafsson

Born in 1967
Member since 2003
Cand. Jur. degree from the University of Iceland in 1993.
Masters of Law in Comparative Law from the University of Miami School of Law in 1997 and a degree in International Business Administration from Nova Southeastern University School of Business & Entrepreneurship in 1998

Board Chairman: Generated Investments Íslandi ehf., OneSource Finance Íslandi ehf., Medalfell ehf. and Ex-Ice Íslandi ehf.

Board member: Einsær hf., Pera ehf. and Ufsastadir ehf.

Employment Experience:

Since 2006	CEO of Einsær hf. Partner and head of the tax division at Logos Legal Services. Attorney to the District Court of Iceland. National representative of the International Business and Tax Committee of the International Bar Association
1999 – 2006	Co-founder and managing partner of Taxis Attorneys, which specialises in tax and company legislation and commercial agreements
1993 – 1996	Senior Attorney for the Icelandic Internal Revenue Directorate

Holdings: 176 shares, 0 call options, 0 put options. Holdings of financially related parties: 176 shares.

Brynja Halldórsdóttir

Brynja Halldórsdóttir

Born in 1957
Member since 2004
Business Administration graduate, in Macroeconomics, from the University of Iceland in 1981

Board member: Byko hf., EXPO Kópavogur ehf., Smáragardur ehf., Kaupás hf., CW ltd. UK, and Norvik Bank Latvia

Employment experience:

Since 1991	Norvik hf. / BYKO, CEO of parent company and CFO of the group
1990 – 1991	Excutive Director of branch operations at Íslandsbanki (now Glitnir banki hf.)
1985 – 1989	Divisional Manager of Planning and Analysis, later becoming the CFO of Verslunarbanki (Bank of Commerce)

Holdings: 9,206 shares, 0 call options, 0 put options. Holdings of financially related parties: 26,334,079 shares.

Antonios P. Yerolemou

Antonios P. Yerolemou

Born in 1942
Member since 2007
Business Administration graduate from West London College of Commerce

Board Chairman: Katsouris Brothers Ltd. and Katsouris Investments Ltd.

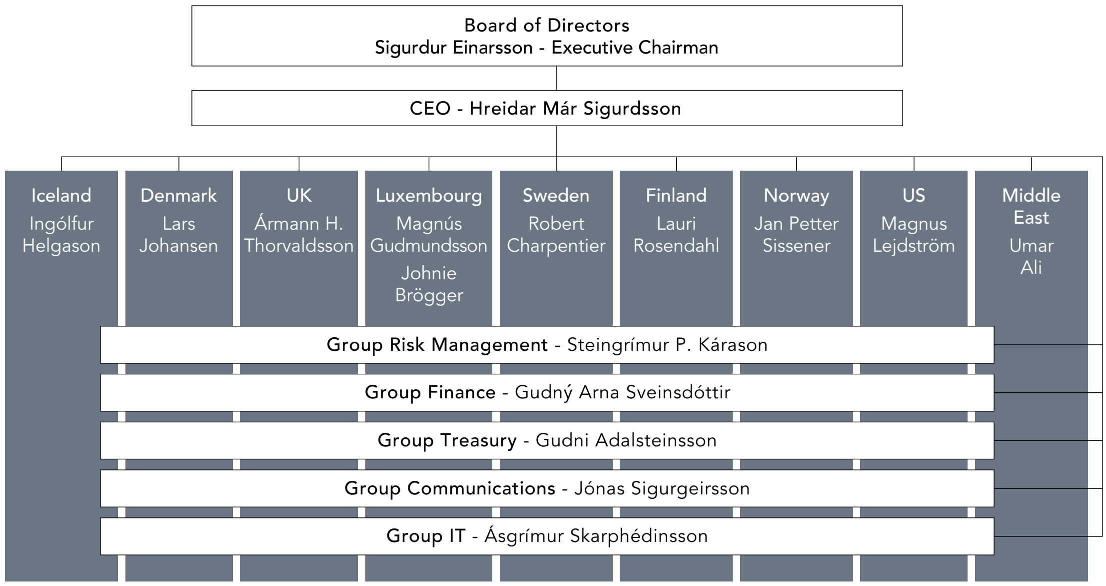
Board member: A.C. Properties Ltd., Etchlord Ltd., Hellenic Community Trust Ltd., London Greek Radio (1987) Ltd., Voidtree Ltd., Wine & Mousaks Ltd., Radio Marathon (for children with special needs) Ltd., Cyprus British Chamber of Commerce & Industry Ltd. and Lanitis Development Public Ltd., Cyprus

Employment experience:

Since 2002	Non-executive director of a number of companies, including Bakkavör Group hf.
1982 – 2002	CEO and founder of Katsouris Fresh Foods Ltd.

Holdings: 0 shares, 0 call options, 0 put options. Holdings of financially related parties: 9,482,480 shares.

SENIOR MANAGEMENT



Group Management

Hreidar Már Sigurdsson

Chief Executive Officer (CEO)
Born in 1970
Joined: 1994
Business Administration graduate from the University of Iceland in 1994

Employment experience:

Since 2003	CEO of Kaupthing Bank
1998 - 2003	Deputy CEO of Kaupthing. Managing Director of Kaupthing New York Inc. from its founding in 2000 until 2001
1994 - 1998	Kaupthing's Asset Management division

Holdings: 0 shares, 3,248,000 call options. Holdings of financially related parties: 7,383,856 shares. Related parties' rights according to a forward contract: 205,078 shares.

Steingrímur Kárason

Chief Risk Officer (CRO)
Born in 1968
Joined: 1997
Mechanical Engineering graduate from the University of Iceland in 1991. MSc in 1993 and a Ph.D. in 1997 in Mechanical Engineering from Massachusetts Institute of Technology

Employment experience:

Since 1998	CRO of Kaupthing Bank
1997 - 1998	Derivatives and Currency Department at Kaupthing

Gudny Arna Sveinsdóttir

Chief Financial Officer (CFO)
Born in 1966
Joined: 2001
Business Administration graduate from the University of Iceland in 1991. Masters in Finance and Accounting from the University of Uppsala in 1996

Employment experience:

Since 2005	CFO of Kaupthing Bank
2003 - 2005	Director of Finance & Accounting at Kaupthing
2001 - 2003	Director of Accounting at Kaupthing
1997 - 2001	Director of Accounting at Eimskip
1996 - 1997	Auditing work for several large international companies in Stockholm while working for Öhrlings Coopers & Lybrand (now ÖhrlingsPWC)

Gudni Adalsteinsson

Group Treasurer
Born in 1967
Joined: 2005
Economics graduate from the University of Iceland in 1991. MBA from Cambridge University in 1998

Employment experience:

Since 2005	Group Treasurer at Kaupthing Bank
2004 - 2005	Director in the Fixed Income Division of Credit Suisse in Frankfurt
1998 - 2004	Director in the Fixed Income Division of Lehman Brothers in London and Frankfurt
1992 - 1997	Economist for the Federation of Icelandic Employers

Jónas Sigurgeirsson

Chief Communications Officer (CCO)
Born in 1968
Joined: 2000
History graduate from the University of Iceland in 1992. MBA studies at the University of Tampa from 1999 to 2000

Employment experience:

Since 2005	CCO of Kaupthing Bank
2003 - 2005	Head of Investor Relations for Kaupthing
2000 - 2003	Investment Banking Division at Kaupthing
1993 - 1999	Manager of a private publishing company

Ásgrímur Skarphédinsson

Chief Information Officer (CIO)
Born in 1958
Joined: 1997
Electrical Engineering graduate from Odense Teknikum in Denmark in 1982

Employment experience:

Since 2005	CIO of Kaupthing Bank
2004 - 2005	Special assignment at Group level - overseeing integration of the computer systems at Kaupthing
1997 - 2004	Head of Information Technology for Kaupthing
1995 - 1997	Established the Microsoft Consultancy Department at EJS

Founded and managed Traffice Software
Head of Systems Department for Skrifstofuvélar hf.

At year end the five Senior Managers owned in total 1.5 million shares in stock options and 5.3 million shares.

Managing Directors of Group activities

Bjarki Diego

Group Credit Officer
Born in 1968
Joined: 2000
Graduated with a Law degree from the University of Iceland in 1993. LL.M. in International Business Law from University College London in 1999

Employment experience:

Since 2007 Group Credit Officer of Kaupthing Bank
2003 - 2007 Managing Director of Corporate Banking at Kaupthing
2002 - 2003 Co-Head of Corporate Finance at Kaupthing
2000 - 2002 General Counsel for Corporate Finance at Kaupthing
1993 - 1997 Attorney at Law

Holdings: 1,741,583 shares, 459,000 call options, 0 put options. Holdings of financially related parties: 874 shares.

Helgi Bergs

Global Head of Investment Banking
Born in 1966
Joined: 1997
CS in mechanical engineering from the University of Iceland in 1993

Employment experience:

Since 2005 Global Head of Investment Banking of Kaupthing Bank
2003 - 2005 Managing Director of Kaupthing Limited
2001 - 2003 Deputy Global Head of Corporate Finance at Kaupthing
1997 - 2001 Corporate Finance department at Kaupthing
1993 - 1997 Employed by Iceland Seafood both in Iceland and the UK

Jan Petter Sissener

Global Head of Global Equity (resigned 13 February 2008)

Mr. Sissener is also the Managing Director of Kaupthing Norge. For more detailed information on Mr. Sissener, please see his entry under Managing Directors of Main Subsidiaries.

Managing Directors of main subsidiaries

Ingólfur Helgason

CEO of Kaupthing Bank in Iceland
Born in 1967
Joined: 1993
Business Administration graduate from the University of Iceland in 1993. Licensed stockbroker in 1998
Board Chairman: Sparisjódur Kaupthings hf. and Kaupthing Líftryggingar hf.
Board member: Kirna ehf. (CEO), Arion Custody Services hf. and IH eignarhaldsfélag ehf.

Employment experience:

Since 2005 CEO of Kaupthing Bank Iceland
1997 - 2005 Director of Capital Markets for Kaupthing
1993 - 1997 Private investor and later brokerage adviser at Kaupthing

Holdings: 3,720,075 shares, 440,000 call options, 0 put options. Holdings of financially related parties: 0 shares.

Lars Johansen

CEO of FIH Erhvervsbank (Denmark)

Born in 1945

Joined: 1998 (FIH)

Masters in Economics from the University of Copenhagen in 1970. PMD from Harvard Business School in 1984

Employment Experience:

Since 1998	CEO of FIH
1996 - 1998	CEO of the Copenhagen Stock Exchange
1993 - 1996	Managed Johansen & Co, his own corporate finance advisory company
1967 - 1993	Managed capital markets and trading operations from 1977-1985. In 1985 he became member of the Executive Board of Privatbanken and later Unibank A/S

Holdings: 0 shares, 2,666 call options, 0 put options. Holdings of financially related parties: 0 shares.

Ármann Thorvaldsson

CEO of Kaupthing Singer & Friedlander (UK)
Born in 1968
Joined: 1994
History graduate from the University of Iceland in 1992. MBA from Boston University in 1994

Employment Experience:

Since 2005	CEO of Kaupthing Singer & Friedlander
1997 - 2005	Managing Director of Investment Banking at Kaupthing
1994 - 1997	Director of Planning and Budgeting at Kaupthing

Johnie W. Brøgger

Managing Director of Kaupthing Bank Luxembourg (resigned 1 February 2008)
Born in 1958
Joined: 1999
Masters in Accounting from the Copenhagen School of Economics and Business Administration graduate in 1986

Employment Experience:

Since 1999	Managing Director of Kaupthing Luxembourg
1994 - 1999	General Manager and Deputy to the Managing Director of Nordvestbank (now VestjyskBank) in Denmark
1986 - 1994	Regional Manager later General Manager for Union Bank of Norway in Luxembourg
1976 - 1986	Employed by Bibuken (now part of Danske Bank)

Magnús Gudmundsson

Managing Director of Kaupthing Bank Luxembourg
Born in 1970
Joined: 1994
Business Administration graduate, specialising in accounting and auditing, from the University of Iceland in 1994

Employment Experience:

Since 1998	Managing Director of Kaupthing Luxembourg
1996 - 1998	Managed Private Banking & Asset Management for Kaupthing
1994 - 1996	Investment adviser for private individuals later becoming Head of the department at Kaupthing

Robert Charpentier

Managing Director of Kaupthing Bank Sverige (Sweden)
Born in 1965
Joined: 2006
MSc in Economics with a focus on International Finance from the Swedish School of Economics and Business Administration in Helsinki in 1989

Employment Experience:

Since 2006	Managing Director of Kaupthing Bank Sverige
2000 - 2006	Executive Vice President at the Swedbank Group later as Deputy Head of Swedbank Markets
1997 - 2000	Senior Vice President, Head of Corporate Banking, for Swedbank Markets, the investment and merchant banking unit of the Swedbank Group
1989 - 1997	Analyst and associate before becoming the Executive Director of Debt Capital Markets for Nordic clients at Goldman Sachs & Co. in London

Lauri Mikael Rosendahl

Managing Director of Kaupthing Bank hf. Finnish Branch
Born in 1960
Joined: 2007
Master's Studies at the Swedish School of Economics and Business Administration in Helsinki from 1979-1984, major in international finance

Employment Experience:

Since 2007	Managing Director of Kaupthing Bank hf. Finnish Branch
2005 - 2007	Head of Securities, Head of Research and Branch Manager for Carnegie Investment Bank AB in Finland
2003 - 2005	Country Head in Finland for Alfred Berg ABN AMRO
2000 - 2003	Country Head in Finland for Deutsche Bank
1988 - 2000	Financial Analyst (1988), Head of Research (1989) and Managing Director (1990) at ABB Aros Securities

Jan Petter Sissener

Managing Director of Kaupthing Norge (Norway) (resigned 13 February 2008)
Born in 1955
Joined: 2005
Economics graduate from the Institute of Business Administration in Oslo in 1980

Employment Experience:

Since 2005	Managing Director of Kaupthing Norge and Global Head of Equity
2002 - 2005	Norwegian Head of Equities and later Nordic Head of Equities for Alfred Berg ABN Amro Norway
1994 - 2002	Norwegian Head of Equities for Orkla Finans
1986 - 1994	Employed by Carnegie in London and Norway later becoming a partner
1983 - 1986	Partner in Gunnar, Bohn & Co
1980 - 1983	Employee at a brokerage company, Einar H. Vestnes

Magnus C. Lejdström

Managing Director of Kaupthing New York (US)
Born in 1969
Joined: 2004
Business Administration graduate, focusing on finance, from the University of Vermont, School of Business in 1991

Employment Experience:

Since 2005	President of Kaupthing Securities and Managing Director of Kaupthing New York
2004 - 2005	Managing Director of Kaupthing Securities
2000 - 2004	Member of the management team and partner at Nordic Partners. He then worked for Credit Agricole Cheuvreux
1996 - 2000	Vice President, Client Executive, Head of US Corporate Clients and as a senior member of Skandinaviska Enskilda Banken Management in New York
1991 - 1996	Member of the Corporate Banking Team at Svenska Handelsbanken in New York

Umar Ali

Managing Director of Kaupthing Bank Middle East
Born in 1967
Joined: 2007
MBA, specialising in Finance, from Imperial College, University of London in 1990

Employment Experience:

Since 2007	Managing Director of Kaupthing Bank Middle East
1998 - 2007	Director in Investment Banking at HSBC Investment Bank
1990 - 1998	Associate Director at NatWest Markets

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