KAUPTHING BANK

31 January 2008
Earnings release

Kaupthing Bank's results for 2007

Net earnings of ISK 70.0 billion (€799 million)

- **Shareholders' net earnings for 2007 of ISK 70.0 billion - (ISK 85.3 billion in 2006)**
- **Shareholders' net earnings for fourth quarter of ISK 9.8 billion - (ISK 18.1 billion in same period of 2006)**
- **Return on equity in 2007 of 23.5%.**
- **Earnings per share of ISK 95.2 (ISK 127.1 in 2006). Earnings per share for fourth quarter of ISK 13.4 (ISK 26.1 in Q4 2006)**
- **Net interest income in the fourth quarter up by 60.3% YoY to ISK 23.7 billion**
- **Net fee and commission income in the fourth quarter grew by 19.0% YoY to ISK 14.1 billion**
- **Financial loss in Treasury of ISK 11.6 billion in the fourth quarter, primarily due to the decrease in the fair value of derivative contracts, bonds and asset-backed securities**
- **Total assets of ISK 5,347.3 billion (€58.3 billion) at year-end, increasing by 35.8% at a fixed exchange rate during the year and by 31.9% in ISK**
- **Deposits as a percentage of total loans to customers increased significantly in 2007, from 29.6% at the beginning of the year to 41.8% at the end of the year**
- **In light of the instability on the financial markets, Kaupthing Bank and the sellers of NIBC have announced their decision not to proceed with the proposed acquisition by Kaupthing Bank of NIBC**
- **The Board of Directors will propose at the shareholders' meeting that a dividend of ISK 14,810 million be paid out for 2007, corresponding to ISK 20 a share, or 21% of net earnings.**

Hreidar Már Sigurdsson, CEO
"Kaupthing enjoyed a good 2007; the year started particularly strongly but the downturn on the international financial markets left its mark on the second half of 2007. Return on equity was 23.5%, a most satisfactory figure. The Bank is performing well in all its core business areas, and interest income during the fourth quarter was the highest yet recorded.

The adverse operating environment has led to a shift in focus in operations, and the growth of the Bank's balance sheet is set to slow down this year. Management's prime focus is now on generating commission income and maximising efficiency. Funding is being diversified and the Bank is now placing increasing emphasis on deposits. A new online deposit bank was introduced during the fourth quarter, Kaupthing Edge, which has already been launched in five countries. In the last four months, almost 30,000 customers have placed deposits with the Bank.

Kaupthing has reached an agreement with J.C. Flowers not to proceed with the acquisition of Dutch bank NIBC owing to the negative situation on the financial markets. The planned share issue will therefore no longer be taking place. While this development is disappointing for the Bank's stakeholders, the decision nevertheless significantly reinforces Kaupthing's liquidity position, which is now very robust."

Key figures

ISK billions	2007	2006*	Change	Q4 2007	Q3 2007	Change	Q4 2007	Q4 2006	Change
Operating income	165.8	141.1	18%	30.1	39.8	-24%	30.1	40.9	-26%
Operating expenses	78.7	60.0	31%	22.7	19.3	17%	22.7	18.8	20%
Shareholders' net earnings	70.0	63.9	10%	9.8	14.4	-32%	9.8	18.1	-46%
Cost/income ratio	47.5%	42.5%		75.2%	48.6%		75.2%	46.1%	
Earnings pr. share, ISK	95.2	94.9	0%	13.4	19.6	-32%	13.4	26.1	-49%
Return on equity	23.5%	31.3%		12.3%	19.0%		12.3%	28.9%	

*Excluding after-tax gain from Exista

Balance Sheet amounts stated in EUR are converted from ISK at the end of period cross-rate of 91.66. Other YTD amounts stated in EUR are converted from ISK at an average cross-rate of 87.60.

Income Statement

ISK millions	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Net interest income	23,739	20,259	19,849	16,265	14,806	12,687
Net fee and commission income	14,122	13,374	15,189	12,337	11,866	7,632
Net financial income	-12,429	2,634	10,772	13,456	12,003	37,256
Other income	4,699	3,553	5,996	2,002	2,241	2,210
Operating income	**30,132**	**39,820**	**51,807**	**44,059**	**40,915**	**59,785**
Salaries and related expenses	-13,359	-10,921	-11,833	-10,534	-10,572	-7,315
Other administrative expenses	-9,299	-8,428	-7,184	-7,173	-8,274	-6,488
Operating expenses	**-22,658**	**-19,348**	**-19,017**	**-17,707**	**-18,846**	**-13,803**
Impairment	-1,959	-1,723	-1,075	-1,423	-1,637	-2,820
Earnings before income tax	**5,515**	**18,748**	**31,715**	**24,929**	**20,433**	**43,163**
Income tax	4,135	-3,962	-5,653	-4,236	-1,793	-7,630
Net earnings	**9,650**	**14,786**	**26,062**	**20,694**	**18,640**	**35,533**
Shareholders of Kaupthing Bank	9,850	14,406	25,484	20,281	18,077	35,393
Minority interest	-200	380	578	413	564	140
Earnings per share, ISK	13.4	19.6	35.2	27.4	26.1	53.4

Balance Sheet

ISK billions	31/12/07	31/12/06		31/12/07	31/12/06
Cash balance with central banks	98	107	Due to credit institutions	339	110
Loans to credit institutions	588	485	Deposits	1.381	751
Loans to customers	3,304	2,539	Financial liabilties at FV	218	71
Bonds and debt instruments	367	318	Borrowings	2.616	2.400
Shares and equity instruments	161	159	Subordinated loans	267	216
Derivatives	135	65	Tax liabilities	22	23
Derivatives used for hedging	23	6	Other liabilities	147	149
Securities used for hedging	160	116	Minority interest	11	11
Investment in associates	84	5	Shareholders' equity	346	324
Intangible assets	67	68			
Investment property	28	32			
Property and equipment	33	30			
Tax assets	7	6			
Other assets	293	118			
Total Assets	**5,347**	**4,055**	**Total Liabilities and Equity**	**5,347**	**4,055**

Results by profit centres

YTD 2007

ISK millions	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Eliminations and cost centers	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	**32,686**	**25,634**	**4,350**	**74,264**	**15,459**	**13,424**	**165,818**
Operating expenses	-11,562	-5,573	-3,988	-19,149	-7,947	-30,511	-78,731
Impairment	1	-24	33	-6,161	0	-28	-6,180
Total expenses	**-11,561**	**-5,598**	**-3,955**	**-25,311**	**-7,947**	**-30,540**	**-84,910**
Earnings before cost allocation	**21,125**	**20,037**	**395**	**48,954**	**7,512**	**-17,116**	**80,907**
Allocated cost	-4,186	-1,595	-2,244	-9,858	-4,125	22,008	0
Earnings before income tax	**16,939**	**18,442**	**-1,848**	**39,096**	**3,386**	**4,893**	**80,907**

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

Income Statement

The effect of the strengthening of the ISK on the Bank's accounts
Kaupthing Bank's functional currency is the Icelandic króna (ISK). The ISK appreciated by 7.1% in 2007. The strengthening of the ISK therefore reduced the real growth of income and expenses as well as assets and liabilities.

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 70,021 million for 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 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 for 2007 were ISK 95.2, compared with ISK 127.1 in 2006, of which ISK 32.3 per share was in relation to Exista.

Kaupthing Bank reported earnings before income tax of ISK 5,515 million for the fourth quarter of 2007, compared with ISK 20,433 million during the same period in 2006. Shareholders' net earnings for the fourth quarter amounted to ISK 9,850 million, compared with ISK 18,077 million in the same period in 2006. Minority interest was negative by ISK 200 million owing to the negative results of the Bank's subsidiary Norvestia in Finland. Earnings per share for the fourth quarter were ISK 13.4, compared with ISK 26.1 during the same period in 2006.

Income
Operating income for 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. Operating income for the fourth quarter of 2007 totalled ISK 30,132 million, down by 26.4% compared with the same period in 2006 due to the trading losses in Capital Markets and Treasury.

Net interest income for 2007 totalled ISK 80,113 million, an increase of 53.0% from 2006. Net interest income for the fourth quarter amounted to ISK 23,739 million, increasing by 60.3% compared with the same period in 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.

The net interest margin, or interest income less interest expenses as a percentage of average total interest-bearing assets, was 1.92% in 2007, compared with 1.70% in 2006. The table below shows net interest income by geographical location:

ISK Millions	2007	2006	Change
Iceland	26,747	16,592	61%
Scandinavia	21,092	17,311	22%
UK	23,759	12,098	96%
Luxembourg	6,706	4,884	37%
Other	1,810	1,477	22%
Total	**80,113**	**52,362**	**53%**

ISK Millions	Q4 2007	Q4 2006	Change
Iceland	8,157	4,588	78%
Scandinavia	5,475	5,066	8%
UK	8,126	3,228	152%
Luxembourg	1,636	1,434	14%
Other	345	490	-30%
Total	**23,739**	**14,806**	**60%**

The net interest spread (calculated as the average rate on total interest-bearing assets less average cost of total interest-bearing liabilities) was 2.01% in 2007, compared with 1.73% in 2006.

Net fee and commission income for 2007 totalled ISK 55,021 million, an increase of 47.6% compared with 2006. Net fee and commission income during the fourth quarter of 2007 totalled ISK 14,122 million, an increase of 19.0% compared with the fourth quarter of 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 fourth quarter increase is also explained by higher fee and commission income in Capital

Markets, particularly in Iceland and Scandinavia. The table below shows net fee and commission income by geographical location:

ISK Millions	2007	2006	Change
Iceland	22,241	14,724	51%
Scandinavia	9,319	5,935	57%
UK	16,270	10,543	54%
Luxembourg	6,115	4,356	40%
Other	1,077	1,727	-38%
Total	**55,021**	**37,284**	**48%**

ISK Millions	Q4 2007	Q4 2006	Change
Iceland	6,131	4,370	40%
Scandinavia	2,931	1,852	58%
UK	3,849	3,973	-3%
Luxembourg	1,038	1,425	-27%
Other	173	246	-30%
Total	**14,122**	**11,866**	**19%**

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. The ratio was 81.5% in 2007, compared to 53.6% in 2006. In the fourth quarter, core income totalled ISK 37,861 million, increasing by 42.0% YoY.

Net financial income, which includes dividend income, net gain on financial assets and liabilities at fair value and net foreign exchange gain, totalled ISK 14,433 million for 2007, a decrease of ISK 45,723 million compared with 2006. However, net financial income decreased by 57.6% between years, if the profit related to Exista is deducted. There was a net financial loss during the fourth quarter of ISK 12,429 million, compared with net financial income of ISK 12,003 million during the fourth quarter of 2006. The main reason for this loss 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 Bank's listed equities portfolio is in Nordic financial companies, whose share prices declined sharply during the quarter. Dividend income was mainly from the Bank's shareholdings in Icelandic and Scandinavian companies. Net financial income reported as Elimination and other totalled 7,730 million during the year and is chiefly due to position taking in foreign exchange in excess of investments in subsidiaries. Net financial income/loss is specified as follows by geographical location:

January - Desember 2007	Iceland	Scandinavia	UK	Luxembourg	Other	**Total**
Net gain from bonds and fixed income securities	-6,342	-1,128	341	10	0	**-7,119**
Net gain from equity and variable income securities	10,080	3,468	7,084	- 618	- 71	**19,941**
Net gain from FX and derivatives	-5,287	-97	- 49	944	0	**-4,489**
Net gain from hedge accounting instruments	0	448	-,6	0	0	**443**
Total	**-1,550**	**2,691**	**7,370**	**336**	**- 72**	**8,776**
Dividend income	1,995	3,581	41	34	6	**5,657**
Net financial income total	**446**	**6,272**	**7,411**	**369**	**- 66**	**14,433**

Q4 2007	Iceland	Scandinavia	UK	Luxembourg	Other	**Total**
Net gain from bonds and fixed income securities	-5 527	- 463	247	51	0	**-5 692**
Net gain from equity and variable income securities	2,139	-2,033	-4,355	- 593	3	**-4,838**
Net gain from FX and derivatives	-1,896	-127	- 6	2	0	**-2,028**
Net gain from hedge accounting instruments	0	118	- 8	0	0	**111**
Total	**-5,284**	**-2,504**	**-4,121**	**-,541**	**3**	**-12,447**
Dividend income	-2	21	-2	0	2	**19**
Net financial income total	**-5,286**	**-2,483**	**-4,124**	**-,541**	**4**	**-12,429**

Other income totalled ISK 16,251 million for 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 approximately 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. Net earnings from associated companies have increased from the same period last year, largely as a result of the Bank's share in the earnings of Storebrand.

Expenses

Operating expenses totalled ISK 78,731 million for 2007, an increase of 31.2% compared with 2006. Operating expenses for the fourth quarter totalled ISK 22,658 million, increasing by 20.2% compared with the fourth quarter of 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 during the fourth quarter of 2007 was 75.2%, increasing from the fourth quarter of 2006 when it measured 46.1%. The cost-to-income ratio for 2007 was 47.5%, which is below the Bank's 50% target.

Salaries and related expenses for 2007 totalled ISK 46,647 million, increasing by 39.0% compared with 2006. Salaries and related expenses during the fourth quarter totalled ISK 13,359 million, an increase of 26.4% compared with the fourth quarter of 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 or 22.6%.

Other operating expenses amounted to ISK 32,084 million for 2007, increasing by ISK 5,647 million compared with 2006, or by 21.4%. Other operating expenses during the fourth quarter totalled ISK 9,299 million, increasing by ISK 1,025 million or 12.4% compared with the same period in 2006. 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 for 2007, compared with ISK 4,857 million for 2006, an increase of 25.6%. The increase in impairment is owing to the 30.2% growth in the loan portfolio in 2007.

Income tax expenses amounted to ISK 9,716 million for 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 due to income reported during the year in connection with investments in subsidiaries.

Balance Sheet

Assets

The Bank's total assets on 31 December 2007 amounted to ISK 5,347.3 billion, increasing by ISK 1.291.9 billion or 31.9% during the year. Taking into account the 7.1% strengthening of the ISK in 2007, the Bank's total assets increased by 35.8% during the period.

Loans to customers increased from ISK 2,538.6 billion to ISK 3,304.4 billion, or by 30.2%, in 2007 (35.7% at a fixed exchange rate). Loans to customers have generally increased in most of the Bank's markets. Loans to credit institutions increased from ISK 485.3 billion to ISK 588.4 billion, an increase of 21.2% (24.9% increase at a fixed exchange rate). Housing loans to individuals in Iceland at the end of December represented 4.8% of the total loans to customers, or ISK 158.2 billion. The average loan to value (LTV) ratio was 56%.

The acquisition and leveraged finance portfolio ("ALF portfolio") increased from ISK 512.4 billion to ISK 541,3 billion, or by 5.6%, in 2007 and represented 16% of total loans to customers at the end of December. The ALF portfolio comprises 154 loans and the five largest represent 25% of the total ALF portfolio. The Bank is not exposed to any underwriting risk in connection with its ALF portfolio. An increasing part of ALF business is related to projects led or co-led by Kaupthing Bank. Of the total loans in the ALF portfolio 79% were provided in connection with projects led or co-led by Kaupthing Bank.

Financial assets as of 31 December 2007 totalled ISK 845.5 billion, increasing by ISK 180.3 billion during the year, or 27.1%. Taking into account the appreciation of the ISK this increase measured 28.9%. 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 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 differences (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 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.

The Bank has set up a special fund, *Kaupthing Capital Partners II,* to handle its private equity investments. The Bank's assets in private equity held at the beginning of 2007 will not be pooled in *Kaupthing Capital Partners II*.

It is Kaupthing Bank's policy that its holdings in listed and unlisted shares (shares and equity funds) should be less than 35% of the Bank's risk capital. As of 31 December the ratio was 34.1%. Of this, the ratio of listed shares was 15.8% and unlisted shares 18.3% of the risk capital.

Other assets totalled ISK 292.7 billion as of 31 December 2007 and increased by 148.3% during the year. This is mainly due to an increase in unsettled transactions.

Liabilities and equity
Liabilities to credit institutions and central banks totalled ISK 339.1 billion as of 31 December 2007 and increased by ISK 228.6 billion or 207.0% during the year.

Deposits amounted to ISK 1,381.5 billion as of 31 December 2007, increasing by ISK 630.8 billion during the year, or by 84.0%. Deposits increased by 88.5% taking into account the 7.1% appreciation of the ISK during the year. During the fourth quarter deposits increased by 14.1%. 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 216.0 billion or 9.0%. Borrowings increased by 14.5%, taking into account the 7.1% appreciation of the ISK in 2007.

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 the Norwegian insurance and financial services company Storebrand and began reporting the investment as an associated company. This results in a ISK 5.1 billion decrease in equity in accordance with IFRS.

Since 2005 the Bank has not fully hedged the net investment in the Bank's foreign operations against the exchange rate of the ISK. The 7.1% appreciation of the ISK in 2007 resulted in a decrease in equity reserves in accordance with IFRS.

The Bank's equity base 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. It is the objective of the Bank's management that Tier 1 capital should be at least 8.0% and the CAD ratio at least 11.0%.

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 with 23.3% and Kjalar with 9.9%.

Dividends
Kaupthing Bank's policy on dividends is to pay an annual dividend of 10 - 30% of net earnings. The amount paid out in dividend is determined by Icelandic law and other circumstances evaluated by the Board of Directors at any given time. The Board of Directors will propose at the annual general meeting that ISK 14,810 million be paid out to shareholders for 2007, or ISK 20 a share, which corresponds to 21% of the annual profit for 2007

Operating results of Kaupthing Bank's business segments

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

Three business segments made a profit before income tax during the fourth quarter of 2007, whereas two reported a loss. The highest profit before income tax during the quarter was reported by Banking, or ISK 10,121 million. Investment Banking reported earnings before income tax of ISK 848 million and Asset Management & Private Banking ISK 951 million. Capital Markets reported a loss of ISK 4,124 million and Treasury reported a loss of ISK 5,343 million. The table below shows the operating results of the Bank's business segments for the fourth quarter.

ISK millions - Q4 2007	Banking	Capital Markets	Treasury	Investment Banking	Asset management and Private banking	Eliminations and other cost centers	Total
Net interest income	15,897	1,600	7,946	-327	263	-1,640	23,739
Net fee and commission income	2,037	5,778	-225	2,268	4,067	197	14,122
Net financial income	217	-6,920	-11,650	1,362	40	4,521	-12,429
Other income	1,616	140	-51	22	76	2,897	4,699
Operating income	**19,768**	**598**	**-3,980**	**3,325**	**4,445**	**5,975**	**30,132**
Operating expenses	-5,314	-3,749	-841	-2,080	-2,345	-8,329	-22,658
Impairment	-2,012	0	33	-24	0	45	-1,959
Total expenses	**-7,325**	**-3,749**	**-808**	**-2,105**	**-2,345**	**-8,285**	**-24,617**
Earnings before cost allocation	**12,442**	**-3,151**	**-4,788**	**1,221**	**2,100**	**-2,310**	**5,515**
Allocated cost	-2,322	-974	-555	-372	-1,149	5,372	0
Earnings before income tax	**10,121**	**-4,124**	**-5,343**	**848**	**951**	**3,063**	**5,515**

Banking

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

Banking made a profit before income tax of ISK 10,121 million for the fourth quarter of 2007. Operating income totalled ISK 19,768 million and increased by 3.0% from the third quarter of 2007. Net fee and commission income increased by 11.0% from the third quarter to the highest ever quarterly total. Total expenses amounted to ISK 7,325 million, increasing by 15.9% from the third quarter of 2007. The increase is particularly attributable to the rise in impairments, which amounted to ISK 2,012 million during the quarter, compared with ISK 1,643 million during the third quarter.

ISK millions	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Net interest income	15,897	15,653	15,691	13,423	12,471
Net fee and commission income	2,037	1,835	1,538	1,257	1,662
Net financial income	217	-40	122	94	320
Other income	1,616	1,747	1,620	1,555	1,712
Operating income	**19,768**	**19,195**	**18,972**	**16,329**	**16,165**
Operating expenses	-5,314	-4,676	-4,779	-4,380	-4,602
Impairment	-2,012	-1,643	-1,082	-1,425	-1,621
Total expenses	**-7,325**	**-6,319**	**-5,861**	**-5,805**	**-6,223**
Earnings before cost allocation	**12,442**	**12,876**	**13,111**	**10,524**	**9,942**
Allocated cost	-2,322	-2,830	-2,299	-2,407	-2,963
Earnings before income tax	**10,121**	**10,046**	**10,812**	**8,117**	**6,979**

Capital Markets
Capital Markets comprises two separate business units: Capital Markets and Proprietary Trading. Capital Markets handles securities brokerage for the Bank's clients. Proprietary Trading handles transactions for the Bank's own account in all major markets, as well as undertaking the Bank's market making for stocks and bonds.

Capital Markets made a loss before income tax of ISK 4,124 million for the fourth quarter of 2007, which represents a considerably weaker performance than in the third quarter. Operating income amounted to ISK 598 million and decreased by ISK 4,148 million. The main factor was a net financial loss of ISK 6.920 million compared with a ISK 452 million financial loss in the third quarter. This net financial loss is mainly attributable to the Bank's Nordic equities portfolio, which includes Nordic financial companies. Net fee and commission income totalled ISK 5,778 million, the second ever highest quarterly figure. The strong net fee and commission income can be attributed to an increase in activities in the UK, Denmark, Luxembourg and Iceland. Net interest income totalled ISK 1.600 million during the quarter. Net interest income in Capital Markets is particularly generated by bondholdings and derivative contracts in FX and Derivatives Sales, and the increase in interest income between quarters is attributable to the growth of this business, plus rising inflation. Total expenses amounted to ISK 3,749 million and increased by ISK 44.4% between quarters owing to performance related bonuses which are linked to higher net fee and commission income during the quarter.

ISK millions	**Q4 2007**	**Q3 2007**	**Q2 2007**	**Q1 2007**	**Q4 2006**
Net interest income	1,600	876	524	-564	-286
Net fee and commission income	5,778	4,336	6,717	4,126	2,807
Net financial income	-6,920	-452	6,663	9,778	4,407
Other income	140	-13	42	56	0
Operating income	**598**	**4,746**	**13,945**	**13,396**	**6,928**
Operating expenses	-3,749	-2,595	-2,806	-2,412	-2,558
Impairment	0	0	1	0	0
Total expenses	**-3,749**	**-2,595**	**-2,805**	**-2,411**	**-2,558**
Earnings before cost allocation	**-3,151**	**2,151**	**11,140**	**10,985**	**4,370**
Allocated cost	-974	-1,159	-890	-1,163	-1,034
Earnings before income tax	**-4,124**	**992**	**10,249**	**9,822**	**3,336**

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

Treasury made a loss before income tax of ISK 5,343 million for the fourth quarter of 2007. Operating income was negative by ISK 3,980 million, a decrease from the third quarter when it was ISK 1,976 million. This decrease is the result of a higher net financial loss of ISK 11,650 million, compared with a net financial loss of ISK 6,953 million during the third quarter of 2007.

Conditions in the credit markets have been unfavourable for the Bank. Treasury's financial loss in the fourth quarter is chiefly explained by the sale and restructuring in November of the asset-backed securities the Bank owned and was exposed to, and the change in fair value of the Bank's holdings in bonds and derivatives, including the Bank's ISK 27.5 billion position in corporate synthetic obligations CSOs and its ISK 24.7 billion position in asset-backed securities. These losses amounted in total to ISK 11.5 billion in the fourth quarter of 2007.

Net interest income increased by 44.5% between the third and fourth quarters. This increase is due to higher deposits, rising inflation and an increase in interest-bearing assets between quarters. Total expenses amounted to ISK 808 million during the fourth quarter, an increase of 9.3% from the third quarter.

ISK millions	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Net interest income	7,946	5,501	4,884	4,428	3,328
Net fee and commission income	-225	-555	149	-75	262
Net financial income	-11,650	-6,953	1,251	-441	2,828
Other income	-51	31	44	67	23
Operating income	**-3,980**	**-1,976**	**6,328**	**3,978**	**6,441**
Operating expenses	-841	-886	-1,386	-875	-937
Impairment	33	-6	6	0	0
Total expenses	**-808**	**-891**	**-1,380**	**-875**	**-938**
Earnings before cost allocation	**-4,788**	**-2,867**	**4,948**	**3,103**	**5,503**
Allocated cost	-555	-587	-541	-561	-664
Earnings before income tax	**-5,343**	**-3,454**	**4,407**	**2,541**	**4,839**

Investment Banking

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

Investment Banking made a profit before income tax of ISK 848 million for the fourth quarter of 2007. Operating income totalled ISK 3,325 million, compared with ISK 11,422 million in the third quarter of 2007. Net financial income decreased between quarters, which is the main reason for the drop in the division's profit between quarters. The turnaround in net interest income is primarily owing to increased investments in bonds and fewer investments in equities. Net fee and commission income amounted to ISK 2,268 million for the quarter, a drop of 46.0% from the third quarter, which is chiefly owing to the difficult circumstances on the markets. Total expenses amounted to ISK 2,105 million, increasing by ISK 459 million compared with the third quarter. This increase is mainly due to a rise in operating expenses due to increased number of employees in this business segment, performance related bonuses linked to the growth in net fee and commission income, and performance related bonus clauses in employment agreements.

ISK millions	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Net interest income	-327	-655	-950	-1,095	-914
Net fee and commission income	2,268	4,196	3,767	3,483	3,792
Net financial income	1,362	7,711	1,671	3,980	4,592
Other income	22	170	-34	65	7
Operating income	**3,325**	**11,422**	**4,454**	**6,433**	**7,477**
Operating expenses	-2,080	-1,646	-1,140	-708	-1,310
Impairment	-24	0	0	0	4
Total expenses	**-2,105**	**-1,646**	**-1,140**	**-707**	**-1,306**
Earnings before cost allocation	**1,221**	**9,776**	**3,314**	**5,726**	**6,171**
Allocated cost	-372	-440	-351	-432	-123
Earnings before income tax	**848**	**9,336**	**2,963**	**5,294**	**6,048**

Asset Management & Private Banking

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

Asset Management & Private Banking made a profit before income tax of ISK 951 million for the fourth quarter of 2007. Operating income totalled ISK 4,445 million, an increase of 14.1% compared with the third quarter of 2007. Net fee and commission income amounted to ISK 4,067 million, an increase of 25.3% from the third quarter of 2007 mostly due to performance related commissions at year-end. Total expenses amounted to ISK 2,345 million, an increase of 21.6% from the third quarter 2007.

Assets under custody at the Bank totalled ISK 2,277 billion as of 31 December 2007, an increase of 16.6% during the year. Assets under management totalled ISK 1,557 billion as of 31 December 2007, increasing by 11.0% during the year (an increase of 22.2% without exchange rate effects).

ISK millions	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Net interest income	263	389	208	324	254
Net fee and commission income	4,067	3,245	3,075	3,414	3,221
Net financial income	40	119	123	28	110
Other income	76	143	-135	81	605
Operating income	**4,445**	**3,896**	**3,271**	**3,847**	**4,190**
Operating expenses	-2,345	-1,928	-1,672	-2,002	-2,037
Impairment	0	0	0	0	0
Total expenses	**-2,345**	**-1,928**	**-1,672**	**-2,002**	**-2,037**
Earnings before cost allocation	**2,100**	**1,968**	**1,599**	**1,845**	**2,153**
Allocated cost	-1,149	-971	-935	-1,070	-823
Earnings before income tax	**951**	**997**	**663**	**775**	**1,330**

Fourth quarter 2007 highlights

Kaupthing acquires offshore deposit-taking business in the Isle of Man
In November Kaupthing Bank reached an agreement with Derbyshire Building Society ("Derbyshire") to acquire the entire issued share capital of Derbyshire's offshore deposit-taking business The Derbyshire (Isle of Man) Limited ("Derbyshire Offshore"). Derbyshire Offshore was a specialised operation that offered a targeted range of deposit accounts for its retail and business customers. Derbyshire Offshore has now been integrated into Kaupthing's existing Isle of Man operation. The acquisition will have an insignificant effect on the Bank's operations.

Kaupthing Bank Luxembourg acquires Robeco Bank Belgium
Kaupthing Bank Luxembourg S.A., a subsidiary of Kaupthing Bank hf., acquired Belgian bank Robeco Bank Belgium (now Kaupthing Bank Belgium). Robeco Bank Belgium is a small Belgian bank that was founded in 2002 and focuses mainly on private banking and asset management. The bank had 32 employees at year-end and is based in Brussels and Antwerp. This acquisition will have an insignificant effect on Kaupthing Bank Luxembourg's operations.

Kaupthing Bank sells its Faroese operation
Kaupthing Bank has sold its Faroese operation to Eik Banki P/F. Eik Banki took over Kaupthing's operation in the Faroe Islands on 31 December 2007. Kaupthing's Faroese business, which was set up in 2000, mainly focused on securities trading, asset management, loans and other traditional investment banking activities. It employed around 30 people. Eik Banki paid for the operation in cash and took over Kaupthing's deposits in the Faroe Islands, as well as the majority of the loans the Bank had issued there.

Branch structure in Finland
Kaupthing has now transferred all the operations of its subsidiary in Finland, Kaupthing Bank Oyj, into its Finnish branch, following a cross-border merger which was effective as of 31 December 2007.

First quarter 2008 highlights

Kaupthing Bank and the sellers of NIBC decide to pull out of acquisition of NIBC
In view of the unrest prevailing on the financial markets, Kaupthing Bank and the owners of NIBC (a consortium led by JC Flowers & Co LLC) have announced that they have decided not to proceed with the planned acquisition by Kaupthing of NIBC. Applications for approval from the regulatory authorities have been withdrawn and the purchase agreement cancelled.

As a result, the planned Kaupthing Bank share issue scheduled for the first quarter of 2008 has now been cancelled.

Funding and credit ratings

Focus on customer deposits
Deposits amounted to ISK 1,381.5 billion as of 31 December 2007, increasing by ISK 630.8 billion during the year, or by 84.0%. At the beginning of 2007, increasing customer deposits at the Bank was highlighted as a key priority. The Bank set itself the target of raising the ratio of deposits to customer loans from 30% to 40% within 18 months. This was achieved much earlier than expected, and at the end of 2007, it stood at 42%. The recent acquisitions of Robeco Bank in Belgium (now Kaupthing Bank Belgium), and the Derbyshire Offshore in the Isle of Man, together with the successful launch of Kaupthing Edge in Finland, Sweden as well as the establishment of an internet bank in Norway have helped drive the customer deposits initiative.

Further wholesale funding diversification
Kaupthing has continued to broaden the base of debt investors, by further public issues in those markets previously open to it, and by debut transactions in some new areas. Despite the adverse conditions on the financial markets there was a reduction in the cost of new senior public funding from 2006. In the public arena, the Bank issued a mixture of Senior debt and Tier 1 hybrid instruments, re-visiting Europe and Asia, and opening markets in Canada and Mexico for the first time. FIH also entered new markets with its first Sterling fixed rate issue. Other Group funding was done through private placement and bilateral transactions, and two successful syndicated loans were also completed in the fourth quarter.

Total funding for the year was ISK 747 billion, leaving Kaupthing with just ISK 326 billion of maturities in 2008. The maturity profile was well-spread at year-end, as Kaupthing continued to extend its maturity profile during 2007 with the emphasis on longer-dated issues. The average maturity of newly-issued senior unsecured debt was 4 years in 2007, not including two perpetual bond issues.

Robust liquidity position
Secured liquidity is the primary measure of liquidity at Kaupthing Bank. 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 1.232bn (€13,445m), sufficient to cover all obligations for more than 440 days.

Credit rating
Kaupthing continues to enjoy strong ratings from Moody's, Fitch and R&I. Moody's upgraded the Bank from A1 (long-term) to Aa3 during the year, and Fitch reaffirmed its A grade, and we were rated for A+ by R&I. However, following the announcement of the proposed acquisition of NIBC, the agencies placed Kaupthing's long-term ratings on review for possible downgrade.

Outlook

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

In light of the conditions on the market, growth in the Bank's loans and balance sheet is likely to slow down in 2008, compared to 2007. Liquidity is strong and the Bank has secured liquidity for more than 440 days. This monitors the Bank's ability to cover all maturing obligations and without having to raise further funding.

Efforts to reduce costs have been redoubled and the effects of these measures are likely to be seen in the Bank's first quarter figures. Kaupthing Bank is not expected to add to its personnel in the near term, but the number of employees increased by 615 or 22.6% in 2007.

Although Kaupthing Bank generally performed well in 2007, the situation on the international financial markets had a significant impact on the Bank's operations in the second half of the year. In order to prevent or to reduce potential write-downs, similar to those that have already materialised, the Bank has greatly reduced its positions in structured credit and asset-backed securities.

In October the Board of Directors resolved to change the Bank's functional currency to the euro. The application is now being considered by the Icelandic Minister of Finance, who has the final say on the matter.

In 2007, deposits as a percentage of total loans to customers grew from 30% to 42%. The management intends to bring this figure to more than 50% in 2008. The opening of the online deposit bank Kaupthing Edge is part of this initiative to increase deposits. Kaupthing launched this product in Finland and Sweden in the fourth quarter. In January Kaupthing Edge is being introduced in Norway, the UK and Belgium and the aim is to open in several more countries later in the year. The response from customers has been most promising.

The annualised return on equity for 2007 was 23.5%, whereas the Bank's declared ROE target is 15% per annum in the long term. The Bank expects to reach this target in 2008. One must bear in mind, however, that the operation of a bank such as Kaupthing is subject to uncertain factors, such as financial market developments and other factors beyond the Bank's control.

Five-year pro forma summary

Income statement

ISK millions	2007	2006	2005	2004	2003
Net interest income	80,113	52,362	32,710	18,259	10,124
Other operating income	85,705	114,854	69,488	31,687	21,656
Operating income	**165,818**	**167,216**	**102,198**	**49,946**	**31,780**
Operating expenses	-78,812	-60,006	-35,524	-23,625	-18,493
Impairment	-6,098	-6,127	-4,389	-3,825	-3,894
Income tax	-9,716	-14,636	-11,228	-4,237	-1,486
Net earnings	**71,192**	**86,447**	**51,056**	**18,258**	**7,907**
Net shareholders' earnings	70,021	85,302	49,260	17,707	7,520
Minority interest	1,171	1,145	1,796	552	387

Balance Sheet

ISK millions	2007	2006	2005	2004	2003
Assets					
Cash balance with central banks	97,959	106,961	34,877	6,290	-
Loans to credit institutions	588,441	485,334	195,594	174,310	
Loans to customers	3,304,408	2,538,609	1,543,700	980,107	-
Bonds and debt instruments	367,350	318,264	390,575	202,934	-
Shares and equity instruments	160,797	159,020	114,355	86,122	-
Derivatives	134,856	65,454	21,047	13,085	-
Derivatives used for hedging	22,503	6,453	4,459	3,820	-
Securities used for hedging	159,949	115,938	82,098	0	
Investment in associates	83,831	5,304	13,888	3,649	-
Intangible assets	66,774	68,301	54,943	35,098	-
Investment property	28,155	31,584	24,156	19,155	-
Property and equipment	32,714	30,466	22,433	6,092	-
Tax assets	6,899	5,834	5,004	1,092	-
Other assets	292,708	117,874	33,682	22,700	-
Total assets	**5,347,345**	**4,055,396**	**2,540,811**	**1,554,453**	**558,569**
Liabilities and equity					
Deposits	1,381,457	750,657	486,176	202,193	182,497
Subordinated loans	267,289	216,030	102,688	57,623	10,704
Other liabilities	3,342,169	2,753,816	1,749,436	1,135,728	308,837
Minority interest	10,823	11,382	8,329	9,539	10,603
Shareholders' equity	345,607	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**
KEY RATIOS					
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 the end of the period, million	737	732	664	652	438
No. of shares at the end of the period diluted, mil	751	752	675	660	443
Share price at the end of the period	880	841	746	442	225

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

KAUPTHING BANK

Auditors' report
The Consolidated Financial Statements have been audited by the Bank's auditors.

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

Further information
For further information on the results please contact Jónas Sigurgeirsson, Chief Communications Officer on +354 444 6112 or Ólöf Hildur Pálsdóttir, Investor Relations, on +354 444 6569 (ir@kaupthing.net). Information on Kaupthing Bank is also available on the Bank's website www.kaupthing.com

Publication calendar

30 April 2008	First quarter interim financial statement
31 July 2008	Second quarter interim financial statement
30 October 2008	Third quarter interim financial statement

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

Kaupthing Bank operates in thirteen countries with its headquarters located in Reykjavík. The Bank's main subsidiaries are FIH Erhvervsbank in Denmark, Kaupthing Singer & Friedlander in the United Kingdom, Kaupthing Bank Sverige, Kaupthing Bank Luxembourg, Norvestia Oyj in Finland, Kaupthing New York, Kaupthing Asset Management in Switzerland and Kaupthing Norge in Norway. The Bank also has branches in Finland, the United Arab Emirates (Dubai) and Qatar. As of 31 December 2007 the number of full-time equivalent positions was 3,334 at Kaupthing Bank and its subsidiaries.

KAUPTHING BANK

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