KAUPTHING BANK

SECURITIES NOTE

DECEMBER 2007

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KAUPTHING BANK HF. (KAUP 08 1015)
DECEMBER 2007

CONTENTS

1. RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bills. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bills are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Bills but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Bills may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Risks Relating to the Bills

Set out below is a brief description of certain risks relating to the Bills generally:

Issuer's liability to make payments under the Bills

The Issuer is liable to make payments when due on the Bills. The obligations of the Issuer under the Bills are direct, unsecured, unconditional and unsubordinated obligations, ranking pari passu without any preference amongst themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations required to be preferred by law).

The Issuer has not entered into any restrictive covenants in connection with the issuance of the Bills regarding its ability to incur additional indebtedness ranking pari passu to the obligations under or in connection with the Bills.

No Prior Public Market

The Bills constitute a new issue of Bills. Prior to listing, there has been no public market for the Bills. Although application has been made to admit the Bills to trading on the regulated Market of the OMX ICE, there can be no assurance that an active public market for the Bills will develop and, if such a market were to develop, the Manager is under no obligation to maintain such a market. The liquidity and the market prices for the Bills can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities. Such fluctuations may significantly affect the liquidity and the market prices of the Bills, which may trade at a discount to the price at which a purchaser purchased the Bills.

An investment in the Bills may not be suitable for all prospective investors

The Bills are not suitable investments for all investors. In particular, prospective investors should not purchase the Bills unless they have sufficient knowledge and experience to make meaningful evaluation of the credit, liquidity and market risks associated with the Bills.

Prospective investors should possess, either alone or together with an investment advisor, the expertise necessary to evaluate the information contained in this Securities Note in the context of its financial situation and tolerance for risk. Potential investors should carefully consider, among other things, the factors described in this section before purchasing the Bills.

Change of law

The terms and conditions of the Bills are based on Icelandic law in effect as at the date of this Securities Note. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Securities Note.

2. PERSON RESPONSIBLE

Kaupthing bank hf., in its capacity as the Issuer, Icelandic ID-No. 560882-0419, registered office at Borgartún 19, 105 Reykjavík, Iceland, hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík 6 December 2007

On behalf of the Issuer

Gudmundur Gudmundsson,
Managing Director of Treasury of
Kaupthing Bank in Iceland

Ingolfur Helgason,
CEO of Kaupthing Bank in Iceland

3. MANAGER

The Manager, Kaupthing Bank hf. – Capital Markets division, Icelandic ID-No. 560882-0419, registered office at Borgartun 19, 105 Reykjavik, Iceland has been the advisor to the Issuer in the preparation of this Securities Note and admission to trading.

Reykjavik, 6 December 2007

On behalf of the Manager

Ingvar Vilhjálmsson
Managing Director

Stefán Ákason
Head of Fixed Income Sales

4. STATUTORY AUDITORS

The Company's accounts for the 3rd quarter of 2007 has been reviewed without remarks by KPMG Endurskoðun hf., 590975-0449 Borgartúni 27, Reykjavík, the Company's independent auditor. The chartered accountant and registered auditor of Kaupthing Bank hf. are Sæmundur G. Valdimarsson and Reynir Gylfason of KPMG Endurskoðun hf.

A state authorised public accountant or accounting firm is elected as the auditor at each annual general meeting of Kaupthing Bank for a term of one year. The auditor examines the Company's accounts and all relevant accounting documents for each year of operation, and has access to all the Company's books and documents for this purpose. Auditors are not elected from among the members of the board of the Company or employees. The qualifications and eligibility of the auditor at elections are in other respects governed by law.

5. REFERENCES AND GLOSSARY OF TERMS AND ABBREVIATIONS

References to the "Issuer", "Kaupthing Bank" and "the Company" in this Securities Note shall be construed as referring to Kaupthing Bank hf., Icelandic ID-No. 560882-0419, unless otherwise clear from the context, and its subsidiaries and affiliates, unless otherwise clear from the context. Kaupþing banki hf. is the legal Icelandic name of the Issuer.

References to "OMX ICE" in this Securities Note shall be construed as referring to the OMX Nordic Exchange Iceland hf., Icelandic ID-No.681298-2829, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on a regulated market" in this Securities Note shall be construed as referring to the admission to trading on the fixed income market , unless otherwise clear from the context.

References to "ISD" in this Securities Note shall be construed as referring to the Icelandic Securities Depository, i.e. to Verdbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, Laugavegi 182, 105 Reykjavík unless otherwise clear from the context.

References to the "Manager" in this Securities Note shall be construed as referring to Kaupthing Bank hf. – Capital markets division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

References to the "Bills" in this Securities Note shall be construed as referring to the Bills of Exchange issue of ISK 40,000,000 which is described in this Securities Note, unless otherwise clear from the context

6. NOTICE TO INVESTORS

The Registration document, which is a part of the prospectus published 5 March 2007, is issued by the Issuer which constitutes a Registration document, for the purposes of the Prospectus Directive and form part of this Prospectus in its entirety. This Securities Note must be read in conjunction with the Registration Document. Full information on the Issue is only available on the basis of the combination of this Securities Note and the Registration Document.

This Securities Note and aforementioned Registration document form this Prospectus. Copies of the aforementioned documents which form a part of this Prospectus and documents for display can be obtained from the Issuer's office, at Borgartún 19, Reykjavík, Iceland and the Issuer´s websites (www.kaupthing.is and www.kaupthing.com).

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the Bills and carefully review the terms and conditions of the Bills described under issue and bills characteristics, see chapter 7 .

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Securities Note or any other information supplied in connection with the Bills and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Manager.

Neither this Securities Note nor any other information supplied in connection with the Bills (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer or the Manager that any recipient of this Securities Note or any other information supplied in connection with the Bills should purchase any Bills. Each investor contemplating purchasing any Bills should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Securities Note nor any other information supplied in connection with the Issuer constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase any Bills.

Neither the delivery of this Securities Note nor the sale or delivery of any Bills shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Bills is correct as of any time subsequent to the date indicated in the document containing the same. The Manager expressly does not undertake to review the financial condition or affairs of the Issuer during the life of the Bills or to advise any investor in the Bills of any information coming to their attention.

The Bills have not been and will not be registered under the United States Securities Act of 1933, as amended (the Securities Act) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bills may not be offered, sold or delivered within the United States or to U.S. persons.

7. INFORMATION CONCERNING THE SECURITIES TO BE ADMITTED TO TRADING

Authorisation

On a board meeting held 24 July 2007, the board of Kaupthing bank authorised to issue up to one year bill issue for a maximum of ISK 20 billion. This Issuer has at the date of this Securities Note issued bills amounting in total to ISK 40,000,000 under the issuer symbol, KAUP 08 1015.

Final terms

The Bills bear no interest and are not indexed. The Bills are registered electronically at the Icelandic Securities Depository and are registered there under the name of the relevant bill holder or his/her nominee.

The Bills constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Date of issue:	6 September 2007
Nominal amount:	ISK 20,000,000,000
Issued amount:	ISK 40,000,000
Denomination:	ISK 5,000,000
Currency:	ISK
Interest rates:	The Bills bear no interest.
Calculation agent:	Kaupthing Bank hf.
Maturity date:	The date of maturity is 15 October 2008. Repayment is made on the aforementioned maturity date. It is not permitted to bring forward the repayment of the Bills.
Repayment	The Bills will be repaid on the maturity dates specified in the table above. The Bills are not redeemable prior to maturity.
Method of payment:	All amounts payable under the Bills will be paid to relevant financial institution where the registered owner has his/her VS account.
Indication of yield:	15.00 % at 27 November 2007.
Restrictions on transfer:	There are no restrictions on transferring the Bills to other parties.
ISIN code:	IS0000015436
Benefits:	There are no special benefits connected to the Issue of the bills.

Event of Default, Acceleration and Enforcement

If default occurs the Issuer shall pay default interest at the rate determined by the Central Bank of Iceland, cf. paragraph 1, article 6 of Act no. 38/2001.

Prescription

All claims according to the Bills against the acceptor expire three years after maturity, cf. paragraph 1, article 70 of Act no. 93/1933 on Bills.

Taxation

All payments in respect of the Bills, by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any tax jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction.

Governing Law

The governing law is Icelandic law. The Issuer irrevocably agrees that any dispute shall be subject to the exclusive jurisdiction of the District Court of Reykjavík (Héraðsdómur Reykjavíkur).

Legal action regarding the Bills may be proceeded with in accordance with Chapter 17 of the Act on Civil Procedure No. 91/1991 (Lög um meðferð einkamála).

The issued bills are governed by Act no. 93/1933 on Bills as appropriate, cf. article 35 of Act No. 131/1997 on Electronic Registration of Title to Securities.

8. RATING OF THE ISSUER

As of the date of this Prospectus, the Issuer has senior long-term debt ratings of 'Aa3' and a rating of P-1 for short term obligations from Moody's Investor Services, Inc. ("Moody's") and 'A' from Fitch Ratings, Ltd. ("Fitch") for long term obligations but 'F1' for short term obligations. Fitch outlook for Kaupthing´s long term IDR is negative. The Bill themselves are not being rated by any rating agency.

9. THIRD PARTY INFORMATION

The Manager is a division within the Issuer and thus the Manager and the Issuer is one legal person.

10. ADMISSION TO TRADING AND EXPENSES RELATING THERETO

Application was made to the OMX Nordic Exchange Iceland hf. (the OMX ICE) as the competent authority in Iceland for the purpose of Directive 2003/71/EC (the Prospectus Directive), the Icelandic law no. 108/2007, as amended and the relevant regulations based on the law for approval of this Securities Note. OMX ICE has scrutinized and approved this Securities Note, which is only published in English. Application has also been made for the Bills to be admitted to trading on the regulated market of the OMX ICE, which is an EU regulated market within the meaning of Directive 2004/39/EC.

The Bills will be admitted to trading on the OMX Nordic Exchange Iceland hf, 7 December 2007.

The expenses related the listing of the Bills is ISK 450,000 according to OMX ICE fee structure. Annual expenses because of this listing will be fixed fee of ISK 55,000 for each group of bills plus a variable fee of 0.001% of the market value of the Bills according to OMX ICE fee structure. The estimated cost at the ISD is ISK 120,000.

11. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES AND NEW DEVELOPMENTS

Operations

Kaupthing Bank is a northern European bank operating in twelve countries, including all the Nordic countries, the UK, Luxembourg, Switzerland, the US and branches in Dubai and Qatar.

Kaupthing Bank offers integrated financial services to companies, institutional investors and individuals. These services include Corporate Banking, Investment Banking, Capital Markets services, Asset Management and comprehensive wealth management for Private Banking clients.

In addition the Bank operates a retail franchise in Iceland, where it is headquartered.

The Bank employed 3,190 people in ten countries at the end of 30.09.2007.

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.

Kaupthing Bank is listed on the stock exchanges in Stockholm and Reykjavík. The Bank focuses on shareholder value, meaning the expansion of the Group has not been achieved at the expense of profitability. The year 2006 proved to be another successful period of solid organic growth, integration and record earnings. From its strong cross-border platform, Kaupthing Bank is in an excellent position to meet clients' local and international needs in financial services.

The following EUR/ISK exchange rates are used in comparisons in following chapters:

- Average exchange rate for the first quarter of 2006: 78.51
- Average exchange rate for the first quarter of 2007: 89.25
- Average exchange rate for the second quarter of 2006: 92.63
- Average exchange rate for the second quarter of 2007: 86.49
- Average exchange rate for the third quarter of 2006: 87.80
- Average exchange rate for the third quarter of 2007: 87.29
- Average exchange rate for the first half of 2006: 85.23
- Average exchange rate for the first half of 2007: 87.85
- Year-end exchange rate as of 31 December 2006: 94.61
- Closing exchange rate for the quarter ending 31 March 2007: 87.96
- Closing exchange rate for the quarter ending 30 June 2006: 97.38
- Closing exchange rate for the quarter ending 30 June 2007: 84.24
- Closing exchange rate for the quarter ending 30 September 2006: 88.78
- Closing exchange rate for the quarter ending 30 September 2007: 87.88

The following documents are incorporated herein by reference to, and form part of, this Prospectus:

a. The interim accounts of Kaupthing bank hf. for Q3 2007.

Copies of the interim accounts of Kaupthing bank hf. for Q3 2007 can be obtained at the Issuer´s office at Borgartún 19, Reykjavík, Iceland and its websites (www.kaupthing.is and www.kaupthing.com).

INTERIM REPORT FOR THE FIRST NINE MONTHS OF 2007

Profitability

Kaupthing Bank reported earnings before income tax of ISK 75,392 million during the first nine months of 2007, compared with ISK 80,649 million during the same period in 2006. Shareholders' net earnings totalled ISK 60,171 million during the first nine months of 2007, compared with ISK 67,225 million during the same period in 2006, a decrease of 10.5%. The main reason for this decrease between periods 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 Iceland during the third quarter of 2006. Excluding this profit, earnings would have increased by 31.3% compared with the same period last year. Earnings per share during the first nine months of 2007 were ISK 82.6, compared with ISK 101.3 during the same period in 2006, of which ISK 32.3 per share was in relation to Exista.

Income

Operating income during the first nine months of 2007 totalled ISK 135,686 million, an increase of 7.4% compared with the same period in 2006. Operating income during the third quarter of 2007 totalled ISK 39,820 million, down by 33.4% compared with the same period in 2006. However, operating income increased by 35.4% during the first nine months and 18.2% during the third quarter of 2007 compared with the same period last year, excluding the one-off profit from Exista in the third quarter of 2006.

Net interest income during the first nine months of 2007 totalled ISK 56,374 million, an increase of 50.1% compared with the same period of 2006. Net interest income during the third quarter amounted to ISK 20,259 million, increasing by 59.7% compared with the same period in 2006. This increase is largely due to the growth of the Bank's loan portfolio, higher liquidity at the Bank 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 1.89% during the first nine months of 2007, compared with 1.72% during the same period of 2006. The table below shows net interest income by geographical location:

ISK Millions	9M 2007	9M 2006	Change
Iceland	18,589	12,004	55%
Scandinavia	15,616	12,245	28%
UK	15,633	8,871	76%
Luxembourg	5,070	3,449	47%
Other	1,465	987	48%
Total	56,374	37,556	50%

ISK Millions	Q3 2007	Q3 2006	Change
Iceland	6,110	4,080	50%
Scandinavia	5,746	4,443	29%
UK	5,935	2,586	129%
Luxembourg	1,830	1,164	57%
Other	637	414	54%
Total	20,259	12,687	60%

The net interest spread (calculated as the average rate on total interest-bearing assets less average cost of total interest-bearing liabilities) was 1.98% during the first nine months of 2007, compared with 1.76% during the same period in 2006.

Net fee and commission income during the first nine months of 2007 totalled ISK 40,899 million, an increase of 60.9% compared with the first nine months of 2006. Net fee and commission income during the third quarter of 2007 totalled ISK 13,374 million, an increase of 75.2% compared with the third 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 table below shows net fee and commission income by geographical location:

ISK Millions	9M 2007	9M 2006	Change
Iceland	16,109	10,354	56%
Scandinavia	6,387	4,083	56%
UK	12,421	6,569	89%
Luxembourg	5,078	2,931	73%
Other	904	1,481	-39%
Total	40,899	25,418	61%

ISK Millions	Q3 2007	Q3 2006	Change
Iceland	5,441	4,017	35%
Scandinavia	2,761	1,257	120%
UK	3,003	1,598	88%
Luxembourg	1,915	410	367%
Other	254	349	-27%
Total	13,374	7,632	75%

Net financial income, which includes dividend income, net gain on financial assets and liabilities at fair value and net foreign exchange gain, totalled ISK 26,862 million during the first nine months of 2007, a decrease of ISK 21,292 million compared with the same period in 2006. However, net financial income increased by 21.8% during the first nine months compared with the same period 2006, if the profit related to Exista is deducted. Net financial income during the third quarter amounted to ISK 2,634 million, compared with ISK 37,256 million during the third quarter of 2006. The main reason for this significant decrease after excluding the Exista gain is the reduction in the fair value of derivatives and bonds owned by the Bank and the loss reported by the Bank's Proprietary Trading unit. A proportion of the Bank's listed equities portfolio is in Nordic financial companies, whose share prices declined sharply during the quarter. This is partly offset by net financial income in Investment Banking from investments which the Bank has made in projects with its clients. Dividend income was mainly from the Bank's shareholdings in Icelandic and Scandinavian companies. Net financial income is specified as follows by geographical location:

January - September 2007	Iceland	Scandinavia	UK	Luxembourg	Other	Total
Net gain from bonds and fixed income securities	- 815	- 664	93	-41	0	-1,427
Net gain from equity and variable income securities	7,940	5,500	11,439	- 25	- 74	24,780
Net gain from derivatives	-3,391	30	- 43	943	0	-2,461
Net gain from hedge accounting instruments	0	330	2	0	0	332
Total	3,734	5,196	11,491	877	- 74	21,223
Dividend income	1,997	3,560	44	34	4	5,639
Net financial income total	5,731	8,755	11,535	910	- 70	26,862

Q3 2007	Iceland	Scandinavia	UK	Luxembourg	Other	Total
Net gain from bonds and fixed income securities	-1 558	- 673	- 167	188	0	-2 210
Net gain from equity and variable income securities	1,881	-3,642	8,579	- 107	- 32	6,679
Net gain from derivatives	-1,902	-179	- 285	20	0	-2,346
Net gain from hedge accounting instruments	0	- 59	- 2	0	0	-,61
Total	-1,579	-4,553	8,127	101	- 32	2,062
Dividend income	0	569	3	0	0	572
Net financial income total	-1,579	-3,984	8,130	101	- 32	2,634

Other income totalled ISK 11,552 million during the first nine months of 2007, compared with ISK 15,172 million for the same period in 2006. This item mainly 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 the its holding in VÍS. Other income during the first nine months of 2007 also includes net earnings from associated companies of ISK 2,515 million and income from Kaupthing Singer & Friedlander's operating leases of ISK 3,408 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 56,073 million during the first nine months of 2007, an increase of 36.2% compared with the same period in 2006. Operating expenses for the third quarter totalled ISK 19,348 million, increasing by 40.2% compared with the third quarter of 2006. The increase between years is primarily due to the sharp rise in the number of employees and a general increase in the Bank's activities. The cost-to-income ratio during the third quarter of 2007 was 48.6%, increasing from the third quarter of 2006 when it measured 41.0%, excluding the one-off profit from Exista.

Salaries and related expenses during the first nine months of 2007 totalled ISK 33,288 million, increasing by 44.7% compared with the same period in 2006. Salaries and related expenses during the third quarter totalled ISK 10,921 million, an increase of 49.3% compared with the third 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. The number of full-time equivalent positions at the Bank was 3,190 on 30 September 2007, compared with 2,616 on 30 September 2006, an increase of 574 or 21.9%.

Other operating expenses amounted to ISK 22,785 million during the first nine months of 2007, increasing by ISK 4,622 million compared with the same period in 2006, or by 25.4%. Other operating expenses during the third quarter totalled ISK 8,428 million, increasing by ISK 1,939 million or 29.9% 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 4,146 million during the first nine months of 2007, compared with ISK 3,186 million for the same period in 2006, an increase of 25.4%. The loan portfolio increased by 40.6% from end of September 2006 to end of September 2007.

Income tax expenses amounted to ISK 13,850 million during the first nine months of 2007, which corresponds to 18.4% of earnings before income tax, compared with ISK 12,843 million during the same period in 2006, or 15.9% of earnings before income tax.

Key Figures – Kaupthing hf.

Consolidated Income Statement in ISK

	For the nine months ended September 30,		
	2007	2006	Change
	(ISK millions)		(%)
Interest income	212,062	132,545	60.0%
Interest expense	(155,688)	(94,989)	63.9%
Net interest income	56,374	37,556	50.1%
Fee and commission income	49,049	27,125	80.8%
Fee and commission expense	(8,150)	(1,707)	377.5%
Net fee and commission income	40,899	25,418	60.9%
Dividend income	5,638	4,923	14.5%
Net gain on financial assets and liabilities not at fair value	48	76	-36.8%
Net gain on financial assets and liabilities at fair value	16,768	41,423	-59.5%
Net foreign exchange difference	4,408	1,732	154.5%
Net financial income	26,862	48,154	-44.2%
Share of profit of associates	2,515	878	186.4%
Other operating income	9,036	14,294	-36.8%
Other income	11,551	15,172	-23.9%
Operating income	135,686	126,300	7.4%
Salaries and related expenses	(33,288)	(22,998)	44.7%
Administrative expenses	(17,524)	(13,475)	30.0%
Depreciation and amortization	(4,592)	(4,339)	5.8%
Other operating expenses	(670)	(349)	92.0%
Operating expenses	(56,074)	(41,161)	36.2%
Impairment on loans	(4,146)	(3,186)	30.1%
Impairment on other assets	(75)	(1,304)	-94.2%
Earnings before income tax	75,391	80,649	-6.5%
Income tax	(13,850)	(12,843)	7.8%
Net earnings	61,541	67,806	-9.2%
Minority interest	(1,371)	(581)	135.9%
Shareholders of Kaupthing	60,170	67,225	-10.5%

CONSOLIDATED BALANCE SHEET

Assets

The Bank's total assets on 30 September 2007 amounted to ISK 4,889.9 billion, increasing by ISK 834.5 billion or 20.6% from the beginning of the year. Taking into account the 9.0% strengthening of the ISK during the first nine months of 2007, the Bank's total assets increased by 27.7% during the period.

Loans to customers increased from ISK 2,538.6 billion to ISK 3,050.7 billion, or by 20.2%, from the beginning of the year (27.9% at a fixed exchange rate). There has been a general increase in loans to customers in most of the Bank's markets. Loans to credit institutions decreased from ISK 485.3 billion to ISK 446.7 billion, a decrease of 8.0% (0.4% deacrease at a fixed exchange rate). Housing loans to individuals in Iceland at the end of September represented 4.8% of the total loans to customers, or ISK 147.8 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 583,9 billion, or by 14.0%, from the beginning of the year and represented 19% of total loans to customers at the end of September. The ALF portfolio comprises 141 loans and the five largest represent 26% 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 from projects led or co-led by Kaupthing Bank. Of the total loans in the ALF portfolio 81% were provided in connection with projects led or co-led by Kaupthing Bank.

Financial assets as of 30 September 2007 totalled ISK 911.8 billion, increasing by ISK 246.7 billion from the beginning of the year, or 37.1%. Taking into account the appreciation of the ISK this increase measured 45.7%. Bonds and other interest-bearing assets totalled ISK 419.9 billion on 30 September 2007 and has increased by 31.9% from the beginning of the year. Positions in shares and other variable income assets amounted to ISK 172.7 billion on 30 September 2007. Furthermore the Bank holds shares as hedge against derivatives amounting to ISK 165.5 billion. The Bank is furthermore not exposed to market risk of ISK 7.4 billion due to minority interests in the Bank's subsidiary Norvestia in Finland. Listed shares amounted to ISK 80.7 billion or 1.7% of the Bank's total assets as of 30 September 2007. Of this total, ISK 22.6 billion is in the form of shares listed on the OMX Nordic Exchange in Iceland, or 28.0%.

Holdings in unlisted shares totalled ISK 85.3 billion, or 1.7% of the Bank's total assets as of 30 September 2007, compared with 0.9% at the beginning of the year. The Bank's five largest positions in unlisted shares represented approximately 45% of the value of unlisted shares. The table below shows the Bank's largest positions in unlisted shares at the end of the quarter:

Company	Country	Sector	Share
Redford	US	Real estate	24%
Skipti hf.	Iceland	Telecommunications	28%
Lotus	US	Real Estate	60%
JN Group	UK	Retail	32%
Aztec Holding	Denmark	Manufacturing	15%

The Bank has set up a special fund, Kaupthing Capital Partners II, to handle its private equity investments. From the beginning of 2007 all private equity investments will be pooled in this fund. Assets of the Bank in private equity at the end of 2006 will not be pooled in Kaupthing Capital Partners II. Kaupthing Bank is warehousing two Kaupthing Capital Partners II investments, i.e. Phase Eight and ADP. These are expected to be pooled in the fund during the fourth quarter.

The Bank has a policy that its holdings in listed and unlisted shares (shares and equity funds) should be less than 35% of the Bank's risk capital. As of 30 September the ratio was 34.1%. Thereof, the ratio of listed shares was 15.8% and unlisted shares 18.3% of the risk capital.

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

Other assets totalled ISK 194.3 billion as of 30 September 2007 and increased by 64.9% from the beginning of the year. This is mainly due to an increase in unsettled transactions.

LIABILITIES AND EQUITY

Liabilities to credit institutions and central banks totalled ISK 157.6 billion as of 30 September 2007 and increased by ISK 47.1 billion or 42.7% from the beginning of the year.

Deposits amounted to ISK 1,301.8 billion as of 30 September 2007, increasing by ISK 551.1 billion from the beginning of the year, or by 73.4%. Deposits increased by 81.1% taking into account the 9.0% appreciation of the ISK during the first nine months. During the third quarter deposits increased by 7.6%. Deposits represented 26.6% of the Bank's total assets as of 30 September 2007, compared with 18.5% at the beginning of the year. Deposits as a ratio of loans to customers equalled 42.7% at the end of September, compared with 29.6% at the beginning of the year.

Borrowings amounted to ISK 2,470.0 billion as of 30 September 2007, compared with ISK 2,399.9 billion at the beginning of the year, an increase of ISK 70.0 billion or 2.9%. Borrowings increased by 11.6%, taking into account the 9.0% appreciation of the ISK during the first nine months.

Shareholders' equity amounted to ISK 334.4 billion as of 30 September 2007, compared with ISK 323.5 billion at the beginning of the year, an increase of ISK 10.9 billion or 3.4%. The 9.0% appreciation of the ISK during the first nine months 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 investment7 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 9.0% appreciation of the ISK during the first nine months resulted in a decrease in equity reserves in accordance with IFRS.

The Bank's equity base was ISK 464.8 billion as of 30 September 2007. The CAD ratio was 12.1%, compared with 15.0% at the beginning of the year. Tier 1 capital was 9.3%, 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 30 September 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 30 September 2007 was 32,773. The Bank's largest shareholders are Exista and Kjalar. Exista owns a 23.0%, and Kjalar and related companies own a 9.9% holding.

	As at September 30, 2007	As at December 31 2006	Change
	(ISK millions)		(%)
Assets:			
Cash and cash balances with central banks	100,902	106,961	-5.7%
Loans to credit institutions	446,738	485,334	-8.0%
Loans to customers	3,050,670	2,538,609	20.2%
Bonds and debt instruments	419,936	318,264	31.9%
Shares and instruments with variable income	172,698	159,020	8.6%
Derivatives	85,243	65,454	30.2%
Derivatives used for hedging	14,527	6,453	125.1%
Securities used for hedging	219,383	115,938	89.2%
Investments in associates	56,759	5,304	970.1%
Intangible assets	64,178	68,301	-6.0%
Investment property	25,885	31,584	-18.0%
Property and equipment	31,968	30,466	4.9%
Tax assets	6,708	5,834	15.0%
Other assets	194,337	117,874	64.9%
Total assets	**4,889,932**	**4,055,396**	20.6%
Liabilities			
Due to credit institutions and central banks	157,565	110,456	42.6%
Deposits	1,301,804	750,658	73.4%
Financial liabilities measured at fair value	187,882	71,264	163.6%
Borrowings	2,469,981	2,399,939	2.9%
Subordinated loans	233,389	216,030	8.0%
Tax liabilities	27,339	23,209	17.8%
Other liabilities	166,352	148,948	11.7%
Total liabilities	**4,544,312**	**3,720,504**	**22.1%**
Equity:			
Share capital	7,310	7,321	0.2%
Share premium	160,921	164,028	-1.9%
Reserves	(13,558)	17,220	-
Retained earnings	179,757	134,941	33.2%
Total shareholders' equity	334,430	323,510	3.4%
Minority interest	11,190	11,382	-1.7%
Total equity	**345,620**	**334,892**	3.2%
Total liabilities and equity	**4,889,932**	**4,055,396**	20.6%

New Managing Director of Kaupthing Bank Oyj in Finland

Lauri Mikael Rosendahl has been appointed as the new Managing Director of Kaupthing Bank Oyj in Finland. Mr. Rosendahl brings more than 20 years of experience to the Kaupthing Group. Mr. Rosendahl will take up his new position on 1 December 2007.

Tommi Salunen, Managing Director of Kaupthing Bank Oyj, will continue in his position duties until 1 December 2007, and will assist Mr. Rosendahl until the end of the year.

In March 2007 Kaupthing started to prepare activities in the Middle East

In September 2007 Kaupthing Bank was granted a license to operate a branch in the Dubai International Centre (DIFC) and in the Qatar Financial Centre (QFC). Kaupthing Bank is the first Nordic bank to receive an operating licence in this jurisdiction. Kaupthing will initially focus on providing investment banking services in the region as well as arranging wealth management services. The branches are managed by Umar Ali, Managing Director of Kaupthing's Middle East operations.

Kaupthing Bank Luxembourg acquires Robeco Bank Belgium

Kaupthing Bank Luxembourg S.A., a subsidiary of Kaupthing Bank hf., has signed an agreement by which Kaupthing Bank Luxembourg S.A. purchases Robeco 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 has 32 employees and is based in Brussels and Antwerp. Robeco Bank Belgium has 6,800 clients. At the end of August 2007, clients' assets placed as deposits amounted to approximately EUR 300 million. This acquisition will have an insignificant effect on Kaupthing Bank Luxembourg's operations.

Storebrand

Kaupthing Bank has decided to support Storebrand's acquisition of the Swedish life insurance and pension provider SPP at Storebrand's Extraordinary General Meeting on the 24th of October. Kaupthing will also sub-underwrite the subsequent rights issue in proportion to its 20% stake in Storebrand. Kaupthing will furthermore seek approval from the Ministry of Finance in Norway to sub-underwrite an additional 10% of the rights issue, which could increase Kaupthing's ownership in Storebrand up to approximately 25%.

Kaupthing acquires offshore deposit-taking business in the Isle of Man

Kaupthing Bank hf. ("Kaupthing") has agreed 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 is a specialised operation that offers a targeted range of fixed and variable rate sterling deposit accounts for its retail and business customers. At the end of the third quarter 2007, it had total deposits of over £320 million (EUR 460 million). The transaction will have an insignificant effect on the overall operations of the Kaupthing Group. Following the completion of the transaction, which is expected to take place before the end of the year, Derbyshire Offshore will be integrated into Kaupthing's existing Isle of Man operation. Kaupthing's strategy for the business is to grow deposits and cross-sell additional products.

NIBC

On 26 November Kaupthing Bank completed the financing of the acquisition of NIBC, that was announced on 15 August 2007.

The board of directors of Kaupthing will seek approval at a shareholders' meeting to issue and sell 70 million shares in the first quarter of 2008 in a rights issue. The Sellers and Exista have agreed in principle to underwrite the rights issue. The Sellers will also receive 140 million shares in Kaupthing instead of the 110 million previously agreed at the average price of SEK 105.67. Also, the cash payment to the Sellers will be reduced to EUR 1,392 million from EUR 1,625 million. The Sellers of NIBC have agreed to a lock-up period ending on 31 December 2008 for 110 million of the 140 million shares.

After the share issue the Sellers will become the second largest shareholder in Kaupthing with a share of approximately 15.9%.

Kaupthing is awaiting regulatory approval from the Dutch and Icelandic financial authorities, and the Bank expects the acquisition to be closed in January 2008.

Structured credit exposure and charge in forth quarter

Kaupthing has taken actions to limit its exposure towards structured credit. In this regard, Kaupthing has sold part of its ABS portfolio and has signed an agreement to restructure the restructure the remainder. Simultaneously the plan is to terminate the EUR 1.3 billion liquidity line. As a result of the restructuring and the recent unfavourable development in the credit markets Kaupthing expects to make a charge of EUR 85 million in the fourth quarter 2007.

Moody's maintains review on Kaupthing

Moody's Investors Service has announced that the Aa3/C ratings of Kaupthing Bank hf ("Kaupthing") remain under review for possible downgrade. Kaupthing was placed on review following the announcement of the acquisition of NIBC in August 2007. At the same time, Moody's has maintained NIBC rating of Baa1 on review for possible upgrade.