KAUPTHING BANK

26 October 2007

Earnings release

Kaupthing Bank's results for the first nine months of 2007

Net earnings of ISK 60.2 billion (€683 million)

- **Shareholders' net earnings for the first nine months of ISK 60.2 billion, increasing by 31.3% compared with the same period in 2006. Earnings decreased, however, by 10.5% between periods taking into account the one-off after-tax profit of ISK 21.4 billion related to Exista in the third quarter of 2006**
- **Shareholders' net earnings in the third quarter of ISK 14.4 billion, increasing by 3.0% from the third quarter of 2006. Earnings decreased, however, by 59.3% between periods taking into account the one-off after-tax profit of ISK 21.4 billion related to Exista in the third quarter of 2006**
- **Return on equity for the first nine months of 27.5% on an annualised basis. Earnings per share of ISK 82.6**
- **Net interest income in the third quarter up by 59.7% YoY to ISK 20.3 billion**
- **Net fee and commission income in the third quarter grew by 75.2% YoY to ISK 13.4 billion**
- **Financial loss in Treasury of ISK 6.9 billion in the third quarter, primarily due to the decrease in the fair value of derivative contracts, bonds and asset-backed securities**
- **Total assets of ISK 4,889.9 billion (€55.6 billion) at the end of September 2007, increasing by 27.7% at a fixed exchange rate from the beginning of the year and by 20.6% in ISK**
- **On 15 August 2007 the Bank signed an agreement to acquire the Dutch bank NIBC for €3 billion, expected to complete by the end of the year**
- **The board of directors will seek approval at a shareholders' meeting to issue new shares in the Bank and to sell them in a pre-emptive rights issue during the fourth quarter 2007**
- **The board of directors plans to change the Bank's functional currency into the euro as of January 2008, in accordance with IFRS**
- **The board of directors will propose at the shareholders' meeting that the Bank's shares be redenominated in euros**

Hreidar Már Sigurdsson, CEO

"Kaupthing's activities have been characterised by robust growth and we continued to strengthen our position in the third quarter. Trends in interest income and fee and commission income are most encouraging; interest income was up 60%, while fee and commission income grew by 75% in the third quarter compared with the same period last year. The international financial markets experienced considerable unrest during the quarter, but it is good to see that our strategy of risk diversification enabled us to achieve 19% return on equity during the quarter. The Bank is performing well and results were particularly strong in corporate banking and investment banking. I believe that 2007 will prove to be another excellent year for Kaupthing Bank."

Key figures

ISK billions	9M 2007	9M 2006*	Change	Q3 2007	Q2 2007	Change	Q3 2007	Q3 2006*	Change
Operating income	135.7	100.2	35%	39.8	51.8	-23%	39.8	33.7	18%
Operating expenses	56.1	41.2	36%	19.3	19.0	2%	19.3	13.8	40%
Shareholders' net earnings	60.2	45.8	31%	14.4	25.5	-43%	14.4	14.0	3%
Cost/income ratio	41.3%	41.1%		48.6%	36.7%		48.6%	41.0%	
Earnings pr. share, ISK	82.6	69.0	20%	19.6	35.2	-44%	19.6	21.1	-7%
Return on equity	27.5%	32.1%		19.0%	36.6%		19.0%	25.6%	

*Excluding after-tax gain from Exista

Balance Sheet amounts stated in EUR are converted from ISK at the end of period cross-rate of 87.88. Other YTD amounts stated in EUR are converted from ISK at an average cross-rate of 88.12.

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Income Statement

ISK millions	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Net interest income	20,259	19,849	16,265	14,806	12,687	14,384
Net fee and commission income	13,374	15,189	12,337	11,866	7,632	9,184
Net financial income	2,634	10,772	13,456	12,003	37,256	-2,607
Other income	3,553	5,996	2,002	2,241	2,210	10,102
Operating income	**39,820**	**51,807**	**44,059**	**40,915**	**59,785**	**31,064**
Salaries and related expenses	-10,921	-11,833	-10,534	-10,572	-7,315	-8,263
Other administrative expenses	-8,428	-7,184	-7,173	-8,274	-6,488	-6,542
Operating expenses	**-19,348**	**-19,017**	**-17,707**	**-18,846**	**-13,803**	**-14,805**
Impairment	-1,723	-1,075	-1,423	-1,637	-2,820	-961
Earnings before income tax	**18,748**	**31,715**	**24,929**	**20,433**	**43,163**	**15,299**
Income tax	-3,962	-5,653	-4,236	-1,793	-7,630	-2,618
Net earnings	**14,786**	**26,062**	**20,694**	**18,640**	**35,533**	**12,680**
Shareholders of Kaupthing Bank	14,406	25,484	20,281	18,077	35,393	13,035
Minority interest	380	578	413	564	140	-354
Earnings per share, ISK	19.6	35.2	27.4	26.1	53.4	19.6

Balance Sheet

ISK billions	30/9/07	31/12/06		30/9/07	31/12/06
Cash bal. with central banks	101	107	Due to credit institutions	158	110
Loans to credit institutions	447	485	Deposits	1.302	751
Loans to customers	3,051	2,539	Financial liabilties at FV	188	71
Bonds and debt instruments	420	318	Borrowings	2.470	2.400
Shares and equity instruments	173	159	Subordinated loans	233	216
Derivatives	85	65	Tax liabilities	27	23
Derivatives used for hedging	15	6	Other liabilities	166	149
Securities used for hedging	219	116	Minority interest	11	11
Investment in associates	57	5	Shareholders' equity	334	324
Intangible assets	64	68			
Investment property	26	32			
Property and equipment	32	30			
Tax assets	7	6			
Other assets	194	118			
Total Assets	**4,890**	**4,055**	**Total Liabilities and Equity**	**4,890**	**4,055**

Results by profit centres

January-September 2007

ISK millions	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Eliminations and cost centers	Total
Net interest income	835	-2,700	14,813	44,767	921	-2,262	56,374
Net fee and commission income	15,179	11,447	-482	4,631	9,734	390	40,899
Net financial income	15,989	13,362	-6,143	176	270	3,208	26,862
Other income	85	201	142	4,923	89	6,112	11,552
Operating income	**32,088**	**22,309**	**8,330**	**54,497**	**11,014**	**7,449**	**135,686**
Operating expenses	-7,813	-3,493	-3,147	-13,835	-5,602	-22,182	-56,073
Impairment	1	0	0	-4,150	0	-73	-4,221
Total expenses	**-7,812**	**-3,493**	**-3,146**	**-17,985**	**-5,602**	**-22,255**	**-60,294**
Earnings before cost allocation	**24,276**	**18,816**	**5,183**	**36,512**	**5,411**	**-14,806**	**75,392**
Allocated cost	-3,213	-1,223	-1,688	-7,536	-2,976	16,636	0
Earnings before income tax	**21,063**	**17,594**	**3,495**	**28,975**	**2,435**	**1,830**	**75,392**

The rounding-up of figures may mean that tables in this earnings release do 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 9.0% during the first nine months of 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 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.

Kaupthing Bank reported earnings before income tax of ISK 18,748 million during the third quarter of 2007, compared with ISK 43,163 million during the same period in 2006. This sharp drop in earnings between years is owing to the one-off profit of ISK 26.1 billion generated on the Bank's shareholding in Exista during the third quarter of 2006. Excluding this profit, earnings before income tax would have increased by 9.9% from the same period in 2006. Shareholders' net earnings totalled ISK 14,406 million during the third quarter of 2007, compared with ISK 35,393 million during the same period in 2006, a decrease of 59.3%. Excluding the one-off profit from Exista, earnings increased by 3.0%. Earnings per share during the third quarter were ISK 19.6, compared with ISK 53.4 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 monts 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.

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.

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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.

Four business segments made a profit before income tax during the third quarter of 2007, whereas one reported a loss. The highest profit before income tax during the quarter was reported by Banking, or ISK 10,046 million. Investment Banking reported earnings before income tax of ISK 9,336 million, Asset Management & Private Banking ISK 997 million and Capital Markets ISK 992 million. Treasury reported a loss of ISK 3,454 million. The table below shows the operating results of the Bank's business segments for the third quarter.

ISK millions - Q3 2007	Banking	Capital Markets	Treasury	Investment Banking	Asset management and Private banking	Eliminations and other cost centers	Total
Net interest income	15,653	876	5,501	-655	389	-1,504	20,259
Net fee and commission income	1,835	4,336	-555	4,196	3,245	316	13,374
Net financial income	-40	-452	-6,953	7,711	119	2,249	2,634
Other income	1,747	-13	31	170	143	1,475	3,553
Operating income	**19,195**	**4,746**	**-1,976**	**11,422**	**3,896**	**2,536**	**39,820**
Operating expenses	-4,676	-2,595	-886	-1,646	-1,928	-7,618	-19,348
Impairment	-1,643	0	-6	0	0	-74	-1,723
Total expenses	**-6,319**	**-2,595**	**-891**	**-1,646**	**-1,928**	**-7,692**	**-21,072**
Earnings before cost allocation	**12,876**	**2,151**	**-2,867**	**9,776**	**1,968**	**-5,156**	**18,748**
Allocated cost	-2,830	-1,159	-587	-440	-971	5,987	0
Earnings before income tax	**10,046**	**992**	**-3,454**	**9,336**	**997**	**831**	**18,748**

Banking

Banking provides general banking services to individuals in Iceland as well as services such as advice and assistance in financing to medium-sized and larger corporates, particularly in Denmark, Sweden, the UK and Iceland.

Banking made a profit before income tax of ISK 10,046 million for the third quarter of 2007. Operating income totalled ISK 19,195 million and increased by 1.2% from the second quarter of 2007. Net fee and commission income increased by 19.3% from the second quarter to the highest ever quarterly total. Total expenses amounted to ISK 6,319 million, increasing by 7.8% from the second quarter of 2007. The increase is attributable to the rise in impairments, which amounted to ISK 1,643 million during the quarter, compared with ISK 1,082 million during the second quarter.

ISK millions	**Q3 2007**	**Q2 2007**	**Q1 2007**	**Q4 2006**	**Q3 2006**
Net interest income	15,653	15,691	13,423	12,471	11,959
Net fee and commission income	1,835	1,538	1,257	1,662	1,560
Net financial income	-40	122	94	320	63
Other income	1,747	1,620	1,555	1,712	1,722
Operating income	**19,195**	**18,972**	**16,329**	**16,165**	**15,305**
Operating expenses	-4,676	-4,779	-4,380	-4,602	-3,630
Impairment	-1,643	-1,082	-1,425	-1,621	-1,684
Total expenses	**-6,319**	**-5,861**	**-5,805**	**-6,223**	**-5,313**
Earnings before cost allocation	**12,876**	**13,111**	**10,524**	**9,942**	**9,992**
Allocated cost	-2,830	-2,299	-2,407	-2,963	-1,567
Earnings before income tax	**10,046**	**10,812**	**8,117**	**6,979**	**8,425**

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 profit before income tax of ISK 992 million for the third quarter of 2007, which represents a considerable decline from the second quarter which was the best in the division's history. Operating income amounted to ISK 4,746 million and deacresed by ISK 9,199 million. A net financial loss of ISK 452 million had the most effect instead of ISK 6,663 million financial gain in second 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 4,336 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 876 million during the quarter, a significant increase from past figures. Net interest income in Capital Markets is particularly generated by derivative contracts in FX and Derivatives Sales, and the increase in interest income between quarters is attributable to the growth of this business. Total expenses amounted to ISK 2,595 million and decreased slightly between quarters.

ISK millions	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Net interest income	876	524	-564	-286	-509
Net fee and commission income	4,336	6,717	4,126	2,807	2,258
Net financial income	-452	6,663	9,778	4,407	2,269
Other income	-13	42	56	0	0
Operating income	**4,746**	**13,945**	**13,396**	**6,928**	**4,018**
Operating expenses	-2,595	-2,806	-2,412	-2,558	-1,418
Impairment	0	1	0	0	0
Total expenses	**-2,595**	**-2,805**	**-2,411**	**-2,558**	**-1,418**
Earnings before cost allocation	**2,151**	**11,140**	**10,985**	**4,370**	**2,600**
Allocated cost	-1,159	-890	-1,163	-1,034	-659
Earnings before income tax	**992**	**10,249**	**9,822**	**3,336**	**1,942**

Treasury
Treasury is responsible for the Bank's funding and inter-bank trading, and FX and derivatives. An organisational change was introduced on 1 January 2007 whereby the foreign exchange and derivatives sales were transferred from Treasury to Capital Markets and are now included in the results of Capital Markets. Comparative figures for these profit centres have been adjusted to take these changes into account.

Treasury made a loss before income tax of ISK 3,454 million for the third quarter of 2007. Operating income was negative by ISK 1,976 million, a turnaround from the second quarter of 2007 when operating income was ISK 6,328 million. This decrease is the result of a net financial loss of ISK 6,953 million, compared with net financial gain of ISK 1,251 million during the second quarter of 2007.

Conditions on the bond market have been unfavourable and this has negatively affected the financial income of this business segment. There are three reasons for Treasury's financial loss in the third quarter: firstly, the change in fair value of corporate synthetic CDOs owned by the Bank. The Bank's position in such derivatives amounts to ISK 30 billion; secondly there was a loss on asset-backed securities. The Bank's holding in such instruments totals ISK 24.7 billion; thirdly there was aloss on the Bank's ISK 107 billion position in financial FRNs. These losses amounted to ISK 6.9 billion in the third qurter 2007.

Net interest income increased by 12.6% between the second and third quarter. This increase is due to higher deposits and an increase in interest-bearing assets between quarters. Total expenses amounted to ISK 891 million during the third quarter, which is similar to previous quarters with the exception of the second quarter of 2007.

ISK millions	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Net interest income	5,501	4,884	4,428	3,328	2,324
Net fee and commission income	-555	149	-75	262	-108
Net financial income	-6,953	1,251	-441	2,828	3,072
Other income	31	44	67	23	1
Operating income	**-1,976**	**6,328**	**3,978**	**6,441**	**5,288**
Operating expenses	-886	-1,386	-875	-937	-758
Impairment	-6	6	0	0	-1
Total expenses	**-891**	**-1,380**	**-875**	**-938**	**-759**
Earnings before cost allocation	**-2,867**	**4,948**	**3,103**	**5,503**	**4,529**
Allocated cost	-587	-541	-561	-664	-370
Earnings before income tax	**-3,454**	**4,407**	**2,541**	**4,839**	**4,159**

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 9,336 million during the third quarter of 2007, which represents the division's best quarter after the third quarter of 2006, when the Bank recorded a profit of ISK 26.1 billion from Exista. Operating income totalled ISK 11,422 million, compared with ISK 4,454 million in the second quarter of 2007. Net financial income increased sharply from the previous quarter and is the main reason for the rise in the division's profit. Net financial income is attributable to the change in fair value of principal investments held by the Bank in connection with projects with the Bank's clients, particularly in the UK and Iceland.

Net fee and commission income amounted to ISK 4,196 million for the quarter, an increase of 11.4% between quarters. Total expenses amounted to ISK 1,646 million, increasing by ISK 506 million compared with the second quarter. This increase is mainly due to a rise in performance related bonuses linked to the growth in net fee and commission income, and the increase in operating expenses due to increased activities in this business segment.

ISK millions	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Net interest income	-655	-950	-1,095	-914	-961
Net fee and commission income	4,196	3,767	3,483	3,792	1,295
Net financial income	7,711	1,671	3,980	4,592	31,652
Other income	170	-34	65	7	-142
Operating income	**11,422**	**4,454**	**6,433**	**7,477**	**31,845**
Operating expenses	-1,646	-1,140	-708	-1,310	-562
Impairment	0	0	0	4	0
Total expenses	**-1,646**	**-1,140**	**-707**	**-1,306**	**-562**
Earnings before cost allocation	**9,776**	**3,314**	**5,726**	**6,171**	**31,283**
Allocated cost	-440	-351	-432	-123	-203
Earnings before income tax	**9,336**	**2,963**	**5,294**	**6,048**	**31,080**

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 997 million for the third quarter of 2007. Operating income totalled ISK 3,896 million, an increase of 19.1% compared with the second quarter of 2007. Net fee and commission income amounted to ISK 3,245 million, an increase of 5.5% from the second quarter of 2007. Total expenses amounted to ISK 1,928 million, an increase of 15.3% from the second quarter 2007.

Assets under custody at the Bank totalled ISK 2,573 billion as of 30 September 2007, an increase of 31.8% from the beginning of the year. Assets under management totalled ISK 1,617 billion as of 30 September 2007, increasing by 15.2% from the beginning of the year (an increase of 22.2% without exchange rate effects).

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ISK millions	**Q3 2007**	**Q2 2007**	**Q1 2007**	**Q4 2006**	**Q3 2006**
Net interest income	389	208	324	254	167
Net fee and commission income	3,245	3,075	3,414	3,221	2,544
Net financial income	119	123	28	110	91
Other income	143	-135	81	605	357
Operating income	**3,896**	**3,271**	**3,847**	**4,190**	**3,160**
Operating expenses	-1,928	-1,672	-2,002	-2,037	-1,660
Impairment	0	0	0	0	-1,138
Total expenses	**-1,928**	**-1,672**	**-2,002**	**-2,037**	**-2,798**
Earnings before cost allocation	**1,968**	**1,599**	**1,845**	**2,153**	**361**
Allocated cost	-971	-935	-1,070	-823	-766
Earnings before income tax	**997**	**663**	**775**	**1,330**	**-405**

Third quarter highlights

Kaupthing Bank acquires NIBC
On 15 August 2007 Kaupthing Bank hf. signed an agreement on the purchase of the entire share capital of NIBC Holding NV ("NIBC") for €2,985 million. NIBC represents an excellent strategic fit for Kaupthing in terms of geographic diversification, products and business culture.

NIBC is a Dutch merchant bank founded in 1945. It focuses on the mid-cap segment in western Europe with a global distribution network. The bank has 725 full-time employees and offices in The Hague, London, Brussels, Frankfurt, New York and Singapore. NIBC offers innovative corporate finance, banking and investment management solutions to corporate clients, financial institutions, institutional investors and family offices. The seller is a consortium of shareholders led by J.C. Flowers & Co. LLC.

The expected acquisition, which is scheduled for completion by the end of the year, will allow Kaupthing to further diversify and strengthen its existing operations. It will also make it one of the leading corporate and investments banks focusing on financial services to small and medium-sized enterprises in Europe. The combined group will benefit from Kaupthing and NIBC's complementary product offerings and compatible business culture.

The purchase price of €2,985 million represents 12.7x NIBC's last twelve months (to 30 June 2007) net income and 1.5x NIBC's shareholders' equity as at 30 June 2007. Kaupthing expects the acquisition to help increase earnings per share in 2008. Further details on the acquisition can be found on Kaupthing Bank's website.

Kaupthing Bank opens branches in Qatar and Dubai
Kaupthing Bank has been granted licences to open branches in the international financial centres of Dubai and Qatar. Kaupthing Bank is the first Nordic bank to receive operating licences in these jurisdictions. The Bank will initially focus on providing investment banking services and arranging wealth management services.

A new structure in Finland
Kaupthing Bank is currently in the process of transforming the structure of its business in Finland by transferring the operations of its subsidiary, Kaupthing Bank Oyj, into a branch. It is expected that the branch will be fully operational at the beginning of next year.

Fourth quarter highlights

Kaupthing backs Storebrand's acquisition of SPP
Kaupthing Bank decided to support Storebrand's acquisition of the Swedish life insurance and pension provider SPP at Storebrand's extraordinary general meeting on 24 October. Kaupthing will also sub-underwrite the subsequent rights issue in proportion to its 20% stake in Storebrand. Subject to authorisation from the Norwegian ministry of finance, Kaupthing also intends to sub-underwrite an additional 10% of the issue, which might lead to Kaupthing's stake in Storebrand being increased to around 25%.

Kaupthing Bank Luxembourg acquires Robeco Bank Belgium
Kaupthing Bank Luxembourg S.A., a subsidiary of Kaupthing Bank hf., has signed an agreement under which it has acquired Belgian bank 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, deposits amounted to approximately €300 million. This acquisition will have an insignificant effect on Kaupthing Bank Luxembourg's operations.

Funding and credit ratings

Deposits continue to grow
At the beginning of the year the Bank set the target that its deposit base would reach 40% before mid-year 2008. However, the goal has already been attained, measuring 42.7% on 30 September 2007, compared with 29.6% at the beginning of the year. Deposits continued to grow during the third quarter 2007, increasing by ISK 92 billion. Total deposits now measure ISK 1,302 billion, a rise of 90% over the last 12 months and 74% year-to-date.

Bond issues in Europe and Japan
Following its successful return to the Eurobond market in June, Kaupthing Bank issued subordinated bonds in the amount of €250 million at the beginning of July. The bonds were chiefly sold to European investors, with 66 investors taking part. Later that month the Bank issued bonds in Japan in the amount of 28 billion yen, following up on last year's inaugural Samurai bond issue.

Robust liquidity position
Despite the widespread turbulence on global financial markets, the Bank's liquidity position continues to be strong. At the end of September 2007 secured liquidity stood at ISK 1,167 billion (€13,277 million), sufficient to cover all current obligations maturing for the next 394 days, slightly more than the Bank's own 360 day target.

Credit ratings following NIBC acquisition
After Kaupthing Bank announced the acquisition of NIBC in August, Fitch Ratings affirmed the Bank's Long-term Issuer Default A rating. At the same time Moody's placed Kaupthing Bank on review for possible downgrade. Kaupthing Bank is rated Aa3 at Moody's.

Outlook

Kaupthing Bank has performed well so far this year and the management expects this year's operating results to be satisfactory. Uncertainty has prevailed on the international financial markets and this has had an impact on the Bank's operations.

The integration of Kaupthing Singer & Friedlander into the Kaupthing group has now been completed and business is going from strength to strength. The next task is to bring NIBC into the group, and the acquisition is expected to be completed at the end of this year. The aim is for NIBC to achieve 15% return on equity in 2009.

The board of directors will seek approval at a shareholders' meeting to issue and sell new shares in the Bank in a rights issue during the fourth quarter. The purpose of the share issue is to reinforce the Bank's equity base, partly because of the acquisition of NIBC. The board of directors has also decided to change the functional currency of the Bank into the euro from the beginning of 2008. This is being done in accordance with IFRS, because once NIBC is included in the Bank's accounts, the largest part of the Bank's business will be conducted in euros. Approval will also be sought at the shareholders' meeting to denominate the Bank's share capital in euros. The Bank also plans to have its shares denominated in euros on OMX Iceland instead of the Icelandic króna.

The Bank's funding is robust and the percentage of deposits in the Bank's total loans to customers has increased. At the end of September the figure was 42.7% but the Bank's long-term objective is to increase the proportion of deposits in the Bank's funding.

The annualised return on equity for the first nine months was 27.5%, well above the Bank's declared target of 15% return on equity per annum in the long term. 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	**9M 2007**	**2006**	**2005**	**2004**	**2003**
Net interest income	56,374	52,362	32,710	18,259	10,124
Other operating income	79,313	114,854	69,488	31,687	21,656
Operating income	**135,686**	**167,216**	**102,198**	**49,946**	**31,780**
Operating expenses	-56,073	-60,006	-35,524	-23,625	-18,493
Impairment	-4,221	-6,127	-4,389	-3,825	-3,894
Income tax	-13,850	-14,636	-11,228	-4,237	-1,486
Net earnings	**61,542**	**86,447**	**51,056**	**18,258**	**7,907**
Net shareholders' earnings	60,171	85,302	49,260	17,707	7,520
Minority interest	1,371	1,145	1,796	552	387

Balance Sheet					
ISK millions	**30.9.2007**	**2006**	**2005**	**2004**	**2003**
Assets					
Cash bal. with central banks	100,902	106,961	34,877	6,290	-
Loans to credit institutions	446,738	485,334	195,594	174,310	
Loans to customers	3,050,670	2,538,609	1,543,700	980,107	-
Bonds and debt instruments	419,936	318,264	390,575	202,934	-
Shares and equity instruments	172,698	159,020	114,355	86,122	-
Derivatives	85,243	65,454	21,047	13,085	-
Derivatives used for hedging	14,527	6,453	4,459	3,820	-
Securities used for hedging	219,383	115,938	82,098	0	
Investment in associates	56,759	5,304	13,888	3,649	-
Intangible assets	64,178	68,301	54,943	35,098	-
Investment property	25,885	31,584	24,156	19,155	-
Property and equipment	31,969	30,466	22,433	6,092	-
Tax assets	6,708	5,834	5,004	1,092	-
Other assets	194,337	117,874	33,682	22,700	-
Total assets	**4,889,932**	**4,055,396**	**2,540,811**	**1,554,453**	**558,569**
Liabilities and equity					
Deposits	1,301,804	750,657	486,176	202,193	182,497
Subordinated loans	233,389	216,030	102,688	57,623	10,704
Other liabilities	3,009,118	2,753,816	1,749,436	1,135,728	308,837
Minority interest	11,190	11,382	8,329	9,539	10,603
Shareholders' equity	334,430	323,510	194,183	149,370	45,928
Total liabilities and equity	**4,889,932**	**4,055,396**	**2,540,811**	**1,554,453**	**558,569**
KEY RATIOS					
Cost / income ratio	41.3%	35.9%	34.8%	47.3%	58.2%
Return on shareholders' equity	27.5%	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	0.5%	0.6%	0.7%	1.4%	2.4%
Price / earnings	10.0	6.6	9.9	12.4	12.2
Earnings per share, ISK	82.6	127.1	75.2	35.6	18.5
Earnings per share diluted, ISK	80.3	123.4	73.9	35.1	18.4
Average no. of shares outstanding, million	734	671	655	497	406
Avg. no. of shares outstanding diluted, million	755	691	666	505	411
No. of shares at the end of the period, million	731	732	664	652	438
No. of shares at the end of the period diluted, mil	752	752	675	660	443
Share price at the end of the period	1.087	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' review report
The Interim Consolidated Financial Statements have been reviewed by the Bank's auditors.

Presentation in Reykjavík
A presentation for shareholders and market participants will be held on Friday 26 October at 8:45 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
31 January 2008 Annual accounts 2007

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 twelve 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, Kaupthing Bank Oyj in Finland, Norvestia Oyj in Finland, Kaupthing New York, Kaupthing Asset Management in Switzerland and Kaupthing Norge in Norway. The Bank also has activities in the United Arab Emirates (Dubai) and Qatar and operates a branch in the Faroe Islands. As of 30 September 2007 the number of full-time equivalent positions was 3,190 at Kaupthing Bank and its subsidiaries.

KAUPTHING BANK

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