



KAUPTHING BANK

Condensed Consolidated Interim Financial Statements
1 January - 30 September 2007

Kaupthing Bank hf.
Borgartún 19
105 Reykjavík
Iceland

Reg. no. 560882-0419

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Endorsement and Signatures of the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Kaupthing Bank hf. for the nine months ended 30 September 2007, have been prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34). The Condensed Consolidated Interim Financial Statements include the Interim Financial Statements of Kaupthing Bank hf. and its subsidiaries, together referred to as "the Bank".

The Bank has entered into an agreement to purchase the entire share capital of NIBC NV for EUR 2,985 million. The acquisition is expected to be completed at the end of 2007.

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

Net earnings, according to the Condensed Consolidated Interim Income Statement, amounted to ISK 61,541 million for the period from 1 January to 30 September 2007. Total equity, according to the Condensed Consolidated Interim Balance Sheet, amounted to ISK 345,620 million at the end of the period, including share capital amounting to ISK 7,310 million. The equity ratio of the Bank, calculated according to the Act on Financial Undertakings, was 12.1%. This ratio may not be lower than 8.0%.

Registered shareholders at 30 September 2007 numbered 32,773 compared to 31,730 at the beginning of the year. At the end of the period, one shareholder held more than 10% of the shares in the Bank, Exista, which owned 23.0% of the shares.

The Board of Directors and the CEO of Kaupthing Bank hf. hereby confirm the Condensed Consolidated Interim Financial Statements for the nine-month period ended 30 September 2007.

Reykjavík, 25 October 2007

Board of Directors

Sigurður Einarsson
Chairman

Antonio Yerolemou

Ásgeir Thoroddsen

Bjarnfredur H. Ólafsson

Brynja Halldórsdóttir

Gunnar Páll Pálsson

Hjörleifur Thór Jakobsson

Niels de Coninck-Smith

Tommy Persson

CEO

Hreidar Már Sigurdsson

Independent Auditors' Review Report

To the Board of Directors of Kaupthing Bank hf.

Introduction

We have reviewed the accompanying Condensed Consolidated Interim Balance Sheet of Kaupthing Bank hf. as of 30 September 2007 and the related statements of income, changes in equity and cash flows for the nine-month period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 September 2007, and of its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 25 October 2007

KPMG hf.

Saemundur Valdimarsson

Reynir Stefán Gylfason

Consolidated Interim Income Statement

for the Period from 1 January to 30 September 2007

	Notes	2007 1.7.-30.9.	2006 1.7.-30.9.	2007 1.1.-30.9	2006 1.1.-30.9
Interest income		77,880	49,018	212,062	132,545
Interest expense		(57,621)	(36,331)	(155,688)	(94,989)
Net interest income.....		<u>20,259</u>	<u>12,687</u>	<u>56,374</u>	<u>37,556</u>
Fee and commission income		14,939	8,146	49,049	27,125
Fee and commission expense		(1,565)	(514)	(8,150)	(1,707)
Net fee and commission income.....		<u>13,374</u>	<u>7,632</u>	<u>40,899</u>	<u>25,418</u>
Net financial income	7-11	2,634	37,257	26,862	48,154
Share of profit of associates	25	1,759	(30)	2,515	878
Other operating income	12	1,795	2,240	9,036	14,294
Operating income.....		<u>39,821</u>	<u>59,786</u>	<u>135,686</u>	<u>126,300</u>
Salaries and related expenses		(10,921)	(7,315)	(33,288)	(22,998)
Administration expenses		(6,521)	(4,830)	(17,524)	(13,475)
Depreciation and amortisation		(1,592)	(1,524)	(4,592)	(4,339)
Other operating expenses		(314)	(135)	(670)	(349)
Impairment on loans	21	(1,648)	(1,515)	(4,146)	(3,186)
Impairment on other assets	26	(75)	(1,304)	(75)	(1,304)
Earnings before income tax.....		<u>18,750</u>	<u>43,163</u>	<u>75,391</u>	<u>80,649</u>
Income tax expense		(3,962)	(7,630)	(13,850)	(12,843)
Net earnings.....		<u><u>14,788</u></u>	<u><u>35,533</u></u>	<u><u>61,541</u></u>	<u><u>67,806</u></u>
Attributable to:					
Shareholders of Kaupthing Bank hf.		14,408	35,393	60,170	67,225
Minority interest		380	140	1,371	581
Net earnings.....		<u><u>14,788</u></u>	<u><u>35,533</u></u>	<u><u>61,541</u></u>	<u><u>67,806</u></u>
Earnings per share					
Basic earnings per share	14	19.6	53.4	82.6	101.3
Diluted earnings per share	14	19.1	52.4	80.3	99.5

Consolidated Interim Balance Sheet

as at 30 September 2007

	Notes	30.9.2007	31.12.2006
Assets			
Cash and balances with central banks	15	100,902	106,961
Loans to credit institutions	16	446,738	485,334
Loans to customers	17-21	3,050,670	2,538,609
Bonds and debt instruments	22	419,936	318,264
Shares and instruments with variable income	22	172,698	159,020
Derivatives	22,36	85,243	65,454
Derivatives used for hedging	22,36	14,527	6,453
Securities used for hedging	22	219,383	115,938
Investments in associates	25	56,759	5,304
Intangible assets	26	64,178	68,301
Investment property	27	25,885	31,584
Property and equipment		31,968	30,466
Tax assets		6,708	5,834
Other assets	28	194,337	117,874
Total Assets	40	4,889,932	4,055,396
Liabilities			
Due to credit institutions and central banks		157,565	110,456
Deposits		1,301,804	750,658
Financial liabilities measured at fair value	29-31	187,882	71,264
Borrowings	32	2,469,981	2,399,939
Subordinated loans	33	233,389	216,030
Tax liabilities		27,339	23,209
Other liabilities	34	166,352	148,948
Total Liabilities	40	4,544,312	3,720,504
Equity			
Share capital		7,310	7,321
Share premium		160,921	164,028
Reserves		(13,558)	17,220
Retained earnings		179,757	134,941
Total Shareholders' Equity		334,430	323,510
Minority interest		11,190	11,382
Total Equity		345,620	334,892
Total Liabilities and Equity		4,889,932	4,055,396

Consolidated Interim Statement of Changes in Equity for the Period from 1 January to 30 September 2007

	Share capital and premium	Reserves	Retained earnings	Total Share- holders' equity	Minority interest	Total equity
Changes in equity from 1 January to 30 September 2007:						
Equity at the beginning of the year	171,349	17,220	134,941	323,510	11,382	334,892
Translation difference		(30,798)		(30,798)	(998)	(31,796)
Fair value changes in AFS financial assets		20		20		20
Net loss recognised directly in equity		(30,778)		(30,778)	(998)	(31,776)
Net earnings according to the Income Statement			60,170	60,170	1,371	61,541
Total recognised earnings for the period		(30,778)	60,170	29,392	373	29,765
Dividends paid to shareholders, ISK 14 per share			(10,272)	(10,272)		(10,272)
Purchases and sales of treasury stock	(3,996)			(3,996)		(3,996)
Exercised stock options	878			878		878
Restating the initial investments in shares			(5,111)	(5,111)		(5,111)
Other changes			29	29	(565)	(536)
Equity 30 September 2007	168,231	(13,558)	179,757	334,430	11,190	345,620
Changes in equity from 1 January to 30 September 2006:						
Equity at the beginning of the year	121,244	(1,540)	74,479	194,183	8,329	202,512
Translation difference		13,168		13,168	2,005	15,173
Fair value changes in AFS financial assets		(19)		(19)		(19)
Net earnings recognised directly in equity		13,149		13,149	2,005	15,154
Net earnings according to the Income Statement			67,225	67,225	581	67,806
Total recognised earnings for the period		13,149	67,225	80,374	2,586	82,960
Dividends paid to shareholders, ISK 10 per share			(6,609)	(6,609)		(6,609)
Purchases and sales of treasury stock	(978)			(978)		(978)
Exercised stock options	268			268		268
Other changes		480	(6)	474		474
Equity 30 September 2006	120,534	12,089	135,089	267,712	10,915	278,627

Condensed Consolidated Interim Statement of Cash Flows

for the Period from 1 January to 30 September 2007

	2007	2006
	1.1.-30.9.	1.1.-30.9.
Net cash provided by operating activities.....	93,510	(93,025)
Net cash flow (used in) provided by investing activities.....	(21,098)	6,504
Net cash flow (used in) provided by financing activities.....	(9,626)	100,029
	62,786	13,508
Net increase in cash and cash equivalents.....		
Cash and cash equivalents at beginning of the year.....	202,789	81,758
Effect of exchange rate changes on cash held.....	(12,968)	13,925
	252,607	109,191
Cash and cash equivalents at end of the period.....	252,607	109,191

Notes to the Consolidated Interim Financial Statements

Accounting policies

General information

Kaupthing Bank hf. is a company incorporated and domiciled in Iceland. The address of the Bank's registered office is Borgartún 19, Reykjavík, Iceland. The Condensed Consolidated Interim Financial Statements for the nine-month period ended 30 September 2007 comprise Kaupthing Bank hf. (the parent) and its subsidiaries (together referred to as "the Bank"). The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Kaupthing Bank hf. on 25 October 2007.

1. Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting* as adopted by the EU. They do not include all of the information required for full annual Financial Statements, and should be read in conjunction with the Consolidated Financial Statements of the Bank as at and for the year ended 31 December 2006.

2. Significant accounting policies

The accounting policies applied by the Bank in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Bank in its Consolidated Financial Statements as at and for the year ended 31 December 2006.

The Consolidated Financial Statements of the Bank as at and for the year ended 31 December 2006 are available upon request from the Bank's registered office at Borgartún 19, Reykjavík or at www.kaupthing.com or www.omxgroup.com.

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

Segment Reporting

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

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

Business segments

The Bank comprises the following main business segments:

Capital Markets is divided into two parts: Capital Markets and Proprietary Trading. Capital Markets handles securities, derivatives and foreign exchange trading and brokerage for the Bank's clients. Proprietary Trading handles transactions for the Bank's own account in all major markets, as well as undertaking the Bank's market making for stocks and bonds.

Investment Banking provides various services to corporate clients through its four main products areas: M&A advisory, capital market transactions, acquisition and leverage finance and principle investment.

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

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

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

Cost centres are: Overhead, Back office, Risk Management, Finance, Legal department, Information Technology, Human Resources, Sales and Marketing.

Geographical segments

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

Notes to the Consolidated Interim Financial Statements

4. Summary of the Bank's business segments:

1.1.-30.9.2007	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Elimination and Cost Centres	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	200	142	4,923	89	6,112	11,551
Operating income	32,088	22,309	8,330	54,497	11,014	7,448	135,686
Operating expense	(7,813)	(3,493)	(3,147)	(13,835)	(5,603)	(22,183)	(56,074)
Impairment	1	0	0	(4,150)	0	(72)	(4,221)
Total expense	(7,812)	(3,493)	(3,147)	(17,985)	(5,603)	(22,255)	(60,295)
Earnings before cost allocation	24,276	18,816	5,183	36,512	5,411	(14,807)	75,391
Allocated cost	(3,214)	(1,222)	(1,688)	(7,536)	(2,976)	16,636	0
Earnings before income tax	21,062	17,594	3,495	28,976	2,435	1,829	75,391
Net segment revenue from external customers	44,462	23,266	(78,313)	142,482	5,558	(1,769)	135,686
Net segment revenue from other segments	(12,374)	(957)	86,642	(87,985)	5,455	9,219	0
Operating income	32,088	22,309	8,329	54,497	11,013	7,450	135,686
Depreciation and amortisation	59	20	15	3,033	56	1,409	4,592
Total assets 30.9.2007	375,239	146,106	2,127,420	2,899,923	86,117	(744,873)	4,889,932
Total liabilities 30.9.2007	343,205	108,228	2,058,727	2,704,093	74,507	(744,447)	4,544,312
Allocated equity 30.9.2007	32,034	37,878	68,694	195,830	11,610	(426)	345,620
Total liabilities and equity 30.9.2007	375,239	146,106	2,127,421	2,899,923	86,117	(744,873)	4,889,932

1.1.-30.9.2006	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Elimination and cost centres	Total
Net interest income	(122)	(2,434)	7,057	33,432	564	(941)	37,556
Net fee and commission income	7,074	5,785	181	4,082	8,009	287	25,418
Net financial income	3,506	38,392	5,583	430	421	(178)	48,154
Other income	0	36	3	4,919	357	9,857	15,172
Operating income	10,458	41,779	12,824	42,863	9,351	9,025	126,300
Operating expense	(3,836)	(2,326)	(1,951)	(10,367)	(5,343)	(17,338)	(41,161)
Impairment	(123)	(3)	(5)	(3,230)	(1,138)	9	(4,490)
Total expense	(3,959)	(2,329)	(1,956)	(13,597)	(6,481)	(17,329)	(45,651)
Earnings before cost allocation	6,499	39,450	10,868	29,266	2,870	(8,304)	80,649
Allocated cost	(2,213)	(765)	(1,309)	(5,781)	(2,604)	12,672	0
Earnings before income tax	4,286	38,685	9,559	23,485	266	4,368	80,649
Net segment revenue from external customers	15,210	44,233	(41,504)	96,742	6,463	5,156	126,300
Net segment revenue from other segments	(4,752)	(2,454)	54,328	(53,879)	2,888	3,869	0
Operating income	10,458	41,779	12,824	42,863	9,351	9,025	126,300
Depreciation and amortisation	7	6	8	2,541	17	1,760	4,339
Total assets 31.12.2006	328,176	108,946	1,536,197	2,597,032	12,386	(527,341)	4,055,396
Total liabilities 31.12.2006	288,327	47,998	1,487,116	2,421,953	4,171	(529,061)	3,720,504
Allocated equity 31.12.2006	39,849	60,948	49,081	175,079	8,215	1,720	334,892
Total liabilities and equity 31.12.2006	328,176	108,946	1,536,197	2,597,032	12,386	(527,341)	4,055,396

Notes to the Consolidated Interim Financial Statements

Geographical analysis

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

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

1.1.-30.9.2007	Iceland	Scandi- navia	UK	Luxem- bourg	Other	Total
Net interest income	18,589	15,617	15,633	5,070	1,465	56,374
Net fee and commission income	16,109	6,387	12,421	5,078	904	40,899
Net financial income	5,732	8,755	11,535	910	(70)	26,862
Other income	5,529	2,952	3,012	56	2	11,551
Operating income	45,959	33,711	42,601	11,114	2,301	135,686

1.1.-30.9.2006

Net interest income	12,004	12,245	8,871	3,449	987	37,556
Net fee and commission income	10,354	4,083	6,569	2,931	1,481	25,418
Net financial income	32,221	8,448	5,794	1,041	650	48,154
Other income	11,433	676	3,064	(1)	0	15,172
Operating income	66,012	25,452	24,298	7,420	3,118	126,300

The figures for net interest income for the first months 2006 have been changed from previously published figures for geographical analysis, because of changed method in allocating equity by country at year-end 2006.

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

30.9.2007	Iceland	Scandi- navia	UK	Luxem- bourg	Other	Total
Cash and balances with central banks	1,189	23,508	75,473	423	309	100,902
Loans to credit institutions	140,417	108,339	118,735	49,514	29,733	446,738
Loans to customers	657,945	1,154,668	617,304	420,232	200,521	3,050,670
Financial assets measured at fair value	527,059	317,157	19,323	44,191	4,057	911,787
Other assets	142,828	145,366	68,455	19,025	4,161	379,835
Total Assets	1,469,438	1,749,038	899,290	533,385	238,781	4,889,932

31.12.2006

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

Notes to the Consolidated Interim Financial Statements

Notes to the Income Statement

Net financial income

7. Net financial income is specified as follows:	Q1-Q3 2007	Q1-Q3 2006
Dividend income	5,638	4,923
Net gain on financial assets and liabilities at fair value	16,768	41,423
Net foreign exchange gain	4,408	1,732
Net gain on financial assets and liabilities not at fair value	48	76
Net financial income	26,862	48,154

Dividend income

8. Dividend income is specified as follows:		
Dividend income on trading assets	5,322	4,848
Dividend income on assets at fair value through profit and loss	316	75
Dividend income	5,638	4,923

Net gain on financial assets and liabilities at fair value

9. Net gain on financial assets and liabilities at fair value are specified as follows:		
Net gain on trading portfolio	4,988	6,669
Net gain on assets designated at fair value through profit and loss	11,448	34,547
Fair value adjustments on hedge accounting	332	207
Net gain on financial assets and liabilities at fair value	16,768	41,423

10. Net gain on trading portfolio are specified as follows:

Gain on equity instruments and related derivatives	10,586	2,382
(Loss) gain on other derivatives	(6,917)	3,844
Gain on interest rate instruments and related derivatives	1,319	443
Net gain on trading portfolio	4,988	6,669

11. Net gain on assets designated at fair value through profit and loss are specified as follows:

Loss on interest rate instruments designated at fair value	(2,746)	(2,644)
Gain on equity instruments designated at fair value	14,194	37,191
Net gain on assets designated at fair value through profit and loss	11,448	34,547

Notes to the Consolidated Interim Financial Statements

Other operating income

12. Other operating income is specified as follows:	Q1-Q3 2007	Q1-Q3 2006
Gain on disposals of assets other than held for sale	4,328	8,716
Income from operating lease	3,408	3,005
Fair value adjustments on investment properties	(166)	712
Other income	1,466	1,763
Other operating income	9,036	14,294

Personnel

13. The Bank's total number of employees is as follows:	30.9.2007	31.12.2006
Average number of full time equivalent positions during the period	3,028	2,553
Full time equivalent positions at the end of the period	3,190	2,719

Earnings per share

14. Earnings per share are specified as follows:	Q1-Q3 2007	Q1-Q3 2006
Net earnings attributable to the shareholders of Kaupthing Bank hf.	60,170	67,225
Weighted average share capital:		
Weighted average of outstanding shares for the period	734.1	663.6
Effects of stock options	20.9	11.8
Weighted average of total shares for the period, diluted	755.0	675.4
Basic earnings per share	82.6	101.3
Diluted earnings per share	80.3	99.5
Number of outstanding shares at the end of the period, million	731.0	662.0
Number of total shares at the end of the period, million, diluted	751.9	673.8
Average number of own shares, million	8.3	8.3
Number of own shares at the end of the period, million	9.5	2.6

Notes to the Balance Sheet

Cash and balances with central banks

15. Cash and balances with central banks are specified as follows:	30.9.2007	31.12.2006
Cash and cash balances	13,960	10,537
Cash equivalent	86,942	96,424
Cash and balances with central banks	100,902	106,961

Loans to credit institutions

16. Loans to credit institutions specified by types of loans:		
Money market loans	122,946	242,284
Bank accounts	151,705	95,828
Overdrafts	4,014	7,902
Repos	63,868	50,753
Other loans	104,205	88,567
Loans to credit institutions	446,738	485,334

Notes to the Consolidated Interim Financial Statements

Loans to customers

	30.9.2007	31.12.2006
17. Loans to customers specified by types of loans:		
Overdrafts	38,250	113,354
Finance lease	69,304	93,006
Repos and related agreements	55,199	0
Subordinated loans	10,315	7,369
Other loans	2,895,814	2,341,462
Provision on loans	(18,212)	(16,582)
Loans to customers	3,050,670	2,538,609
18. Loans to customers specified by sectors:		
Individuals	15.7%	16.6%
Holding companies	13.7%	13.5%
Industry	17.4%	20.3%
Real estate	18.0%	15.6%
Service	22.8%	19.9%
Trade	10.7%	12.5%
Transportation	1.7%	1.6%
Loans to customers	100.0%	100.0%
19. Specification of subordinated loans:		
Loans to customers	10,099	4,907
Bonds and other fixed income securities	216	2,462
Subordinated loans	10,315	7,369
20. Provisions on loans are specified as follows:		
Specific provision	12,596	13,404
Collective assessment	5,616	3,178
Provision on loans	18,212	16,582
21. Changes in the provision on loans are specified as follows:	Q1-Q3 2007	Q1-Q3 2006
Balance at the beginning of the year	16,582	12,953
Impairment on loans during the period	4,146	3,186
Exchange rate difference on translation	(341)	1,380
Write-offs during the period	(2,307)	(3,041)
Payment of loans previously written-off	132	452
Provision on loans at the end of the period	18,212	14,930

Included within interest income is ISK 568 million (31.12.2006: ISK 642 million) with respect of interest income accrued on impairment on financial assets and ISK 148 million (31.12.2006: ISK 161 million) with respect to the unwind of the impairment provision discount.

Non-performing loans are classified as aggregated exposures for which the Bank has made specific provisions in part or in full. Non-performing loans amounted at the end of September 2007 to ISK 27,493 million (31.12.2006: ISK 25,506 million), 0.90% of total loans to customers (31.12.2006: 1.00%).

Notes to the Consolidated Interim Financial Statements

Financial assets

22. Financial assets are specified as follows:

30.9.2007	Trading assets	Fin. assets designated at fair value	Fin. assets available for sale	Derivatives used for hedging	Total
<i>Bonds and debt instruments</i>					
Listed	8,784	355,430	0	0	364,214
Unlisted	33,163	14,353	0	0	47,516
Mortgage loans	0	8,206	0	0	8,206
Bonds and debt instruments	41,947	377,989	0	0	419,936
<i>Shares and instruments with variable income</i>					
Listed	51,798	28,900	0	0	80,698
Unlisted	10,592	74,524	152	0	85,268
Bond funds with variable income	5,451	1,281	0	0	6,732
Shares and instruments with variable income	67,841	104,705	152	0	172,698
<i>Derivatives</i>					
OTC derivatives	62,257	0	0	0	62,257
Futures	11	0	0	0	11
Other trading derivatives	22,975	0	0	0	22,975
Derivatives	85,243	0	0	0	85,243
<i>Derivatives used for hedging</i>					
Fair value hedge	0	0	0	8,947	8,947
Portfolio hedge of interest rate risk	0	0	0	5,580	5,580
Derivatives used for hedging	0	0	0	14,527	14,527
<i>Securities used for hedging</i>					
Bonds and debt instruments	53,925	0	0	0	53,925
Shares and equity instruments	165,458	0	0	0	165,458
Securities used for hedging	219,383	0	0	0	219,383
Financial assets	414,414	482,694	152	14,527	911,787

Notes to the Consolidated Interim Financial Statements

22. con'd

31.12.2006	Trading assets	Fin. assets designated at fair value	Fin. assets available for sale	Derivatives used for hedging	Total
<i>Bonds and debt instruments</i>					
Listed	26,208	246,620	0	0	272,828
Unlisted	3,559	31,369	0	0	34,928
Mortgage loans	0	10,508	0	0	10,508
Bonds and debt instruments	29,767	288,497	0	0	318,264
<i>Shares and instruments with variable income</i>					
Listed	77,638	33,931	0	0	111,569
Unlisted	2,471	34,559	164	0	37,194
Bond funds with variable income	8,835	1,422	0	0	10,257
Shares and instruments with variable income	88,944	69,912	164	0	159,020
<i>Derivatives</i>					
OTC derivatives	50,011	0	0	0	50,011
Futures	15	0	0	0	15
Other trading derivatives	15,428	0	0	0	15,428
Derivatives	65,454	0	0	0	65,454
<i>Derivatives used for hedging</i>					
Fair value hedge	0	0	0	2,953	2,953
Portfolio hedge of interest rate risk	0	0	0	3,500	3,500
Derivatives used for hedging	0	0	0	6,453	6,453
<i>Securities used for hedging</i>					
Bonds and debt instruments	66,732	0	0	0	66,732
Shares and equity instruments	47,011	2,195	0	0	49,206
Securities used for hedging	113,743	2,195	0	0	115,938
Financial assets	297,908	360,604	164	6,453	665,129

23. Bonds and debt instruments designated at fair value specified by issuer:	30.9.2007	31.12.2006
Financial institutes	293,026	270,879
Governments	3,162	1,032
Corporates	81,800	16,586
Bonds and debt instruments designated at fair value	377,988	288,497

Pledged assets

24. Pledged assets are specified as follows:

Mortgage loans in Kaupthing mortgages Fund	87,185	84,165
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In the ordinary course of business, the Bank enters into transactions that result in the transfer of financial assets to third parties or special entities. The Bank has transferred retail mortgage loans to the Kaupthing mortgages Fund, but has retained substantially all of the credit risk associated with the transferred assets, and continues to recognise these assets within loans to customers.

The Bank has entered into repurchase agreements that are conducted under terms usual and customary to standard lending, and stock borrowing and lending activities. Pledged assets according to these agreements amounted to ISK 212 billion at the end of September 2007 (31.12.2006: ISK 121 billion).

Notes to the Consolidated Interim Financial Statements

Investments in associates

25. Investment in associates are specified as follows:	30.9.2007	31.12.2006
Carrying amount at the beginning of the year	5,304	13,888
Additions during the period	1,155	5,400
Sold during the period	(493)	(11,868)
Transferred to associates	44,111	0
Profit share	2,515	1,194
Dividend received	(149)	(4,103)
Exchange rate difference	4,316	793
Carrying amount at the end of the period	56,759	5,304

Main associates are specified as follows:	Currency	Owner-ship	Book value
Storebrand ASA, Norway	NOK	20.0%	50,946
Drake Management LLC, USA	USD	20.0%	2,470
Valitor hf., Iceland	ISK	39.5%	1,788
Mezzanin Kapital A/S, Denmark	DKK	22.7%	454
FiNoble Advisors Private Ltd, India	USD	20.0%	308
Reiknistofa Bankanna, Iceland	ISK	17.3%	263
FMS Holding A/S, Denmark	DKK	25.0%	263
Other associates			267
Associates			56,759

On 14 May the Bank increased its holding in the Norwegian insurance and financial services company Storebrand ASA to 20.0% of the company's outstanding shares. This entails that the Bank will hereafter book 20.0% of Storebrand's earnings through the Income Statement. The effects of these changes, net of tax, were a decrease in equity of ISK 5,111 million. The investment, ISK 44,111, was transferred from shares and equity instruments to investments in associates.

On 18 June the Bank signed an agreement to acquire a 20.0% stake in the Indian investment services company FiNoble Advisors Private Ltd. with an option to acquire the remaining 80.0% in five years. The investment creates a foothold for the Bank in the fast growing Indian financial market.

Intangible assets

26. Intangible assets are specified as follows:	Goodwill	Other intangible assets	30.9.2007 Total	31.12.2006 Total
Balance at the beginning of the year	63,118	5,183	68,301	54,943
Exchange rate difference	(4,976)	(261)	(5,237)	13,880
Additions during the period	0	1,579	1,579	1,810
Impairment during the period	(75)	0	(75)	(1,270)
Amortisation during the period	0	(390)	(390)	(1,062)
Intangible assets	58,067	6,111	64,178	68,301

Investment property

27. Investment property are specified as follows:	30.9.2007	31.12.2006
Balance at the beginning of the year	31,584	24,156
Exchange rate difference	(1,200)	3,426
Additions during the period	433	3,475
Disposals through the sale of a subsidiary	(13,473)	0
Disposals during the period	0	(2,347)
Fair value adjustments	(166)	96
Transferred to investment property	8,707	2,778
Investment property at the end of the period	25,885	31,584

Notes to the Consolidated Interim Financial Statements

Other assets

28. Other assets are specified as follows:	30.9.2007	31.12.2006
Unsettled securities trading	148,078	90,427
Accounts receivables	18,899	8,617
Accrued income	16,088	8,004
Prepaid expenses	3,167	2,846
Non-current assets and disposal groups classified as held for sale	2,402	2,334
Sundry assets	5,703	5,646
Other assets	194,337	117,874

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

Financial liabilities measured at fair value

29. Financial liabilities measured at fair value are specified as follows:		
Trading liabilities	170,434	51,095
Derivatives used for hedging - portfolio hedge of interest rate risk	9,544	8,768
Mortgage funding measured at fair value	7,904	11,401
Financial liabilities measured at fair value	187,882	71,264

30. Trading liabilities are specified as follows:		
Short position in equity instruments held for trading	20,950	2,122
Derivatives held for trading	80,488	48,788
Repos and related agreements held for trading	68,996	0
Other liabilities held for trading	0	185
Trading liabilities	170,434	51,095

31. Derivatives used for hedging are specified as follows:		
Fair value hedge	1,470	1,070
Portfolio hedge of interest rate risk	8,074	7,698
Derivatives used for hedging	9,544	8,768

Borrowings

32. Borrowings are specified as follows:		
Bonds issued	1,639,981	1,762,483
Bills issued	128,758	156,203
Money market loans	495,589	373,285
Other loans	205,653	107,968
Borrowings	2,469,981	2,399,939

Included are Repurchase agreements with banks amounting to ISK 142,704 million at the end of the period compared to ISK 94,913 million at year end 2006.

Subordinated loans

33. Subordinated loans are specified as follows:	30.9.2007	31.12.2006
Tier I capital	71,356	51,817
Tier II capital	162,033	164,213
Subordinated loans	233,389	216,030

Notes to the Consolidated Interim Financial Statements

Other liabilities

34. Other liabilities are specified as follows:	30.9.2007	31.12.2006
Unsettled securities trading	105,945	91,661
Provisions	1,839	4,666
Accounts payable	6,699	4,410
Sundry liabilities	51,869	48,211
Other liabilities	<u>166,352</u>	<u>148,948</u>

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

Equity

35. Equity at the end of the period amounts to ISK 345,620 million. The equity ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 12.1%. According to the law the ratio may not be lower than 8.0%.

The ratio is calculated as follows:

	30.9.2007		31/12/2006	
	Book value	Weighted value	Book value	Weighted value
Risk base:				
Assets recorded in the Financial Statements	4,889,932	3,653,876	4,055,396	2,875,539
Assets deducted from equity		(122,350)		(66,922)
Guarantees and other items not included in the Balance Sheet		300,306		259,023
		<u>3,831,832</u>		<u>3,067,640</u>
Equity:				
Tier I capital:				
Equity		345,620		334,892
Intangible assets		(59,848)		(65,276)
Subordinated loans		71,356		51,817
Tier II capital:				
Subordinated loans		159,855		160,717
Investment in credit institutions		(52,144)		(21,324)
		<u>464,839</u>		<u>460,826</u>
Equity ratio		12.1%		15.0%
Thereof Tier I ratio		9.3%		10.5%

Notes to the Consolidated Interim Financial Statements

Derivatives

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

30.9.2007	Principal			Total	Book value	
	Up to 3 months	Over 3 months and up to a year	Over 1 year		Assets	Liabilities
Currency and interests rate derivatives, agreements unlisted:						
Forward exchange rate agreements	1,457,291	146,628	13,460	1,617,379	22,394	20,099
Interest rate and exchange rate agreements	511,382	779,591	2,733,710	4,024,683	47,171	48,402
Options - purchased agreements	99,490	22,671	58,137	180,298	4,211	0
Options - sold agreements	94,034	26,293	70,887	191,214	36	4,670
	<u>2,162,197</u>	<u>975,183</u>	<u>2,876,194</u>	<u>6,013,574</u>	<u>73,812</u>	<u>73,171</u>
Equity derivatives:						
Equity swaps, agreements unlisted	12,437	185,815	0	198,252	10,656	4,970
Equity options, purchased unlisted agreements	7,090	1,988	0	9,079	875	0
Equity options, sold unlisted agreements	8,289	5,025	0	13,314	0	87
Futures, agreements listed	2,237	0	0	2,237	0	0
	<u>30,053</u>	<u>192,828</u>	<u>0</u>	<u>222,881</u>	<u>11,531</u>	<u>5,057</u>
Credit derivative contracts:						
Credit default swap and Corporate Synthetic CDOs	2,564	203,101	87,476	293,141	62	4,256
Total rate of return swaps	0	0	47,330	47,330	3,001	0
	<u>2,564</u>	<u>203,101</u>	<u>134,806</u>	<u>340,471</u>	<u>3,063</u>	<u>4,256</u>
Bond derivatives:						
Bond swaps, agreements unlisted	0	64,921	0	64,921	4,507	255
Options - purchased agreements	122	2,141	7,938	10,201	6,857	0
Options - sold agreements	3	2,084	7,938	10,025	0	7,293
	<u>125</u>	<u>69,146</u>	<u>15,876</u>	<u>85,147</u>	<u>11,364</u>	<u>7,548</u>
Derivatives	<u>2,194,939</u>	<u>1,440,258</u>	<u>3,026,876</u>	<u>6,662,073</u>	<u>99,770</u>	<u>90,032</u>

Notes to the Consolidated Interim Financial Statements

36. con'd

31.12.2006	Principal			Total	Book value	
	Up to 3 months	Over 3 months and up to a year	Over 1 year		Assets	Liabilities
Currency and interests rate derivatives, agreements unlisted:						
Forward exchange rate agreements	1,428,174	137,042	4,879	1,570,095	13,178	12,575
Interest rate and exchange rate agreements	117,595	364,708	1,942,931	2,425,234	37,976	30,529
Options - purchased agreements	53,139	22,730	62,242	138,111	2,870	63
Options - sold agreements	48,438	24,876	40,738	114,052	93	2,452
	<u>1,647,346</u>	<u>549,356</u>	<u>2,050,790</u>	<u>4,247,492</u>	<u>54,117</u>	<u>45,619</u>
Equity derivatives:						
Equity swaps, agreements unlisted	35,888	9,076	4,886	49,850	8,430	3,369
Equity options, purchased unlisted agreements	4,308	0	2,700	7,008	90	73
Equity options, sold unlisted agreements	338	0	2,700	3,038	151	10
Futures, agreements listed	1,527	0	0	1,527	15	0
Contracts for differences	3,959	0	0	3,959	32	0
	<u>46,020</u>	<u>9,076</u>	<u>10,286</u>	<u>65,382</u>	<u>8,718</u>	<u>3,452</u>
Credit derivative contracts:						
Credit default swap and Corporate Synthetic CDOs	4,257	0	212,928	217,185	36	8
Total rate of return swaps	0	0	45,999	45,999	0	1,733
	<u>4,257</u>	<u>0</u>	<u>258,927</u>	<u>263,184</u>	<u>36</u>	<u>1,741</u>
Bond derivatives:						
Bond swaps, agreements unlisted	22,360	2,939	25,471	50,770	2,307	102
Options - purchased agreements	0	401	13,931	14,332	6,729	0
Options - sold agreements	0	401	13,931	14,332	0	6,717
	<u>22,360</u>	<u>3,741</u>	<u>53,333</u>	<u>79,434</u>	<u>9,036</u>	<u>6,819</u>
Derivatives	1,719,983	562,173	2,373,336	4,655,492	71,907	57,631

The objective of the above-mentioned agreements is to control currency and interest rate risk of the Bank. The credit risk is valued at ISK 65,847 million when calculating the capital ratio of the Bank at 30 September 2007 and ISK 30,575 million at 31 December 2006.

Off Balance Sheet information

Obligations

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

	30.9.2007	31.12.2006
Guarantees	260,021	324,929
Credit default swaps, investment grade	280,375	217,186
Unused overdrafts	58,139	50,927
Loan commitments	283,617	317,689

The credit risk is valued at ISK 200 billion at the end of the period (31.12.2006: ISK 226 billion) for guarantees, credit default swaps, unused overdrafts and loan commitments when calculating the capital ratio of the Bank.

Notes to the Consolidated Interim Financial Statements

Additional information

Assets under management and under custody

38. Assets under management and assets under custody are specified as follows:	30.9.2007	31.12.2006
Assets under management	1,616,579	1,403,376
Assets under custody	2,573,378	1,952,813

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

Related parties

39. The Bank has a related party relationship with its subsidiaries, associates, the Board of Directors of the parent company, the Managing Directors of the Bank, the Managing Directors of the largest subsidiaries, close family members of individuals referred to above and entities with significant influence as the largest shareholders of the Bank which are Exista and related companies (23.0%) and Eglå Invest BV. (9.9%). Information regarding related parties are as follows:

Significant related companies:

Loans:	30.9.2007	31.12.2006
Balance at the beginning of the year	109,556	36,888
Additions	27,359	91,274
Reductions	(68,802)	(18,606)
Balance at the end of the period	<u>68,113</u>	<u>109,556</u>

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

The Bank has granted loans to the board members and its key management. The outstanding balance of loans to the board members, management and close family members amounted to ISK 32,229 million at 30 September 2007 and ISK 17,716 million at 31 December 2006. The terms and conditions are similar for the board members and key management as loans granted to other customers of the Bank. The aforementioned amounts do not include loans related to the business activities of the board members and key management.

No unusual transactions took place with related parties in the first nine months of 2007.

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

Notes to the Consolidated Interim Financial Statements

Maturity of assets and liabilities

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

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with central banks	100,902	0	0	0	0	100,902
Loans to credit institutions	161,333	264,628	5,465	12,397	2,915	446,738
Loans to customers	302,435	653,715	368,131	993,825	732,564	3,050,670
Bonds and debt instruments	42,018	8,338	110,307	136,872	122,401	419,936
Shares and equity instruments	67,841	104,705	0	152	0	172,698
Derivatives	57	31,173	11,070	30,616	12,327	85,243
Derivatives used for hedging	0	3,333	137	3,840	7,217	14,527
Securities used for hedging	219,383	0	0	0	0	219,383
Investments in associates	0	0	0	0	56,759	56,759
Intangible assets	0	0	0	0	64,178	64,178
Investment property	0	0	0	0	25,885	25,885
Property and equipment	0	0	0	0	31,968	31,968
Tax assets	0	0	1,254	5,454	0	6,708
Other assets	148,313	0	45,840	184	0	194,337
Total Assets 30.9.2007	1,042,280	1,065,892	542,204	1,183,340	1,056,215	4,889,932
Total Assets 31.12.2006	693,178	900,669	394,934	1,033,881	1,032,734	4,055,396
Liabilities						
Due to credit institutions and central banks	29,605	81,885	16,345	27,871	1,859	157,565
Deposits	331,260	762,537	174,387	15,444	18,176	1,301,804
Financial liabilities measured at fair value	89,947	26,579	11,440	34,876	25,040	187,882
Borrowings	30	505,078	327,922	1,312,115	324,836	2,469,981
Subordinated loans	0	0	18,628	214,761	0	233,389
Tax liabilities	0	0	13,770	13,569	0	27,339
Other liabilities	105,945	0	49,207	11,200	0	166,352
Total Liabilities 30.9.2007	556,787	1,376,079	611,699	1,629,836	369,911	4,544,312
Total Liabilities 31.12.2006	336,083	1,004,574	608,811	1,179,243	591,793	3,720,504
Assets - liabilities 30.9.2007	485,495	(310,187)	(69,495)	(446,496)	686,303	345,620
Assets - liabilities 31.12.2006	357,095	(103,905)	(213,877)	(145,362)	440,941	334,892

Events after the Balance Sheet date

41. The Bank has entered into an agreement to purchase the entire share capital of NIBC NV for EUR 2,985 million. The purchase price will be paid in own shares amounted to EUR 1,360 million and with cash amounted to EUR 1,625 million. The acquisition is expected to be completed at the end of 2007.