KAUPTHING BANK

SECURITIES NOTE

SEPTEMBER 2007

SECURITIES NOTE

KAUPTHING BANK
SEPTEMBER 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 Bi lls 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 its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík 14 September 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, 14 September 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 1st half of 2007 has been reviewed without remarks by KPMG Endurskoðun hf., 590975-0449 Borgartúni 27, Reykjavík, the Company's independent auditor.
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 nine groups of Bills of Exchange issue total of ISK 180 billion, each group amounting the maximum ISK 20 billion, which is described in this Securities Note, unless otherwise clear from the context.

6. NOTICE TO INVESTORS

The Registration document and the appendices, which is a part of the prospectus dated 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). This Prospectus will be published on the OMX ICE's news web (http:// omxgroup.com/nordicexchange/Markadsfrettir/Fyrirtaekjatilkynningar/) when the Bills will be admitted to trading.

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 on 24 July 2007, the board of Kaupthing Bank hf. authorised the issue of twelve groups of money market bills for the year 2008, each to the amount of ISK 20,000,000,000.– twenty thousand million Icelandic krona per issue for a maximum of ISK 240 billion. At the date of this Securities Note the Issuer has issued bills in the amount of ISK 360,000,000.

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.
The characteristics of each series are further described in the following table:

Ticker symbol	Maturity Date	Issue Date	Issued Amount 6 September 2007	Yield at 6 September 2007	Denomination	ISIN Number
KAUP 08 0115	15 January 2008	6 September 2007	ISK 40,000,000	15,03%	ISK 5,000,000	IS0000015345
KAUP 08 0215	15 February 2008	6 September 2007	ISK 40,000,000	15,03%	ISK 5,000,000	IS0000015378
KAUP 08 0314	14 March 2008	6 September 2007	ISK 40,000,000	14,70%	ISK 5,000,000	IS0000015402
KAUP 08 0415	15 April 2008	6 September 2007	ISK 40,000,000	14,70%	ISK 5,000,000	IS0000015352
KAUP 08 0515	15 May 2008	6 September 2007	ISK 40,000,000	14,70%	ISK 5,000,000	IS0000015386
KAUP 08 0616	16 June 2008	6 September 2007	ISK 40,000,000	14,34%	ISK 5,000,000	IS0000015410
KAUP 08 0715	15 July 2008	6 September 2007	ISK 40,000,000	14,07%	ISK 5,000,000	IS0000015360
KAUP 08 0815	15 August 2008	6 September 2007	ISK 40,000,000	14,04%	ISK 5,000,000	IS0000015394
KAUP 08 0915	15 September 2008	6 September 2007	ISK 40,000,000	14,01%	ISK 5,000,000	IS0000015428

Nominal amount: ISK 180 billion, the maximum amount of each issue is 20 billion.
Interest rates: The Bills bear no interest.
Calculation agent: Kaupthing Bank hf.

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 the relevant financial institution where the registered owner has his/her VS account.

Indication of yield: The yield will depend on market conditions at any given time. Information on the indication of the yield can be obtained form the Capital Markets division of the Issuer, Borgartún 19, 105 Reykjavik. The yield for each series shown in the table above is as quoted on 6 September 2007.

Restrictions on transfer: There are no restrictions on transferring the Bills to other parties.

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. 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. 33/2003, 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, 17 September 2007.
The expenses related the listing of the Bills is ISK 4,050,000 (each group 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 ten countries, including all the Nordic countries, the UK, Luxembourg, Switzerland and the US
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 2,970 people in ten countries at the end of 30.06.2007.
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 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

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

a. The interim accounts of Kaupthing bank hf. for H1 2007.

Copies of the interim accounts of Kaupthing bank hf. for H1 2007 can be obtained at the Issuer´s office at Borgartún 19, Reykjavík, Iceland and its websites (www.kaupthing.is and www.kaupthing.com).

FINANCIAL REPORT 2006

PROFITABILITY

Kaupthing Bank reported a profit before income tax of ISK 101,083 million in 2006, compared with ISK 62,284 million in 2005. Shareholders' net earnings totalled ISK 85,302 million in 2006, compared with ISK 49,260 million in 2005, an increase of 73.2%. Earnings per share in 2006 were ISK 127.1, compared with ISK 75.2 in 2005.

INCOME

Operating income in 2006 totalled ISK 167,216 million, an increase of 63.6% compared with 2005. The increase in operating income when deducting financial income from the sale of the Bank's holding in Exista in connection with the listing of the company (ISK 26,084 million) and capital gains from the sale of the Bank's entire holding in VÍS hf. (ISK 7,421 million) is 31.8%

Net interest income in 2006 totalled ISK 52,362 million, an increase of 60.1% compared with 2005. This increase is mainly attributable to the consolidation of Kaupthing Singer & Friedlander (previously Singer & Friedlander) into the Bank's accounts from the third quarter of 2005. Rising inflation in Iceland and the partially depreciation of the ISK during the period also had a considerable impact.

The net interest margin, or interest income less interest expenses as a percentage of average total interest earning assets, was 1.77% during 2006, compared with 1.86% in 2005. Net interest margin decreased as a result of a number of factors, i.e. the Bank's decision to increase its liquidity (with excess liquidity invested in lower interest bearing assets) and less favourable conditions in the funding markets compared with 2005. The table below shows net interest income by country:

ISK Millions	*Net interest income*
Iceland	16,592
Scandinavia	17,311
UK	12,098
Luxembourg	4,884
Other	1,477
Total	**52,362**

The net interest spread (calculated as the average rate on total interest bearing assets less average cost of total interest bearing liabilities) was 1.80% during 2006, compared to 1.92% in 2005. This decrease was partially due to increased interest expenses related to a higher spread on issued bonds and borrowings, which was offset by increased interest income from inflation-linked Icelandic mortgages as a result of overall higher inflation in 2006 compared with 2005 and from the depreciation of the ISK.

Net commission income in 2006 totalled ISK 37,284 million, an increase of 66.2% compared with 2005. Thereof ISK 4.418 million is attributable to the increase in commission income in Iceland and ISK 2.346 million to the consolidation of Kaupthing Singer & Friedlander into the Bank's accounts from the third quarter of 2005. Net commission income for the fourth quarter amounted to ISK 11,866 million, an increase of 91.3% compared with the fourth quarter of 2005. This increase is due to a general increase in commission income at all the Bank's profit centres.

Net financial income, which includes dividend income, net gain on financial assets/liabilities at fair value, net gain on financial assets/liabilities not at fair value and net foreign exchange difference, totalled ISK 60,157 million in 2006, an increase of ISK 22,875 million from 2005. The main reason for this increase is net financial income from the sale of the Bank's holding in Exista in connection with the listing of the company on the Iceland Stock Exchange. Dividend income was mainly from the Bank's shareholdings in Icelandic and Scandinavian companies.

Other income totalled ISK 17,413 million in 2006, compared with ISK 9,779 million in 2005. Thereof ISK 7,421 million was generated by the sale of the Bank's entire holding in VÍS during the second quarter. This item also includes net earnings from associated companies of ISK 1,194 million and income from Kaupthing Singer & Friedlander's operating leases of ISK 4,128 million in 2006.

EXPENSES

Operating expenses totalled ISK 60,006 million in 2006, an increase of 68.9% from 2005. The increase between years is partly due to the inclusion of Kaupthing Singer & Friedlander in the consolidated accounts from the third quarter of 2005. Furthermore, there has been a sharp increase in the number of employees and a general increase in the Bank's activities. The 23.1% depreciation of the ISK has also raised operating expenses.

The cost-to-income ratio in 2006 was 35.9%, compared with 34.8% in 2005. Operating expenses for the fourth quarter of 2006 amounted to ISK 18,846 million, increasing by 65.4% compared with the fourth quarter of 2005. The cost-to-income ratio for the fourth quarter was 46.1%, compared with 34.9% in the fourth quarter of 2005.

Salaries and related expenses in 2006 totalled ISK 33,570 million, increasing by 65.2% from 2005. This increase is primarily due to the consolidation of Kaupthing Singer & Friedlander into the group from the third quarter of 2005, which at the time employed 519 people. The increase in salary expenses is also partly explained by a general increase in the number of employees and performance related payments made during the year. The Bank also entered a one-off expense of ISK 590 million in connection with the establishment of Capital Markets units at its UK and Danish subsidiaries and the expansion of its Investment Banking unit in Denmark. Salaries and related expenses for the fourth quarter of 2006 totalled ISK 10,572 million, an increase of 54.6% compared with the fourth quarter of 2005. The number of full-time equivalent positions at the Bank was 2,719 on 31 December 2006, compared with 2,368 on 31 December 2005, an increase of 351 or 15%.

Other operating expenses amounted to ISK 26,437 million in 2006, increasing by ISK 11,230 million from 2005, or 73.8%. In addition to costs associated with the consolidation of Kaupthing Singer & Friedlander into the group during the third quarter of 2005 and the UK subsidiary's integration with the group, the rise in costs is a result of a general increase in activities at most of the Bank's offices.

Impairment on loans amounted to ISK 4,857 million in 2006, compared with ISK 2,450 million in 2005. The main reason behind this increase is a rise in loan losses at Kaupthing Singer & Friedlander. Notwithstanding this impairment, impairments have generally remained stable, reflecting the increased quality of the Bank's loan portfolio, despite a 64.4% increase in the size of the loan portfolio.

Impairment on intangible assets totalled ISK 1,270 million in 2006, all in Kaupthing Singer & Friedlander's asset management business in the UK.

Income tax expense amounted to ISK 14,636 million in 2006, compared with ISK 11,228 million in 2005.

INTERIM REPORT FOR THE FIRST HALF 2007

PROFITABILITY

Kaupthing Bank reported earnings before income tax of ISK 56,644 million during the first half of 2007, compared with ISK 37,487 million during the same period in 2006. Shareholders' net earnings totalled ISK 45,765 million during the first half of 2007, compared with ISK 31,832 million during the same period in 2006, an increase of 43.8%. Earnings per share during the first half were ISK 62.2, compared with ISK 47.9 during the same period in 2006.

INCOME

Operating income during the first half of 2007 totalled ISK 95,866 million, an increase of 44.1% compared with the same period in 2006. Operating income during the second quarter of 2007 totalled ISK 51,807 million, up by 66.8% compared with the same period in 2006.

Net interest income during the first half of 2007 totalled ISK 36,115 million, an increase of 45.2% compared with the same period of 2006. Net interest income during the second quarter amounted to ISK 19,849 million, increasing by 38.0% 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 generated by the favourable terms of funding secured by the Bank.

The net interest margin, or interest income less interest expense as a percentage of average total interest earning assets, was 1.87% during the first half of 2007, compared with 1.80% during the same period of 2006. The table below shows net interest income by geographical location:

ISK Millions	H1 2007	H1 2006	Change	*ISK Millions*	Q2 2007	Q2 2006	Change
Iceland	12,479	7,925	57%	Iceland	7,827	5,620	39%
Scandinavia	9,870	7,802	27%	Scandinavia	4,748	4,177	14%
UK	9,698	6,284	54%	UK	5,207	3,148	65%
Luxembourg	3,240	2,285	42%	Luxembourg	1,731	1,126	54%
Other	828	573	45%	Other	337	313	8%
Total	**36,115**	**24,869**	**45%**	**Total**	**19,849**	**14,384**	**38%**

The net interest spread (calculated as the average rate on total interest earning assets less average cost of total interest bearing liabilities) was 1.94% during the first half of 2007, compared with 1.87% during the same period in 2006.

Net fee and commission income during the first half of 2007 totalled ISK 27,525 million, an increase of 54.8% compared with the first half of 2006. Net fee and commission income during the second quarter of 2007 totalled ISK 15,189 million, an increase of 65.4% compared with the second quarter of 2007. This increase is due to an increase in the Bank's activities in all its markets and favourable market conditions. The table below shows net fee and commission income by geographical location:

ISK Millions	H1 2007	H1 2006	Change	*ISK Millions*	Q2 2007	Q2 2006	Change
Iceland	10,668	6,336	68%	Iceland	5,708	3,179	80%
Scandinavia	3,626	2,826	28%	Scandinavia	1,871	1,212	54%
UK	9,418	4,971	89%	UK	5,509	2,753	100%
Luxembourg	3,163	2,521	25%	Luxembourg	1,634	1,128	45%
Other	650	1,132	-43%	Other	466	912	-49%
Total	**27,525**	**17,786**	**55%**	**Total**	**15,189**	**9,184**	**65%**

Net fee and commission income during the first half of 2007 totalled ISK 27,525 million, an increase of 54.8% compared with the first half of 2006. Net fee and commission income during the second quarter of 2007 totalled ISK 15,189 million, an increase of 65.4% compared with the second quarter of 2007. This increase is due to an increase in the Bank's activities in all its markets and favourable market conditions.

Net financial income, which includes dividend income, net gain on financial assets and liabilities at fair value, net gain on financial assets and liabilities not at fair value and net foreign exchange gain, totalled ISK 24,228 million during the first half of 2007, an increase of 13,330 compared with the same period in 2006. Net financial income during the second quarter amounted to ISK 10,772 million, compared with a net financial loss of ISK 2,607 million during the second quarter of 2006. Dividend income was mainly
from the Bank's shareholdings in Icelandic and Scandinavian companies. Net gain on financial assets is specified as follows by geographical location:

January - June 2007	Iceland	Scandinavia	UK	Luxembourg	Other	Total
Net gain from bonds and fixed income securities	743	9	260	-229	0	783
Net gain from equity and variable income securities	6,059	9,142	2,859	82	- 42	18,100
Net gain from derivatives	-1,488	208	242	923	0	-115
Net gain from hedge accounting instruments	0	389	4	0	0	393
Total	**5,314**	**9,749**	**3,365**	**776**	**- 42**	**19,161**
Dividend income	1,997	2,991	41	34	4	5,067
Net financial income total	**7,311**	**12,740**	**3,405**	**810**	**- 38**	**24,228**

Q2 2007	Iceland	Scandinavia	UK	Luxembourg	Other	Total
Net gain from bonds and fixed income securities	885	- 503	114	- 212	0	284
Net gain from equity and variable income securities	3,756	67	2,219	8	11	6,061
Net gain from derivatives	421	231	- 169	449	0	932
Net gain from hedge accounting instruments	0	283	3	0	0	286
Total	**5,062**	**78**	**2,167**	**245**	**11**	**7,563**
Dividend income	718	2,441	18	29	4	3,209
Net financial income total	**5,780**	**2,519**	**2,184**	**274**	**15**	**10,772**

Other income totalled ISK 7,998 million during the first half of 2007, compared with ISK 12,962 million for the same period in 2006. This item mainly includes profit from the Bank's sale of its wholly-owned subsidiary Eik fasteignafélag hf. at the beginning of April 2007, which totalled 4,262 million before income tax. It also includes net earnings from associated companies of ISK 757 million and income from Kaupthing Singer & Friedlander's operating leases of ISK 2,269 million. The decrease in this item during the first half of 2007 from the same period of 2006 is due to the fact that profit from the sale of the Bank's holding in VÍS eignarhaldsfélag hf. (VÍS) was booked during the previous period, a income of ISK 7,421 million.

Expenses
Operating expenses totalled ISK 36,724 million during the first half of 2007, an increase of 34.2% compared with the same period in 2006. Operating expenses for the second quarter totalled ISK 19,017 million, increasing by 28.5% compared with the second quarter of 2006. The increase between years is due to the sharp increase in the number of employees and a general increase in the Bank's activities. The cost-to-income ratio during the second quarter of 2007 decreased to 36.7%, compared with 47.7% for the same period in 2006.

Salaries and related expenses during the first half of 2007 totalled ISK 22,367 million, increasing by 42.6% compared with the same period in 2006. Salaries and related expenses during the second quarter totalled ISK 11,833 million, an increase of 43.2% compared with the second quarter of 2006. This increase between years is primarily due to a significant increase in the number of employees and performance related payments made during the period. The number of full-time equivalent positions at the Bank was 2,970 on 30 June 2007, compared with 2,568 on 30 June 2006, an increase of 402 or 15.6%.

Other operating expenses amounted to ISK 11,002 million during the first half of 2007, increasing by ISK 2,357 million compared with the same period in 2006. Other operating expenses during the second period in 2006. The rise in costs is a result of a general increase in activities at most of the Bank's offices.

Impairment on loans amounted to ISK 2,498 million during the first half of 2007, compared with ISK 1,671 million for the same period in 2006. This increase is primarily explained by the growth of the Bank's loan portfolio which grew by 17.4% between 30 June 2006 and 30 June 2007. Another contributing factor is higher provisions on collective assessment.

Income tax expense amounted to ISK 9,888 million during the first half of 2007, which corresponds to 17.5% of earnings before income tax, compared with ISK 5,213 million during the same period in 2006, or 13.9% of earnings before income tax.

KEY FIGURES – KAUPTHING HF.

CONSOLIDATED INCOME STATEMENT IN ISK

	Jan-Jun 2007	Jan-Jun 2006	Change
Interest income	134,183	83,527	50,656
Interest expense	-98,068	-58,659	-39,409
Net interest income	36,115	24,868	11,247
Fee and commission income	34,110	18,979	15,130
Fee and commission expense	-6,585	-1,193	-5,392
Net fee and commission income	27,525	17,786	9,739
Net financial income	24,228	10,898	13,330
Share of profit of associates	757	908	-152
Other operating income	7,241	12,054	-4,812
Operating income	95,866	66,515	29,351
Salaries and related expenses	-22,367	-15,683	-6,684
Administration expenses	-11,002	-8,645	-2,357
Depreciation and amortisation	-2,999	-2,815	-184
Other operating expenses	-356	-214	-142
Impairment on loans	-2,498	-1,671	-827
Earnings before income tax	56,644	37,486	19,157
Income tax expense	-9,888	-5,213	-4,675
Net earnings	46,756	32,274	14,482
Attributable to:			
Shareholders of Kaupthing Bank hf.	45,765	31,832	13,934
Minority interest	991	442	549
Net earnings	46,756	32,273	14,483

CONSOLIDATED BALANCE SHEET

Assets

The Bank's total assets on 30 June 2007 amounted to ISK 4,570.4 billion, increasing by ISK 515.0 billion or 12.7% from the beginning of the year. Taking into account the 11.8% strengthening of the ISK during the first half of 2007, the Bank's total assets increased by 23.3% during the period.

Loans to customers increased from ISK 2,538.6 billion to ISK 2,609.1 billion, or by 2.8%, from the beginning of the year (13.5% at a fixed exchange rate) whilst loans from credit institutions increased from ISK 485.3 billion to ISK 684.2 billion, an increase of 41.0% (an increase of 54.0% at a fixed exchange rate). Housing loans to individuals in Iceland at the end of June represented 5.3% of the total loans to customers. The average loan to value (LTV) was 57%

The acquisition and leveraged finance portfolio ("ALF portfolio") increased from ISK 512.4 billion to ISK 517,7 billion, or by 1.0%, from the beginning of the year and represents 20% of total loans to customers. The ALF portfolio comprises 143 loans and the five largest represent 28% of the total 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 80% were provided in connection with projects led or co-led by Kaupthing Bank.

Financial assets as of 30 June 2007 totalled ISK 861.9 billion, increasing by ISK 196.8 billion from the beginning of the year, or 29.6%. Taking into account the appreciation of the ISK there was a 41.9% increase. Bonds and other interest-bearing assets totalled ISK 399.8 billion on 30 June 2007 and had increased by 25.6% from the beginning of the year. Positions in shares and other variable income assets amounted to ISK 141.4 billion on 30 June 2007. Furthermore the Bank holds shares as hedge against derivatives amounting to ISK 182.0 billion. The Bank is furthermore not exposed to market risk of ISK 6.9 billion due to minority interests in the Bank's subsidiary Norvestia in Finland. Listed shares amounted to ISK 70.1 billion or 1.5% of the Bank's total assets as of 30 June 2007. Of this total, ISK 18.2 billion is in the form of shares listed on the OMX Nordic Exchange in Iceland, or 26.0%.

Holdings in unlisted shares totalled ISK 60.8 billion, or 1.3% of the Bank's total assets as of 30 June 2007, compared with 0.9% at the beginning of the year. The Bank's five largest positions in unlisted shares represented approximately 41% 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
Síminn hf.	Iceland	Telecommunications	28%
Lotus	US	Real Estate	33%
ADP	UK	Healthcare	40%
Icopal Holding A/S	Denmark	Manufacturing	15%
SPRON	Iceland	Financial institution	5%

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.

The Board of Directors resolved during the fourth quarter 2006 that the Bank's holdings in listed and unlisted shares (Shares and equity funds) should be less than 35% of the Bank's risk capital. As of 30 June the ratio totalled 27.5%. Thereof, the ratio of listed shares was 14.0% and unlisted shares 13.5% 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 106.1 billion as of 30 June 2007 and decreased by 10.0% from the beginning of the year. This decrease is mainly due to a decrease in unsettled transactions.

Liabilities and equity

Liabilities to credit institutions and central banks totalled ISK 170.1 billion as of 30 June 2007 and increased by ISK 59.6 billion or 54.0% from the beginning of the year.

Deposits amounted to ISK 1,210.2 billion as of 30 June 2007, increasing by ISK 459.6 billion from the beginning of the year, or by 61.2%. Deposits increased by 72.2% taking into account the 11.8% appreciation of the ISK so far this year. Deposits represented 26.5% of the Bank's total assets as of 30 June 2007, compared with 18.5% at the beginning of the year. Deposits as a ratio of loans to customers equalled 46.4% at the end of June, compared with 29.6% at the beginning of the year.

Borrowings amounted to ISK 2,374.6 billion as of 30 June 2007, compared with ISK 2,399.9 billion at the beginning of the year, a decrease of ISK 25.4 billion or 1.1%. Borrowings increased by 10.8%, taking into account the 11.8% appreciation of the ISK so far this year.

Shareholders' equity amounted to ISK 324.4 billion as of 30 June 2007, compared with ISK 323.5 billion at the beginning of the year, an increase of ISK 0.9 billion or 0.3%. The 11.8% appreciation of the ISK during the first half 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 from that day the investment is reported as an associated company. This results in ISK 5.1 billion decrease in equity in accordance with IFRS.

The Bank´s equity base was ISK 451.0 billion as of 30 June 2007. The CAD ratio was 13.4% as of 30 June 2007, compared with 15.0% at the beginning of the year. Tier 1 capital was 10.3% 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% and the CAD ratio at least 11.0%.

Assets	30.06.2007	31.12.2006	Change
Cash and balances with central banks	145,011	106,961	36%
Loans to credit institutions	684,191	485,334	41%
Loans to customers	2,609,107	2,538,609	3%
Bonds and debt instruments	399,846	318,264	26%
Shares and instruments with variable income	141,404	159,020	-11%
Derivatives	68,267	65,454	4%
Derivatives used for hedging	5,810	6,453	-10%
Securities used for hedging	246,566	115,938	113%
Investments in associates	50,877	5,304	859%
Intangible assets	62,504	68,301	-8%
Investment property	16,437	31,584	-48%
Property and equipment	27,814	30,466	-9%
Tax assets	6,442	5,834	10%
Other assets	106,078	117,874	-10%
Total Assets	4,570,354	4,055,396	13%
Liabilities			
Due to credit institutions and central banks	170,093	110,456	54%
Deposits	1,210,247	750,658	61%
Financial liabilities measured at fair value	110,879	71,264	56%
Borrowings	2,374,555	2,399,939	-1%
Subordinated loans	223,802	216,030	4%
Tax liabilities	23,921	23,209	3%
Other liabilities	122,122	148,948	-18%
Total Liabilities	4,235,619	3,720,504	14%
Equity			
Share capital	7,373	7,321	1%
Share premium	167,380	164,028	2%
Reserves	-15,744	17,220	-191%
Retained earnings	165,352	134,941	23%
Total Shareholders' Equity	324,361	323,510	0%
Minority interest	10,374	11,382	-9%
Total Equity	334,735	334,892	0%
Total Liabilities and Equity	4,570,354	4,055,396	13%

Middle East Offices
In March 2007 Kaupthing started to prepare activities in the Middle East. Operations will be based in the Gulf and Kaupthing Bank is currently in discussions with regulatory authorities in the region to obtain necessary licences. The Bank will initially focus on investment banking and wealth management in this region.
Kaupthing has appointed Umar Ali as Managing Director of operations in the Middle East. Kaupthing expects to employ approximately 10-15 people in the area during the first year.

Eik fasteignafélag
In March 2007 Kaupthing reached an agreement with Eikarhald ehf. on the sale of all the share capital of Eik fasteignafélag hf. The transaction was completed on 4 April 2007 when the payment and delivery of the shares to the new owners was executed. The purchase price was paid in cash. Eikarhald ehf. is owned by Baugur Group hf. (22.7%), FL Group hf. (49%), Fjárfestingafélagid Primus ehf. (10.15%) and Saxbygg ehf. (18.15%).
Kaupthing Bank generated a profit of approximately ISK 4 billion on this transaction, which was booked in the second quarter of 2007.

Storebrand
On 14 May Kaupthing Bank hf's shareholding in the Norwegian insurance and financial services company Storebrand ASA reached 20.00% of the company's outstanding shares. Kaupthing now holds 49.963.821 shares in Storebrand. Kaupthing has decided to treat Storebrand as an associated company in its accounts.

FiNoble Advisors in India
On 18 June, Kaupthing Bank signed an agreement to acquire a 20% stake in the Indian investment services company FiNoble Advisors Private Ltd. (FiNoble) with an option to acquire the remaining 80% in five years. The investment creates a foothold for Kaupthing in the fast growing Indian financial market. Kaupthing will treat FiNoble as an associated company in its accounts. The acquisition will have an insignificant effect on Kaupthing's results this year.

NIBC
On 15 August, Kaupthing announced it intends to purchase the entire share capital of NIBC Holding NV for EUR 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 focused on the mid-cap segment in Western Europe with a global distribution network. The Bank has 718 full-time employees and offices in The Hague, London, Brussels, Frankfurt, New York and Singapore. NIBC, which was founded in 1945, offers innovative corporate finance, banking and investment management solutions to corporate clients, financial institutions, institutional investors and family offices. NIBC is presently owned by a consortium of shareholders led by J.C. Flowers & Co. LLC.

The expected acquisition 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.

Transaction Terms and Financing
The purchase price of EUR 2,985 million represents 12.7x NIBC's last twelve months net income and 1.5x NIBC's shareholders' equity as at 30 June 2007.
The purchase consideration will be structured as follows:
- 110 million of newly issued Kaupthing shares at SEK 115.375 per share for an aggregate value of EUR 1,360 million will be issued to the Sellers in relation to completion. The Sellers will become the second largest shareholder in Kaupthing. These shares will be subject to a customary lock-up arrangement whereby all will be restricted for 12 months from closing, tapering to approximately 48 million for 24 months.
- Cash consideration of EUR 1,625 million financed from existing cash resources, an issue of Tier 1 hybrid instruments and proceeds from an issuance of 40 million new shares (via a pre-emptive rights issue). The rights issue is expected to take place early next year.