

Kaupthing Bank's results for the first half of 2007

Net earnings of ISK 46.8 billion (€533 million)

- ◆ Shareholders' net earnings increased by 43.8% to ISK 45.8 billion in 1H
- ◆ Return on equity in first half of 32.0% on an annualised basis. Earnings per share of ISK 62.2 during the first half – compared with ISK 47.9 in same period of 2006
- ◆ Shareholders' net earnings in Q2 up 95.5% to ISK 25.5 billion (€294.7 million)
- ◆ Operating income in Q2 increased by 66.8% to ISK 51.8 billion
- ◆ Net interest income in Q2 up by 38.0% to ISK 19.8 billion
- ◆ Net fee and commission income in Q2 grew by 65.4% to ISK 15.2 billion
- ◆ Operating expenses in Q2 rose by 28.5% to ISK 19.0 billion
- ◆ Cost/income ratio in Q2 was 36.7%
- ◆ Kaupthing Bank booked ISK 4.3 billion profit from the sale of its subsidiary Eik fasteignafélag hf. during Q2
- ◆ Total assets of ISK 4,570.4 billion (€54.3 billion) at the end of June 2007, increasing by 23.3% at a fixed exchange rate from the beginning of the year and by 12.7% in ISK

Hreidar Már Sigurdsson, CEO

"Kaupthing Bank went from strength to strength during the second quarter and all the Bank's main offices produced solid results. The vigorous growth of fee and commission income and net interest income was a key feature of the second quarter. The increase in deposits at the Bank is a source of particular satisfaction, and deposits now represent 46% of loans to customers. We have put considerable effort into building our businesses in the UK, and we have seen a complete turnaround at Kaupthing Singer & Friedlander. The performance of all our main business segments has exceeded our expectations. The Bank's pipeline is robust and the outlook for the rest of the year is positive."

Key figures

ISK billions	H1 2007	H1 2006	Change	Q2 2007	Q1 2007	Change	Q2 2007	Q2 2006	Change
Operating income	95.9	66.5	44%	51.8	44.1	18%	51.8	31.1	67%
Operating expenses	36.7	27.4	34%	19.0	17.7	7%	19.0	14.8	28%
Shareholders' net earnings	45.8	31.8	44%	25.5	20.3	26%	25.5	13.0	96%
Cost/income ratio	38.3%	41.1%		36.7%	40.2%		36.7%	47.7%	
Earnings pr. share, ISK	62.2	47.9	30%	34.6	27.4	26%	34.6	19.6	76%
Return on equity	32.0%	36.2%		36.6%	27.6%		36.6%	26.7%	

Income Statement

<i>ISK millions</i>	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net interest income	19,849	16,265	14,806	12,687	14,384	10,484
Net fee and commission income	15,189	12,337	11,866	7,632	9,184	8,602
Net financial income	10,772	13,456	12,003	37,256	-2,607	13,505
Other income	5,996	2,002	2,241	2,210	10,102	2,860
Operating income	51,807	44,059	40,915	59,785	31,064	35,451
Salaries and related expenses	-11,833	-10,534	-10,572	-7,315	-8,263	-7,420
Other administrative expenses	-7,184	-7,173	-8,274	-6,488	-6,542	-5,133
Operating expenses	-19,017	-17,707	-18,846	-13,803	-14,805	-12,553
Impairment	-1,075	-1,423	-1,637	-2,820	-961	-710
Earnings before income tax	31,715	24,929	20,433	43,163	15,299	22,188
Income tax	-5,653	-4,236	-1,793	-7,630	-2,618	-2,595
Net earnings	26,062	20,694	18,640	35,533	12,680	19,593
Shareholders of Kaupthing Bank	25,484	20,281	18,077	35,393	13,035	18,798
Minority interest	578	413	564	140	-354	796
Earnings per share, ISK	34.6	27.4	26.1	53.4	19.6	28.3

Balance Sheet

<i>ISK billions</i>	30/6/07	31/12/06		30/6/07	31/12/06
Cash bal. with central banks	145	107	Due to credit institutions	170	110
Loans to credit institutions	684	485	Deposits	1,210	751
Loans to customers	2,609	2,539	Financial liabilities at FV	111	71
Bonds and debt instruments	400	318	Borrowings	2,375	2,400
Shares and equity instruments	141	159	Subordinated loans	224	216
Derivatives	68	65	Tax liabilities	24	23
Derivatives used for hedging	6	6	Other liabilities	122	149
Securities used for hedging	247	116	Minority interest	10	11
Investment in associates	51	5	Shareholders' equity	324	324
Intangible assets	63	68			
Investment property	16	32			
Property and equipment	28	30			
Tax assets	6	6			
Other assets	106	118			
Total Assets	4,570	4,055	Total Liabilities and Equity	4,570	4,055

Results by profit centers

January-June 2007

<i>ISK millions</i>	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Eliminations and cost centers	Total
Net interest income	-41	-2,045	9,312	29,114	532	-758	36,115
Net fee and commission income	10,843	7,250	73	2,796	6,489	74	27,525
Net financial income	16,441	5,651	809	216	151	959	24,228
Other income	98	30	111	3,176	-54	4,638	7,998
Operating income	27,341	10,887	10,306	35,302	7,118	4,913	95,866
Operating expenses	-5,218	-1,847	-2,261	-9,160	-3,674	-14,564	-36,724
Impairment	1	0	6	-2,507	0	1	-2,498
Total expenses	-5,216	-1,847	-2,255	-11,666	-3,674	-14,563	-39,222
Earnings before cost allocation	22,125	9,040	8,050	23,635	3,443	-9,650	56,644
Allocated cost	-2,054	-782	-1,102	-4,706	-2,005	10,649	0
Earnings before income tax	20,071	8,258	6,949	18,929	1,438	999	56,644

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 11.8% during the first half of 2007. The strengthening of the ISK therefore reduces the real growth of income and expenses as well as assets and liabilities.

Earnings

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.

Kaupthing Bank reported earnings before income tax of ISK 31,715 million during the second quarter of 2007, compared with ISK 15,299 million during the same period in 2006. Shareholders' net earnings totalled ISK 25,484 million during the second quarter of 2007, compared with ISK 13,035 million during the same period in 2006, an increase of 95.5%. Earnings per share during the second quarter were ISK 34.6, compared with ISK 19.6 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:

<i>ISK Millions</i>	H1 2007	H1 2006	Change	<i>ISK Millions</i>	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 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 approximately 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.

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

quarter totalled ISK 5,487 million, increasing by ISK 591 million or 12.1% compared with the same 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.

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
Siminn 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 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 11.8% appreciation of the ISK so far this year resulted in a decrease in equity reserves 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 8.0% and the CAD ratio at least 11.0%.

As of 30 June 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 June 2007 was 33,196. The Bank's largest shareholders are Exista and Kjalmar. Exista and related companies own a total holding of 23.0%, and Kjalmar and related companies own a 9.9% holding.

Operating results of Kaupthing Bank's business segments

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

All of the Bank's business segments made a profit before income tax during the second quarter of 2007. The highest profit before income tax during the quarter was reported by Banking, with ISK 10,812 million. Capital Markets reported earnings before income tax of ISK 10,249 million, Treasury ISK 4,407 million, Investment Banking ISK 2,963 million and Asset Management & Private Banking reported earnings of ISK 663 million. The table below shows the operating results of the Bank's business segments for the second quarter.

<i>ISK millions - Q2 2007</i>	Banking	Capital Markets	Treasury	Investment Banking	Asset management and Private banking	Eliminations and other cost centers	Total
Net interest income	15,691	524	4,884	-950	208	-508	19,849
Net fee and commission income	1,538	6,717	149	3,767	3,075	-57	15,189
Net financial income	122	6,663	1,251	1,671	123	942	10,772
Other income	1,620	42	44	-34	-135	4,460	5,996
Operating income	18,972	13,945	6,328	4,454	3,271	4,837	51,807
Operating expenses	-4,779	-2,806	-1,386	-1,140	-1,672	-7,235	-19,017
Impairment	-1,082	1	6	0	0	0	-1,075
Total expenses	-5,861	-2,805	-1,380	-1,140	-1,672	-7,235	-20,092
Earnings before cost allocation	13,111	11,140	4,948	3,314	1,599	-2,397	31,715
Allocated cost	-2,299	-890	-541	-351	-935	5,017	0
Earnings before income tax	10,812	10,249	4,407	2,963	663	2,619	31,715

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 10,812 million for the second quarter of 2007, a record figure for a single quarter. Operating income totalled ISK 18,972 million, an increase of 16.2% compared with the first quarter of 2007. The rise in net interest income is due to the growth of the Bank's loan portfolio and a higher interest margin, partly due to favourable terms of funding, and also due to an increase in deposits at Banking. Total expenses amounted to ISK 5,861 million, nearly unchanged from the first quarter of 2007. Impairments decreased by 24.0% from the first quarter of 2007.

<i>ISK millions</i>	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Net interest income	15,691	13,423	12,471	11,959	11,264
Net fee and commission income	1,538	1,257	1,662	1,560	1,389
Net financial income	122	94	320	63	164
Other income	1,620	1,555	1,712	1,722	1,977
Operating income	18,972	16,329	16,165	15,305	14,794
Operating expenses	-4,779	-4,380	-4,602	-3,630	-3,433
Impairment	-1,082	-1,425	-1,621	-1,684	-841
Total expenses	-5,861	-5,805	-6,223	-5,313	-4,274
Earnings before cost allocation	13,111	10,524	9,942	9,992	10,520
Allocated cost	-2,299	-2,407	-2,963	-1,567	-2,181
Earnings before income tax	10,812	8,117	6,979	8,425	8,339

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 10,249 million for the second quarter of 2007, a record figure for a single quarter. Operating income amounted to ISK 13,945 million, compared with ISK 13,396 million in the first quarter of 2007. Higher 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 524 million during the quarter, a significant change from past figures. This is mainly because inflation in Iceland was considerably higher during the second quarter than in the previous quarter. In addition the Bank has reduced its holding in listed equities. Net financial income decreased sharply between quarters as the first quarter was particularly strong, chiefly due to the Bank's holding in the Norwegian insurance and financial services company Storebrand, which is now an associated company in the Bank's accounts. Total expenses amounted to ISK 2,805 million and increased between quarters. The particularly high net fee and commission income led to an increase in performance related bonuses between quarters, which to a large extent explains the rise in operating expenses.

<i>ISK millions</i>	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Net interest income	524	-564	-286	-509	605
Net fee and commission income	6,717	4,126	2,807	2,258	2,018
Net financial income	6,663	9,778	4,407	2,269	-6,515
Other income	42	56	0	0	0
Operating income	13,945	13,396	6,928	4,018	-3,892
Operating expenses	-2,806	-2,412	-2,558	-1,418	-1,370
Impairment	-1	0	0	0	123
Total expenses	-2,805	-2,411	-2,558	-1,418	-1,493
Earnings before cost allocation	11,140	10,985	4,370	2,600	-5,385
Allocated cost	-890	-1,163	-1,034	-659	-908
Earnings before income tax	10,249	9,822	3,336	1,942	-6,293

Treasury

Treasury is responsible for the Bank's funding and inter-bank trading. An organizational 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 profit before income tax of ISK 4,407 million for the second quarter of 2007. Operating income amounted to ISK 6,328 million and increased by 59.1% compared with the first quarter of 2007. This increase is the result of net financial income totalling ISK 1,251 million, compared with negative net financial income of ISK 441 million during the first quarter of 2007. This increase is partly due to a turnaround in the derivatives positions from first quarter. Net interest income increased by 10.3% between the first and second quarters. This increase is mainly due to higher inflation in Iceland in the second quarter. Total expenses amounted to ISK 1,380 million during the second quarter, an increase of 57.6% from the first quarter. This increase is mainly due to performance related bonuses in the division.

<i>ISK millions</i>	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Net interest income	4,884	4,428	3,328	2,324	3,272
Net fee and commission income	149	-75	262	-108	367
Net financial income	1,251	-441	2,828	3,072	1,109
Other income	44	67	23	1	2
Operating income	6,328	3,978	6,441	5,288	4,750
Operating expenses	-1,386	-875	-937	-758	-701
Impairment	-6	0	0	1	-2
Total expenses	-1,380	-875	-938	-759	-699
Earnings before cost allocation	4,948	3,103	5,503	4,529	4,051
Allocated cost	-541	-561	-664	-370	-484
Earnings before income tax	4,407	2,541	4,839	4,159	3,567

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 2,963 million during the second quarter of 2007. Operating income totalled ISK 4,454 million, compared with ISK 6,433 million in the first quarter of 2007. Net fee and commission income amounted to ISK 3,767 million for the quarter, an increase of 8.1% between quarters. Net financial income dropped sharply from the previous quarter and is the main reason for the fall in the division's profit. Total expenses amounted to ISK 1,140 million, increasing by ISK 432 million compared with the first 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 the business segment.

<i>ISK millions</i>	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Net interest income	-950	-1,095	-914	-961	-624
Net fee and commission income	3,767	3,483	3,792	1,295	2,471
Net financial income	1,671	3,980	4,592	31,652	2,505
Other income	-34	65	7	-142	-84
Operating income	4,454	6,433	7,477	31,845	4,268
Operating expenses	-1,140	-708	-1,310	-562	-1,208
Impairment	0	0	-4	0	2
Total expenses	-1,140	-707	-1,306	-562	-1,210
Earnings before cost allocation	3,314	5,726	6,171	31,283	3,058
Allocated cost	-351	-432	-123	-203	-340
Earnings before income tax	2,963	5,294	6,048	31,080	2,718

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 663 million for the second quarter of 2007. Operating income totalled ISK 3,271 million, a decrease of 15.0% compared with the first quarter of 2007. Net fee and commission income amounted to ISK 3,075 million, a decrease of 9.9% from the first quarter of 2007 where performance related bonuses were significant. Total expenses amounted to ISK 1,672 million, a decrease of 16.5% from first quarter 2007.

<i>ISK millions</i>	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Net interest income	208	324	254	167	234
Net fee and commission income	3,075	3,414	3,221	2,544	2,837
Net financial income	123	28	110	91	134
Other income	-135	81	605	357	0
Operating income	3,271	3,847	4,190	3,160	3,205
Operating expenses	-1,672	-2,002	-2,037	-1,660	-1,745
Impairment	0	0	0	1,138	0
Total expenses	-1,672	-2,002	-2,037	-2,798	-1,745
Earnings before cost allocation	1,599	1,845	2,153	361	1,460
Allocated cost	-935	-1,070	-823	-766	-873
Earnings before income tax	663	775	1,330	-405	587

Assets under custody at the Bank totalled ISK 2,360 billion as of 30 June 2007, an increase of 20.9% from the beginning of the year. Assets under management totalled ISK 1,562 billion as of 30 June 2007, increasing by 11.3% from the beginning of the year (an increase of 20.1% without exchange rate effects).

Second quarter highlights

Kaupthing Bank hf. sells Eik fasteignafélag hf.

On 4 April Kaupthing Bank sold all shares in Eik fasteignafélag hf. The purchase price was paid in cash. Kaupthing Bank generated a profit of approximately ISK 4.262 million on this transaction. In 2006 Eik fasteignafélag hf. reported a pre-tax profit of ISK 582 million.

Kaupthing Bank acquires 20% stake in 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 Bank in the fast growing Indian financial market. The acquisition will have an insignificant effect on Kaupthing's results this year.

Kaupthing Bank acquires 20% in Storebrand

On 14 May Kaupthing 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 Kaupthing Bank will hereafter book 20% of Storebrand's earnings through its income statement.

Funding and credit ratings

Deposits scheme – Ahead of schedule

At the beginning of the year Kaupthing Bank set a target of increasing the deposit base to 40% of loans to customers before mid-2008. The deposit scheme is well ahead of schedule. As of 30 June 2007 this ratio was 46.4% compared with 29.6% at the beginning of the year. This represented an inflow in Q2 of ISK 318 billion. The deposit base now totals ISK 1,210.2 billion, an increase of 82.6% during the last 12 months.

Successful re-entry into the public Eurobond and Samurai markets

A EUR 500 million 2 year Floating Rate Note (FRN) transaction in June was the Bank's first EUR benchmark issue since 2005 with 65 leading European investors participating. A Perpetual EUR 250 Million Retail Tier 1 transaction, also in June, re-opened the Euro Retail Tier 1 market. This transaction took advantage of an arbitrage opportunity to achieve attractive Tier 1 financing. In addition in June the Bank followed up on its successful 2006 debut Samurai issue with a new multi-tranche JPY 28 billion transaction.

Increased understanding by investors of Kaupthing Bank's strategy and the Bank's innovative approach to structured Private Placement issuance, has led to a 21 bps reduction in the Bank's average senior funding spread during the first half of 2007 compared to full year 2006.

Solid liquidity position

The liquidity of the Bank has strengthened and at the end of June 2007 secured liquidity stood at EUR 15,732 million, sufficient to cover all current obligations maturing for the next 591 days.

Recent rating developments

Rating and Investment Information (R&I), a Japan-based rating agency, assigned an A+ credit rating to Kaupthing Bank with stable outlook. R&I is the third rating agency to rate us after Moody's Investor Service and Fitch Ratings (Long-Term Aa3 and A respectively).

Outlook

Kaupthing Bank is performing well and the Bank's management expects this year's operating results to be very satisfactory. The outlook for the markets in which the Bank operates is mostly positive for the type of activity and services which the Bank's business is founded on.

The number of employees at the Bank has increased by 15.6% over the past twelve months. A considerable proportion of these employees are in frontline jobs, i.e. fee and commission-creating jobs. These appointments are in line with the Bank's policy to increase the group's fee and commission income. This policy has started to yield results.

The Bank's funding is robust and the percentage of deposits in the Bank's total loans to customers has grown. At the end of June the figure was 46.4% but the Bank's long-term objective is to increase the proportion of deposits in the Bank's funding.

The annualised return on equity amounted to 32.0%, which is considerably above the Bank's declared target, which is to make a 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					
<i>ISK millions</i>	H1 2007	2006	2005	2004	2003
Net interest income	36,115	52,362	32,710	18,259	10,124
Other operating income	59,752	114,854	69,488	31,687	21,656
Operating income	95,866	167,216	102,198	49,946	31,780
Operating expenses	-36,724	-60,006	-35,524	-23,625	-18,493
Impairment	-2,498	-6,127	-4,389	-3,825	-3,894
Income tax	-9,888	-14,636	-11,228	-4,237	-1,486
Net earnings	46,756	86,447	51,056	18,258	7,907
Net shareholders' earnings	45,765	85,302	49,260	17,707	7,520
Minority interest	990	1,145	1,796	552	387
Balance Sheet					
<i>ISK millions</i>	30.6.2007	2006	2005	2004	2003
Assets					
Cash bal. with central banks	145,011	106,961	34,877	6,290	-
Loans to credit institutions	684,191	485,334	195,594	174,310	-
Loans to customers	2,609,107	2,538,609	1,543,700	980,107	-
Bonds and debt instruments	399,846	318,264	390,575	202,934	-
Shares and equity instruments	141,404	159,020	114,355	86,122	-
Derivatives	68,267	65,454	21,047	13,085	-
Derivatives used for hedging	5,810	6,453	4,459	3,820	-
Securities used for hedging	246,566	115,938	82,098	0	-
Investment in associates	50,877	5,304	13,888	3,649	-
Intangible assets	62,504	68,301	54,943	35,098	-
Investment property	16,437	31,584	24,156	19,155	-
Property and equipment	27,815	30,466	22,433	6,092	-
Tax assets	6,442	5,834	5,004	1,092	-
Other assets	106,078	117,874	33,682	22,700	-
Total assets	4,570,354	4,055,396	2,540,811	1,554,453	558,569
Liabilities and equity					
Deposits	1,210,246	750,657	486,176	202,193	182,497
Subordinated loans	223,802	216,030	102,688	57,623	10,704
Other liabilities	2,801,570	2,753,816	1,749,436	1,135,728	308,837
Minority interest	10,374	11,382	8,329	9,539	10,603
Shareholders' equity	324,361	323,510	194,183	149,370	45,928
Total liabilities and equity	4,570,354	4,055,396	2,540,811	1,554,453	558,569
KEY RATIOS					
Cost / income ratio	38.3%	35.9%	34.8%	47.3%	58.2%
Return on shareholders' equity	32.0%	42.4%	34.0%	25.5%	23.0%
Impairment / Loans and advances	0.2%	0.2%	0.2%	0.4%	1.1%
Total credit reserves	0.6%	0.6%	0.7%	1.4%	2.4%
Price / earnings	7.9	6.6	9.9	12.4	12.2
Earnings per share, ISK	62.2	127.1	75.2	35.6	18.5
Earnings per share diluted, ISK	60.4	123.4	73.9	35.1	18.4
Average no. of shares outstanding, million	736	671	655	497	406
Avg. no. of shares outstanding diluted, million	758	691	666	505	411
No. of shares at the end of the period, million	737	732	664	652	438
No. of shares at the end of the period diluted, million	759	752	675	660	443
Share price at the end of the period	1.125	841	746	442	225

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

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 Wednesday 25 July at 8:30 a.m. at the Nordica Hotel in Reykjavík. 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.omx.is, 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

26 October	Third quarter interim financial statement
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 ten 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 in Finland, Kaupthing Føroyar, Kaupthing New York, Kaupthing Asset Management in Switzerland, Kaupthing Norge in Norway, Arion and Kaupthing Líftryggingar hf. in Iceland. As of 30 June 2007 the number of full-time equivalent positions was 2,970 at Kaupthing Bank and its subsidiaries.