



Condensed Consolidated Interim Financial Statements
1 January - 30 June 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 six months ended 30 June 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".

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 46,756 million for the period from 1 January to 30 June 2007. Total equity, according to the Condensed Consolidated Interim Balance Sheet, amounted to ISK 334,735 million at the end of the period, including share capital amounting to ISK 7,373 million. The equity ratio of the Bank, calculated according to the Act on Financial Undertakings, was 13.4%. This ratio may not be lower than 8.0%.

Registered shareholders at 30 June 2007 numbered 33,196 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 six-month period ended 30 June 2007.

Reykjavík, 24 July 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 June 2007 and the related statements of income, changes in equity and cash flows for the six-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 June 2007, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 24 July 2007

KPMG hf.

Saemundur Valdimarsson

Reynir Stefán Gylfason

Consolidated Interim Income Statement

for the Period from 1 January to 30 June 2007

| | Notes | 2007 1.4.-30.6. | 2006 1.4.-30.6. | 2007 1.1.-30.6 | 2006 1.1.-30.6 |
|---|-------|----------------------|----------------------|----------------------|----------------------|
| Interest income | | 72.136 | 48.094 | 134.183 | 83.527 |
| Interest expense | | (52.286) | (33.709) | (98.068) | (58.658) |
| Net interest income..... | | <u>19.850</u> | <u>14.385</u> | <u>36.115</u> | <u>24.869</u> |
| Fee and commission income | | 18.696 | 9.525 | 34.110 | 18.979 |
| Fee and commission expense | | (3.508) | (341) | (6.585) | (1.193) |
| Net fee and commission income..... | | <u>15.188</u> | <u>9.184</u> | <u>27.525</u> | <u>17.786</u> |
| Net financial income | 7-11 | 10.772 | (2.607) | 24.228 | 10.898 |
| Share of profit of associates | | 613 | (131) | 757 | 908 |
| Other operating income | 12 | 5.383 | 10.232 | 7.241 | 12.054 |
| Operating income..... | | <u>51.806</u> | <u>31.064</u> | <u>95.866</u> | <u>66.515</u> |
| Salaries and related expenses | | (11.833) | (8.263) | (22.367) | (15.683) |
| Administration expenses | | (5.486) | (4.896) | (11.002) | (8.645) |
| Depreciation and amortisation | | (1.465) | (1.522) | (2.999) | (2.815) |
| Other operating expenses | | (233) | (124) | (356) | (214) |
| Impairment on loans | 21 | (1.075) | (961) | (2.498) | (1.671) |
| Earnings before income tax..... | | <u>31.714</u> | <u>15.298</u> | <u>56.644</u> | <u>37.487</u> |
| Income tax expense | | (5.652) | (2.618) | (9.888) | (5.213) |
| Net earnings..... | | <u><u>26.062</u></u> | <u><u>12.680</u></u> | <u><u>46.756</u></u> | <u><u>32.274</u></u> |
| Attributable to: | | | | | |
| Shareholders of Kaupthing Bank hf. | | 25.484 | 13.034 | 45.765 | 31.832 |
| Minority interest | | 578 | (354) | 991 | 442 |
| Net earnings..... | | <u><u>26.062</u></u> | <u><u>12.680</u></u> | <u><u>46.756</u></u> | <u><u>32.274</u></u> |
| Earnings per share | | | | | |
| Basic earnings per share | 14 | 34,6 | 19,6 | 62,2 | 47,9 |
| Diluted earnings per share | 14 | 34,2 | 19,4 | 60,4 | 47,4 |

Consolidated Interim Balance Sheet

as at 30 June 2007

| | Notes | 30.6.2007 | 31.12.2006 |
|--|-----------|------------------|------------------|
| Assets | | | |
| Cash and balances with central banks | 15 | 145.011 | 106.961 |
| Loans to credit institutions | 16 | 684.191 | 485.334 |
| Loans to customers | 17-21 | 2.609.107 | 2.538.609 |
| Bonds and debt instruments | 22 | 399.846 | 318.264 |
| Shares and instruments with variable income | 22 | 141.404 | 159.020 |
| Derivatives | 22,36 | 68.267 | 65.454 |
| Derivatives used for hedging | 22,36 | 5.810 | 6.453 |
| Securities used for hedging | 22 | 246.566 | 115.938 |
| Investments in associates | 25 | 50.877 | 5.304 |
| Intangible assets | 26 | 62.504 | 68.301 |
| Investment property | 27 | 16.437 | 31.584 |
| Property and equipment | | 27.814 | 30.466 |
| Tax assets | | 6.442 | 5.834 |
| Other assets | 28 | 106.078 | 117.874 |
| Total Assets | 40 | 4.570.354 | 4.055.396 |
| Liabilities | | | |
| Due to credit institutions and central banks | | 170.093 | 110.456 |
| Deposits | | 1.210.247 | 750.658 |
| Financial liabilities measured at fair value | 29-31 | 110.879 | 71.264 |
| Borrowings | 32 | 2.374.555 | 2.399.939 |
| Subordinated loans | 33 | 223.802 | 216.030 |
| Tax liabilities | | 23.921 | 23.209 |
| Other liabilities | 34 | 122.122 | 148.948 |
| Total Liabilities | 40 | 4.235.619 | 3.720.504 |
| Equity | | | |
| Share capital | | 7.373 | 7.321 |
| Share premium | | 167.380 | 164.028 |
| Reserves | | (15.744) | 17.220 |
| Retained earnings | | 165.352 | 134.941 |
| Total Shareholders' Equity | | 324.361 | 323.510 |
| Minority interest | | 10.374 | 11.382 |
| Total Equity | | 334.735 | 334.892 |
| Total Liabilities and Equity | | 4.570.354 | 4.055.396 |

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

| | Share capital and premium | Reserves | Retained earnings | Total Share- holders' equity | Minority interest | Total equity |
|--|------------------------------|-----------------|----------------------|---------------------------------------|----------------------|-----------------|
| Changes in equity from 1 January to 30 June 2007: | | | | | | |
| Equity at the beginning of the year | 171.349 | 17.220 | 134.941 | 323.510 | 11.382 | 334.892 |
| Translation difference | | (32.985) | | (32.985) | (1.434) | (34.419) |
| Fair value changes in AFS financial assets | | 21 | | 21 | | 21 |
| Net loss recognised directly in equity | | (32.964) | | (32.964) | (1.434) | (34.398) |
| Net earnings according to the Income Statement | | | 45.765 | 45.765 | 991 | 46.756 |
| Total recognised earnings for the period | | (32.964) | 45.765 | 12.801 | (443) | 12.358 |
| Dividends paid to equity holders, ISK 14 per share | | | (10.272) | (10.272) | | (10.272) |
| Purchases and sales of treasury stock | 2.853 | | | 2.853 | | 2.853 |
| Exercised stock options | 551 | | | 551 | | 551 |
| Restating the initial investments in shares | | | (5.111) | (5.111) | | (5.111) |
| Other changes | | | 28 | 28 | (565) | (537) |
| Equity 30 June 2007 | 174.753 | (15.744) | 165.352 | 324.361 | 10.374 | 334.735 |

Changes in equity from 1 January to 30 June 2006:

| | | | | | | |
|--|----------------|---------------|----------------|----------------|---------------|----------------|
| Equity at the beginning of the year | 121.244 | (1.540) | 74.479 | 194.183 | 8.329 | 202.512 |
| Translation difference | | 19.366 | | 19.366 | 2.918 | 22.284 |
| Fair value changes in AFS financial assets | | 2 | | 2 | | 2 |
| Net earnings recognised directly in equity | | 19.368 | | 19.368 | 2.918 | 22.286 |
| Net earnings according to the Income Statement | | | 31.832 | 31.832 | 442 | 32.274 |
| Total recognised earnings for the period | | 19.368 | 31.832 | 51.200 | 3.360 | 54.560 |
| Dividends paid to equity holders, ISK 10 per share | | | (6.609) | (6.609) | | (6.609) |
| Purchases and sales of treasury stock | (769) | | | (769) | | (769) |
| Exercised stock options | 156 | | | 156 | | 156 |
| Other changes | | (423) | 967 | 544 | | 544 |
| Equity 30 June 2006 | 120.631 | 17.405 | 100.669 | 238.705 | 11.689 | 250.394 |

Condensed Consolidated Interim Statement of Cash Flows

for the Period from 1 January to 30 June 2007

| | 2007 | 2006 |
|---|----------------|----------------|
| | 1.1.-30.6. | 1.1.-30.6. |
| Net cash provided by operating activities..... | 145.130 | (95.221) |
| Net cash flow used in investing activities..... | (22.833) | 6.422 |
| Net cash flow (used in) provided by financing activities..... | (12.364) | 110.484 |
| | 109.933 | 21.685 |
| 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..... | (21.506) | 24.200 |
| | 291.216 | 127.643 |
| Cash and cash equivalents at end of the period..... | 291.216 | 127.643 |

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 six-month period ended 30 June 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 24 July 2007.

1. Statement of compliance

These 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.-30.6.2007 | Capital Markets | Investment Banking | Treasury | Banking | Asset Management and Private Banking | Elimination and Cost Centres | Total |
|---|-----------------|--------------------|------------------|------------------|--------------------------------------|------------------------------|------------------|
| Net interest income | (41) | (2.045) | 9.313 | 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 | 5.652 | 809 | 216 | 151 | 959 | 24.228 |
| Other income | 98 | 30 | 111 | 3.176 | (54) | 4.637 | 7.998 |
| Operating income | 27.341 | 10.887 | 10.306 | 35.302 | 7.118 | 4.912 | 95.866 |
| Operating expense | (5.218) | (1.847) | (2.261) | (9.160) | (3.674) | (14.564) | (36.724) |
| Impairment | 1 | 0 | 6 | (2.506) | 0 | 1 | (2.498) |
| Total expense | (5.217) | (1.847) | (2.255) | (11.666) | (3.674) | (14.563) | (39.222) |
| Earnings before cost allocation | 22.124 | 9.040 | 8.051 | 23.636 | 3.443 | (9.651) | 56.644 |
| Allocated cost | (2.054) | (782) | (1.102) | (4.706) | (2.005) | 10.649 | 0 |
| Earnings before income tax | 20.070 | 8.258 | 6.949 | 18.930 | 1.438 | 998 | 56.644 |
| Net segment revenue from external customers | 36.207 | 10.673 | (47.601) | 92.534 | 3.665 | 388 | 95.866 |
| Net segment revenue from other segments | (8.865) | 214 | 57.907 | (57.232) | 3.452 | 4.524 | 0 |
| Operating income | 27.342 | 10.887 | 10.306 | 35.302 | 7.118 | 4.912 | 95.866 |
| Depreciation and amortisation | 36 | 13 | 10 | 2.006 | 36 | 898 | 2.999 |
| Total assets 30.6.2007 | 367.039 | 130.490 | 2.001.579 | 2.619.337 | 16.831 | (564.923) | 4.570.354 |
| Total liabilities 30.6.2007 | 330.409 | 93.431 | 1.941.650 | 2.430.106 | 5.832 | (565.808) | 4.235.619 |
| Allocated equity 30.6.2007 | 36.631 | 37.060 | 59.929 | 189.231 | 10.998 | 885 | 334.735 |
| Total liabilities and equity 30.6.2007 | 367.039 | 130.490 | 2.001.579 | 2.619.337 | 16.831 | (564.923) | 4.570.354 |

| 1.1.-30.6.2006 | Capital Markets | Investment Banking | Treasury | Banking | Asset Management and Private Banking | Elimination and cost centres | Total |
|--|-----------------|--------------------|------------------|------------------|--------------------------------------|------------------------------|------------------|
| Net interest income | 387 | (1.474) | 4.734 | 21.472 | 396 | (646) | 24.869 |
| Net fee and commission income | 4.816 | 4.490 | 289 | 2.522 | 5.465 | 204 | 17.786 |
| Net financial income | 1.237 | 6.740 | 2.511 | 367 | 330 | (287) | 10.898 |
| Other income | 0 | 178 | 2 | 3.197 | 0 | 9.585 | 12.962 |
| Operating income | 6.440 | 9.934 | 7.536 | 27.558 | 6.191 | 8.856 | 66.515 |
| Operating expense | (2.418) | (1.764) | (1.193) | (6.737) | (3.683) | (11.563) | (27.358) |
| Impairment | (123) | (3) | (4) | (1.546) | 0 | 5 | (1.671) |
| Total expense | (2.541) | (1.767) | (1.197) | (8.283) | (3.683) | (11.558) | (29.029) |
| Earnings before cost allocation | 3.899 | 8.167 | 6.339 | 19.275 | 2.508 | (2.702) | 37.486 |
| Allocated cost | (1.554) | (562) | (939) | (4.214) | (1.838) | 9.107 | 0 |
| Earnings before income tax | 2.344 | 7.605 | 5.401 | 15.061 | 670 | 6.405 | 37.487 |
| Net segment revenue from external customers | 9.131 | 11.029 | (27.265) | 62.346 | 4.355 | 6.919 | 66.515 |
| Net segment revenue from other segments | (2.691) | (1.095) | 34.801 | (34.788) | 1.836 | 1.937 | 0 |
| Operating income | 6.440 | 9.934 | 7.536 | 27.558 | 6.191 | 8.856 | 66.515 |
| Depreciation and amortisation | 4 | 4 | 5 | 1.641 | 13 | 1.148 | 2.815 |
| Total assets 31.12.2006 | 328.176 | 108.946 | 1.536.196 | 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.-30.6.2007 | Iceland | Scandi- navia | UK | Luxem- bourg | Other | Total |
|-------------------------------------|---------------|------------------|---------------|-----------------|--------------|---------------|
| Net interest income | 12.479 | 9.870 | 9.698 | 3.240 | 829 | 36.115 |
| Net fee and commission income | 10.668 | 3.626 | 9.418 | 3.163 | 650 | 27.525 |
| Net financial income | 7.311 | 12.740 | 3.405 | 810 | (38) | 24.228 |
| Other income | 4.996 | 1.203 | 1.799 | 0 | 0 | 7.998 |
| Operating income | 35.454 | 27.439 | 24.320 | 7.213 | 1.441 | 95.866 |

1.1.-30.6.2006

| | | | | | | |
|-------------------------------------|---------------|---------------|---------------|--------------|--------------|---------------|
| Net interest income | 7.925 | 7.802 | 6.284 | 2.285 | 573 | 24.869 |
| Net fee and commission income | 6.336 | 2.826 | 4.971 | 2.521 | 1.132 | 17.786 |
| Net financial income | 1.250 | 2.433 | 6.156 | 618 | 441 | 10.898 |
| Other income | 10.561 | 600 | 1.803 | (1) | 0 | 12.962 |
| Operating income | 26.072 | 13.661 | 19.214 | 5.422 | 2.146 | 66.515 |

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.

| 30.6.2007 | Iceland | Scandi- navia | UK | Luxem- bourg | Other | Total |
|---|------------------|------------------|----------------|-----------------|----------------|------------------|
| Cash and balances with central banks | 1.223 | 69.356 | 71.109 | 3.087 | 236 | 145.011 |
| Loans to credit institutions | 158.534 | 150.963 | 193.358 | 46.400 | 134.936 | 684.191 |
| Loans to customers | 574.319 | 1.040.432 | 560.622 | 319.064 | 114.669 | 2.609.107 |
| Financial assets measured at fair value | 472.403 | 333.073 | 8.343 | 45.844 | 2.231 | 861.893 |
| Other assets | 72.847 | 124.876 | 66.894 | 4.657 | 878 | 270.152 |
| Total Assets | 1.279.326 | 1.718.700 | 900.326 | 419.052 | 252.950 | 4.570.354 |

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 | 111.685 | 66.316 | 4.899 | 314 | 259.363 |
| Total Assets | 1.071.516 | 1.626.247 | 807.878 | 363.250 | 186.505 | 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-Q2 2007 | Q1-Q2 2006 |
|--|---------------|---------------|
| Dividend income | 5.067 | 4.810 |
| Net gain on financial assets and liabilities at fair value | 17.397 | 3.860 |
| Net foreign exchange gain | 1.730 | 2.170 |
| Net gain on financial assets and liabilities not at fair value | 34 | 58 |
| Net financial income | 24.228 | 10.898 |

Dividend income

| 8. Dividend income is specified as follows: | | |
|---|--------------|--------------|
| Dividend income on trading assets | 4.769 | 4.752 |
| Dividend income on assets at fair value through profit and loss | 298 | 58 |
| Dividend income | 5.067 | 4.810 |

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 | 13.787 | 3.572 |
| Net gain on assets designated at fair value through profit and loss | 3.218 | 91 |
| Fair value adjustments on hedge accounting | 392 | 197 |
| Net gain on financial assets and liabilities at fair value | 17.397 | 3.860 |

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

| | | |
|--|---------------|--------------|
| Gain on equity instruments and related derivatives | 14.468 | 2.598 |
| (Loss) gain on other derivatives | (1.879) | 1.284 |
| Gain (loss) on interest rate instruments and related derivatives | 1.198 | (310) |
| Net gain on trading portfolio | 13.787 | 3.572 |

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 | (415) | (2.255) |
| Gain on equity instruments designated at fair value | 3.633 | 2.346 |
| Net gain on assets designated at fair value through profit and loss | 3.218 | 91 |

Notes to the Consolidated Interim Financial Statements

Other operating income

| 12. Other operating income is specified as follows: | Q1-Q2 2007 | Q1-Q2 2006 |
|--|--------------|---------------|
| Gain on disposals of assets other than held for sale | 4.284 | 8.232 |
| Income from operating lease | 2.268 | 1.925 |
| Fair value adjustments on investment properties | (121) | 691 |
| Other income | 810 | 1.205 |
| Other operating income | 7.241 | 12.053 |

Personnel

| 13. The Bank's total number of employees is as follows: | 30.6.2007 | 31.12.2006 |
|--|-----------|------------|
| Average number of full time equivalent positions during the period | 2.960 | 2.553 |
| Full time equivalent positions at the end of the period | 2.970 | 2.719 |

Earnings per share

| 14. Earnings per share are specified as follows: | Q1-Q2 2007 | Q1-Q2 2006 |
|--|------------|------------|
| Net earnings attributable to the shareholders of Kaupthing Bank hf. | 45.765 | 31.832 |
| Weighted average share capital: | | |
| Weighted average of outstanding shares for the period | 735,9 | 663,9 |
| Effects of stock options | 21,8 | 8,3 |
| Weighted average of total shares for the period, diluted | 757,7 | 672,2 |
| Basic earnings per share | 62,2 | 47,9 |
| Diluted earnings per share | 60,4 | 47,4 |
| Number of outstanding shares at the end of the period, million | 737,4 | 664,5 |
| Number of total shares at the end of the period, million, diluted | 759,2 | 672,8 |
| Average number of own shares, million | 4,6 | 6,5 |
| Number of own shares at the end of the period, million | 3,1 | 0,4 |

Notes to the Balance Sheet

Cash and balances with central banks

| 15. Cash and balances with central banks are specified as follows: | 30.6.2007 | 31.12.2006 |
|--|----------------|----------------|
| Cash and cash balances | 18.059 | 10.537 |
| Cash equivalent | 126.952 | 96.424 |
| Cash and balances with central banks | 145.011 | 106.961 |

Loans to credit institutions

| 16. Loans to credit institutions specified by types of loans: | | |
|---|----------------|----------------|
| Money market loans | 412.683 | 242.284 |
| Bank accounts | 146.205 | 95.828 |
| Overdrafts | 5.449 | 7.902 |
| Repos | 0 | 50.753 |
| Other loans | 119.854 | 88.567 |
| Loans to credit institutions | 684.191 | 485.334 |

Notes to the Consolidated Interim Financial Statements

Loans to customers

| | | |
|---|------------------|------------------|
| 17. Loans to customers specified by types of loans: | 30.6.2007 | 31.12.2006 |
| Overdrafts | 35.473 | 113.354 |
| Finance lease | 87.090 | 93.006 |
| Repos and related agreements | 21.247 | 0 |
| Subordinated loans | 10.919 | 7.369 |
| Other loans | 2.471.034 | 2.341.462 |
| Provision on loans | (16.656) | (16.582) |
| Loans to customers | 2.609.107 | 2.538.609 |
| 18. Loans to customers specified by sectors: | | |
| Individuals | 16,4% | 16,6% |
| Holding companies | 11,2% | 13,5% |
| Industry | 18,4% | 20,3% |
| Real estate | 18,9% | 15,6% |
| Service | 22,3% | 19,9% |
| Trade | 11,2% | 12,5% |
| Transportation | 1,6% | 1,6% |
| Loans to customers | 100,0% | 100,0% |
| 19. Specification of subordinated loans: | | |
| Loans to customers | 8.667 | 4.907 |
| Bonds and other fixed income securities | 2.252 | 2.462 |
| Subordinated loans | 10.919 | 7.369 |
| 20. Provisions on loans are specified as follows: | | |
| Specific provision | 11.041 | 13.404 |
| Collective assessment | 5.615 | 3.178 |
| Provision on loans | 16.656 | 16.582 |
| 21. Changes in the provision on loans are specified as follows: | Q1-Q2 2007 | Q1-Q2 2006 |
| Balance at the beginning of the year | 16.582 | 12.953 |
| Impairment on loans during the period | 2.498 | 1.671 |
| Exchange rate difference on translation | (1.044) | 1.763 |
| Write-offs during the period | (1.513) | (1.828) |
| Payment of loans previously written-off | 133 | 101 |
| Provision on loans at the end of the period | 16.656 | 14.660 |

Included within interest income is ISK 372 million (31.12.2006: ISK 642 million) with respect of interest income accrued on impairment on financial assets and ISK 97 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 of customers for which the Bank has made specific provisions in part or in full. Non-performing loans amounted at the end of June 2007 to ISK 24,048 million (31.12.2006: ISK 25,506 million), 0.92% 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:

| 30.6.2007 | 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 | 14.252 | 331.628 | 0 | 0 | 345.879 |
| Unlisted | 28.527 | 17.162 | 0 | 0 | 45.690 |
| Mortgage loans | 0 | 8.277 | 0 | 0 | 8.277 |
| Bonds and debt instruments | 42.779 | 357.067 | 0 | 0 | 399.846 |
| <i>Shares and instruments with variable income</i> | | | | | |
| Listed | 46.959 | 23.142 | 0 | 0 | 70.100 |
| Unlisted | 5.683 | 54.930 | 146 | 0 | 60.759 |
| Bond funds with variable income | 9.135 | 1.409 | 0 | 0 | 10.545 |
| Shares and instruments with variable income | 61.777 | 79.481 | 146 | 0 | 141.404 |
| <i>Derivatives</i> | | | | | |
| OTC derivatives | 46.374 | 0 | 0 | 0 | 46.374 |
| Futures | 12 | 0 | 0 | 0 | 12 |
| Other trading derivatives | 21.881 | 0 | 0 | 0 | 21.881 |
| Derivatives | 68.267 | 0 | 0 | 0 | 68.267 |
| <i>Derivatives used for hedging</i> | | | | | |
| Fair value hedge | 0 | 0 | 0 | 2.106 | 2.106 |
| Portfolio hedge of interest rate risk | 0 | 0 | 0 | 3.704 | 3.704 |
| Derivatives used for hedging | 0 | 0 | 0 | 5.810 | 5.810 |
| <i>Securities used for hedging</i> | | | | | |
| Bonds and debt instruments | 64.608 | 0 | 0 | 0 | 64.608 |
| Shares and equity instruments | 181.958 | 0 | 0 | 0 | 181.958 |
| Securities used for hedging | 246.566 | 0 | 0 | 0 | 246.566 |
| Financial assets | 419.389 | 436.548 | 146 | 5.810 | 861.893 |

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: | 30.6.2007 | 31.12.2006 |
|--|----------------|----------------|
| Financial institutes | 340.175 | 270.879 |
| Governments | 2.513 | 1.032 |
| Corporates | 14.379 | 16.586 |
| Bonds and debt instruments designated at fair value | 357.067 | 288.497 |

Pledged assets

24. Pledged assets are specified as follows:

| | | |
|--|--------|--------|
| Mortgage loans in Kaupthing mortgages Fund | 85.910 | 84.165 |
|--|--------|--------|

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 103 billion at the end of June 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: | 30.6.2007 | 31.12.2006 |
| Carrying amount at the beginning of the year | 5.304 | 13.888 |
| Additions during the period | 624 | 5.400 |
| Sold during the period | (323) | (11.868) |
| Transferred to associates | 44.111 | 0 |
| Profit share | 757 | 1.194 |
| Dividend received | (149) | (4.103) |
| Exchange rate difference | 553 | 792 |
| Carrying amount at the end of the period | 50.877 | 5.304 |

| | | | |
|---|----------|------------|---------------|
| Main associates are specified as follows: | Currency | Owner-ship | Book value |
| Storebrand ASA, Norway | NOK | 20,0% | 45.848 |
| Drake Management LLC, USA | USD | 20,0% | 1.979 |
| Greiðslumiðlun hf., Iceland | ISK | 39,5% | 1.707 |
| Mezzanin Kapital A/S, Denmark | DKK | 22,7% | 436 |
| FiNoble Advisors Private Ltd, India | USD | 20,0% | 311 |
| Reiknistofa Bankanna, Iceland | ISK | 17,3% | 263 |
| FMS Holding A/S, Denmark | DKK | 25,0% | 252 |
| Other associates | | | 81 |
| Associates | | | 50.877 |

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.

On 18 June the Bank signed an agreement to acquire a 20.0% stake in the Indian investment services company FiNoble Advisors Private Ltd. (FiNoble) 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: | Other intangible assets | | 30.6.2007 | 31.12.2006 |
| | Goodwill | assets | Total | Total |
| Balance at the beginning of the year | 63.118 | 5.183 | 68.301 | 54.943 |
| Exchange rate difference | (6.453) | (297) | (6.750) | 13.880 |
| Additions during the period | 0 | 1.223 | 1.223 | 1.810 |
| Impairment during the period | 0 | 0 | 0 | (1.270) |
| Amortisation during the period | 0 | (270) | (270) | (1.062) |
| Intangible assets | 56.665 | 5.839 | 62.504 | 68.301 |

Investment property

| | | |
|---|---------------|---------------|
| 27. Investment property are specified as follows: | 30.6.2007 | 31.12.2006 |
| Balance at the beginning of the year | 31.584 | 24.156 |
| Exchange rate difference | (1.861) | 3.426 |
| Additions during the period | 391 | 3.475 |
| Disposals through the sale of subsidiaries | (13.335) | 0 |
| Disposals during the period | 0 | (2.347) |
| Revaluation during the period | (342) | 96 |
| Transferred to investment property | 0 | 2.778 |
| Investment property at the end of the period | 16.437 | 31.584 |

Notes to the Consolidated Interim Financial Statements

Other assets

| | | |
|--|----------------|----------------|
| 28. Other assets are specified as follows: | 30.6.2007 | 31.12.2006 |
| Unsettled securities trading | 77.620 | 90.427 |
| Accounts receivables | 7.967 | 8.617 |
| Accrued income | 11.905 | 8.004 |
| Prepaid expenses | 3.088 | 2.846 |
| Non-current assets and disposal groups classified as held for sale | 2.392 | 2.334 |
| Sundry assets | 3.106 | 5.646 |
| Other assets | <u>106.078</u> | <u>117.874</u> |

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 | 89.846 | 51.095 |
| Derivatives used for hedging - portfolio hedge of interest rate risk | 12.359 | 8.768 |
| Mortgage funding measured at fair value | 8.674 | 11.401 |
| Financial liabilities measured at fair value | <u>110.879</u> | <u>71.264</u> |

| | | |
|---|---------------|---------------|
| 30. Trading liabilities are specified as follows: | | |
| Short position in equity instruments held for trading | 2.831 | 2.122 |
| Derivatives held for trading | 84.490 | 48.788 |
| Repos and related agreements held for trading | 2.525 | 0 |
| Other liabilities held for trading | 0 | 185 |
| Trading liabilities | <u>89.846</u> | <u>51.095</u> |

| | | |
|--|---------------|--------------|
| 31. Derivatives used for hedging are specified as follows: | | |
| Fair value hedge | 5.548 | 1.070 |
| Portfolio hedge of interest rate risk | 6.811 | 7.698 |
| Derivatives used for hedging | <u>12.359</u> | <u>8.768</u> |

Borrowings

| | | |
|--|------------------|------------------|
| 32. Borrowings are specified as follows: | | |
| Bonds issued | 1.652.692 | 1.762.483 |
| Bills issued | 171.725 | 156.203 |
| Money market loans | 384.854 | 373.285 |
| Other loans | 165.284 | 107.968 |
| Borrowings | <u>2.374.555</u> | <u>2.399.939</u> |

Included are Repurchase agreements with banks amounting to ISK 57,098 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: | 30.6.2007 | 31.12.2006 |
| Tier I capital | 68.520 | 51.817 |
| Tier II capital | 155.282 | 164.213 |
| Subordinated loans | <u>223.802</u> | <u>216.030</u> |

Notes to the Consolidated Interim Financial Statements

Other liabilities

| | | |
|---|----------------|----------------|
| 34. Other liabilities are specified as follows: | 30.6.2007 | 31.12.2006 |
| Unsettled securities trading | 70.316 | 91.661 |
| Provisions | 1.813 | 4.666 |
| Accounts payable | 5.188 | 4.410 |
| Sundry liabilities | 44.805 | 48.211 |
| Other liabilities | <u>122.122</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 334,735 million. The equity ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 13.4%. According to the law the ratio may not be lower than 8.0%.

The ratio is calculated as follows:

| | 30.6.2007 | | 31.12.2006 | |
|--|------------|------------------|------------|------------------|
| | Book value | Weighted value | Book value | Weighted value |
| Risk base: | | | | |
| Assets recorded in the Financial Statements | 4.570.354 | 3.209.530 | 4.055.396 | 2.875.539 |
| Assets deducted from equity | | (105.935) | | (66.922) |
| Guarantees and other items not included in the Balance Sheet | | 255.695 | | 259.023 |
| | | <u>3.359.290</u> | | <u>3.067.640</u> |
| Equity: | | | | |
| Tier I capital: | | | | |
| Equity | | 334.735 | | 334.892 |
| Intangible assets | | (58.513) | | (65.276) |
| Subordinated loans | | 68.520 | | 51.817 |
| Tier II capital: | | | | |
| Subordinated loans | | 153.725 | | 160.717 |
| Investment in credit institutions | | (47.422) | | (21.324) |
| | | <u>451.045</u> | | <u>460.826</u> |
| Equity ratio | | 13,4% | | 15,0% |
| Thereof Tier I ratio | | 10,3% | | 10,5% |

Notes to the Consolidated Interim Financial Statements

Derivatives

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

| 30.6.2007 | 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 | 1.442.372 | 140.696 | 14.773 | 1.597.840 | 17.974 | 16.334 |
| Interest rate and exchange rate agreements | 237.906 | 803.476 | 2.194.982 | 3.236.364 | 34.119 | 58.672 |
| Options - purchased agreements | 35.297 | 30.581 | 49.423 | 115.301 | 3.023 | 102 |
| Options - sold agreements | 56.045 | 26.262 | 46.383 | 128.690 | 172 | 2.958 |
| | <u>1.771.620</u> | <u>1.001.015</u> | <u>2.305.561</u> | <u>5.078.195</u> | <u>55.288</u> | <u>78.066</u> |
| Equity derivatives: | | | | | | |
| Equity swaps, agreements unlisted | 151.991 | 28.555 | 0 | 180.547 | 5.450 | 10.238 |
| Equity options, purchased unlisted agreements | 8.675 | 3.479 | 0 | 12.155 | 163 | 0 |
| Equity options, sold unlisted agreements | 5.408 | 3.668 | 12 | 9.089 | 0 | 446 |
| Futures, agreements listed | 3.455 | 1.396 | 0 | 4.850 | 166 | 0 |
| | <u>169.529</u> | <u>37.098</u> | <u>12</u> | <u>206.640</u> | <u>5.779</u> | <u>10.684</u> |
| Credit derivative contracts: | | | | | | |
| Credit default swaps | 0 | 1.245 | 192.610 | 193.855 | 58 | 6 |
| Total rate of return swaps | 0 | 0 | 46.760 | 46.760 | 4.260 | 0 |
| | <u>0</u> | <u>1.245</u> | <u>239.370</u> | <u>240.615</u> | <u>4.318</u> | <u>6</u> |
| Bond derivatives: | | | | | | |
| Bond swaps, agreements unlisted | 64.091 | 936 | 23.655 | 88.682 | 3.559 | 788 |
| Options - purchased agreements | 0 | 2.087 | 7.938 | 10.025 | 5.133 | 0 |
| Options - sold agreements | 0 | 2.087 | 0 | 2.087 | 0 | 7.305 |
| | <u>64.091</u> | <u>5.110</u> | <u>31.593</u> | <u>100.794</u> | <u>8.692</u> | <u>8.093</u> |
| Derivatives | <u>2.005.240</u> | <u>1.044.468</u> | <u>2.576.536</u> | <u>5.626.244</u> | <u>74.077</u> | <u>96.849</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 swaps | 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 50,848 million when calculating the capital ratio of the Bank at 30 June 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:

| | 30.6.2007 | 31.12.2006 |
|--|-----------|------------|
| Guarantees | 273.528 | 324.929 |
| Credit default swaps, investment grade | 193.855 | 217.186 |
| Unused overdrafts | 56.003 | 50.927 |
| Loan commitments | 294.200 | 317.689 |

The credit risk is valued at ISK 184 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: | 30.6.2007 | 31.12.2006 |
| Assets under management | 1.562.001 | 1.403.376 |
| Assets under custody | 2.360.038 | 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 Eglá Invest BV. (9.9%). Information regarding related parties are as follows:

Significant related companies:

| | | |
|--|---------------|----------------|
| Loans: | 30.6.2007 | 31.12.2006 |
| Balance at the beginning of the year | 109.556 | 36.888 |
| Additions | 9.969 | 91.274 |
| Reductions | (31.404) | (18.606) |
| Balance at the end of the period | <u>88.121</u> | <u>109.556</u> |

Lýsing, a subsidiary of Exista, which is a financial institution, supervised by FSA in Iceland, had ISK 32,554 million of the total loans to related parties at 30 June 2007 (31.12.2006: ISK 39,380 million).

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 43,614 million at 30 June 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 half 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 | 145.011 | 0 | 0 | 0 | 0 | 145.011 |
| Loans to credit institutions | 140.624 | 459.621 | 48.804 | 31.013 | 4.129 | 684.191 |
| Loans to customers | 242.594 | 483.590 | 408.707 | 812.414 | 661.802 | 2.609.107 |
| Bonds and debt instruments | 42.850 | 7.842 | 141.379 | 124.188 | 83.587 | 399.846 |
| Shares and equity instruments | 61.777 | 79.481 | 0 | 146 | 0 | 141.404 |
| Derivatives | 550 | 20.667 | 6.436 | 28.578 | 12.036 | 68.267 |
| Derivatives used for hedging | 0 | 786 | 334 | 1.046 | 3.644 | 5.810 |
| Securities used for hedging | 246.566 | 0 | 0 | 0 | 0 | 246.566 |
| Investments in associates | 0 | 0 | 0 | 0 | 50.877 | 50.877 |
| Intangible assets | 0 | 0 | 0 | 0 | 62.504 | 62.504 |
| Investment property | 0 | 0 | 0 | 0 | 16.437 | 16.437 |
| Property and equipment | 0 | 0 | 0 | 0 | 27.814 | 27.814 |
| Tax assets | 0 | 0 | 1.731 | 4.711 | 0 | 6.442 |
| Other assets | 77.307 | 0 | 28.617 | 154 | 0 | 106.078 |
| Total Assets 30.6.2007 | 957.279 | 1.051.987 | 636.008 | 1.002.250 | 922.830 | 4.570.354 |
| 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 | 12.047 | 111.915 | 17.591 | 26.676 | 1.864 | 170.093 |
| Deposits | 273.580 | 743.896 | 162.357 | 11.186 | 19.228 | 1.210.247 |
| Financial liabilities measured at fair value | 5.713 | 26.150 | 17.141 | 37.614 | 24.261 | 110.879 |
| Borrowings | 14.882 | 487.952 | 320.815 | 1.265.607 | 285.299 | 2.374.555 |
| Subordinated loans | 0 | 0 | 18.628 | 205.174 | 0 | 223.802 |
| Tax liabilities | 0 | 0 | 13.714 | 10.207 | 0 | 23.921 |
| Other liabilities | 70.316 | 0 | 41.409 | 10.397 | 0 | 122.122 |
| Total Liabilities 30.6.2007 | 376.538 | 1.369.913 | 591.655 | 1.566.861 | 330.653 | 4.235.619 |
| Total Liabilities 31.12.2006 | 336.083 | 1.004.574 | 608.811 | 1.179.243 | 591.793 | 3.720.504 |
| Assets - liabilities 30.6.2007 | 580.741 | (317.926) | 44.353 | (564.611) | 592.178 | 334.735 |
| Assets - liabilities 31.12.2006 | 357.095 | (103.905) | (213.877) | (145.362) | 440.941 | 334.892 |

Events after the Balance Sheet date

41. There have been no material post Balance Sheet events which would require disclosures or adjustments to the 30 June 2007 Interim Financial Statements. On 24 July 2007 the Board of Directors approves the Interim Financial Statements and authorised them for publication.