

Kaupthing Bank's first quarter 2007 results
Net earnings of ISK 20.3 billion (€279 million)

- ◆ Shareholders' net earnings increased by 7.9% compared with the same period in 2006.
- ◆ Return on equity in first quarter of 27.6% on an annualized basis.
- ◆ Earnings per share of ISK 27.4 in Q1 2007 – compared with ISK 28.3 in Q1 2006
- ◆ Operating income of ISK 44.1 billion - increasing by 24.3% compared with the same period in 2006.
- ◆ Net interest income increased by 55.1% compared with the same period in 2006.
- ◆ Net fee and commission income increased by 43.4% compared with the same period in 2006.
- ◆ Operating expenses of ISK 17.7 billion – an increase of 41.1% compared with the first quarter of 2006.
- ◆ Total assets of ISK 4,198 billion (€47.7 billion) at the end of March 2007, increasing by 10.1% at a fixed exchange rate from the beginning of the year and by 3.5% in ISK.

Hreidar Már Sigurdsson, CEO

"We have made a good start to the year and all the Bank's main offices have delivered solid results. Interest income and commission income have increased sharply which is a result of the hard work we put in last year to integrate activities across the group. We are especially satisfied to see the Bank perform so well in the UK. Earnings there have increased and the income base has broadened. The Bank is better placed than ever to achieve continued growth, and the outlook on our key markets is bright."

Key figures

<i>ISK billions</i>	Q1 2007	Q1 2006	Change	Q1 2007	Q4 2006	Change
Operating income	44.1	35.5	24%	44.1	40.9	8%
Operating expenses	17.7	12.6	41%	17.7	18.8	-6%
Shareholders' net earnings	20.3	18.8	8%	20.3	18.1	12%
Cost/income ratio	40.2%	35.4%		40.2%	46.1%	
Earnings per share, ISK	27.4	28.3	-3%	27.4	26.1	5%
Return on equity	27.6%	19.1%		27.6%	28.9%	

Income Statement

<i>ISK millions</i>	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Net interest income	16,265	14,806	12,687	14,384	10,484	9,529
Net fee and commission income	12,337	11,866	7,632	9,184	8,602	6,203
Net financial income	13,456	12,003	37,256	-2,607	13,505	13,960
Other income	2,002	2,241	2,210	10,102	2,860	2,855
Operating income	44,059	40,915	59,785	31,064	35,451	32,547
Salaries and related cost	-10,534	-10,572	-7,315	-8,263	-7,420	-6,840
Other administrative cost	-7,173	-8,274	-6,488	-6,542	-5,133	-4,437
Operating expenses	-17,707	-18,846	-13,803	-14,805	-12,553	-11,277
Impairment	-1,423	-1,637	-2,820	-961	-710	-1,789
Earnings before income tax	24,929	20,433	43,163	15,299	22,188	19,481
Income tax	-4,236	-1,793	-7,630	-2,618	-2,595	-4,018
Net earnings	20,694	18,640	35,533	12,680	19,593	15,463
Shareholders of Kaupthing Bank	20,281	18,077	35,393	13,035	18,798	14,786
Minority interest	413	564	140	-354	796	678
Earnings per share, ISK	27.4	26.1	53.4	19.6	28.3	22.4

Balance Sheet

<i>ISK billions</i>	31/3/07	31/12/06		31/3/07	31/12/06
Cash bal. with central banks	134	107	Credit institutions	120	110
Loans to credit institutions	452	485	Deposits	892	751
Loans to customers	2,559	2,539	Borrowings	2,435	2,400
Bonds and debt instruments	363	318	Subordinated loans	219	216
Shares and equity instruments	171	159	Mortgage funding at FV	10	11
Derivatives	59	65	Insurance liabilities	8	8
Derivatives used for hedging	9	6	Trading liabilities	61	51
Securities used for hedging	235	116	Derivatives used for hedging	9	9
Investment in associates	5	5	Provisions	3	5
Intangible assets	64	68	Tax liabilities	24	23
Investment property	31	32	Liabilities classified as HFS	1	1
Property and equipment	29	30	Other liabilities	93	135
Tax assets	7	6	Minority interest	10	11
Non-current assets held for sale	2	2	Shareholders' equity	314	324
Other assets	78	115			
Total Assets	4,198	4,055	Total Liabilities and Equity	4,198	4,055

Results by profit centers

January-March 2007

<i>ISK millions</i>	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Eliminations and other cost centers	Total
Net interest income	-564	-1,095	4,428	13,423	324	-250	16,265
Net fee and commission income	4,126	3,483	-75	1,257	3,414	131	12,337
Net financial income	9,778	3,980	-441	94	28	17	13,456
Other income	56	65	67	1,555	81	177	2,002
Operating income	13,396	6,433	3,978	16,329	3,847	76	44,059
Operating expenses	-2,412	-708	-875	-4,380	-2,002	-7,330	-17,707
Impairment	0	0	0	-1,425	0	1	-1,423
Total expenses	-2,411	-707	-875	-5,805	-2,002	-7,329	-19,130
Earnings before cost allocation	10,985	5,726	3,103	10,524	1,845	-7,253	24,929
Allocated cost	-1,163	-432	-561	-2,407	-1,070	5,633	0
Earnings before income tax	9,822	5,294	2,541	8,117	775	-1,620	24,929

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 7.8% during the first quarter 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 24,930 million during the first quarter of 2007, compared with ISK 22,188 million during the same period in 2006. Shareholders' net earnings totalled ISK 20,281 million during the first quarter of 2007, compared with ISK 18,798 million during the same period in 2006, an increase of 7.9%. Earnings per share during the first quarter were ISK 27.4, compared with ISK 28.3 during the same period in 2006.

Income

Operating income during the first quarter of 2007 totalled ISK 44,060 million, an increase of 24.3% compared with the same period in 2006.

Net interest income during the first quarter of 2007 totalled ISK 16,265 million, an increase of 55.1% compared with the same period of 2006. This increase is largely due to the growth of the Bank's loan portfolio and interest income from cash which the Bank has not disposed of following the share offering which took place at the end of November 2006.

The net interest margin, or interest income less interest expenses as a percentage of average total interest earning assets, was 1.82% during the first quarter of 2007, compared with 1.66% in 2006. The table below shows net interest income by geographical location:

<i>ISK Millions</i>	Q1 2007	Q1 2006	Change
Iceland	4,651	2,304	102%
Scandinavia	5,122	3,625	41%
UK	4,491	3,137	43%
Luxembourg	1,510	1,158	30%
Other	491	260	89%
Total	16,265	10,484	55%

The net interest spread (calculated as the average rate on total interest earning assets less average cost of total interest bearing liabilities) was 2.08% during the first quarter of 2007, compared with 1.72% during the same period in 2006.

Net fee and commission income during the first quarter of 2007 totalled ISK 12,337 million, an increase of 43.4% compared with the first quarter of 2006. This increase is due to the setup of new profit centers in the UK and Denmark in recent quarters. The table below shows net fee and commission income during the first quarter of 2007 compared with the same period in 2006 by geographical location:

<i>ISK Millions</i>	Q1 2007	Q1 2006	Change
Iceland	4,960	3,157	57%
Scandinavia	1,755	1,614	9%
UK	3,909	2,218	76%
Luxembourg	1,528	1,393	10%
Other	184	220	-16%
Total	12,337	8,602	43%

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 13,456 million during the first quarter of 2007, a decrease of 0.4% from the same period in 2006. Dividend income was mainly from the Bank's shareholdings in Icelandic and Scandinavian companies. Net gain on financial assets during the first quarter is specified as follows by geographical location:

ISK Millions	Iceland	Scandinavia	UK	Luxembourg	Other	Total
Net gain from bonds and fixed income securities	- 142	512	146	-17	0	499
Net gain from equity and variable income securities	2,303	9,075	641	74	- 53	12,039
Net gain from derivatives	-1,909	-23	411	474	0	-1,048
Net gain from hedge accounting instruments	0	107	0	0	0	107
Total	252	9,671	1,198	531	- 53	11,598
Dividend income	1,279	551	23	5	0	1,858
Net financial income total	1,531	10,221	1,221	536	- 53	13,456

Other income totalled ISK 2,002 million during the first quarter of 2007, compared with ISK 2,860 million for the same period in 2006. This item mainly includes net earnings from associated companies of ISK 144 million and income from Kaupthing Singer & Friedlander's operating leases of ISK 1,155 million in the first quarter of 2007. The Bank's profit on the sale of its wholly-owned subsidiary Eik fasteignafélag hf., which took place at the beginning of April 2007 and totalled approximately ISK 4 billion before income tax, will be reported among *other income* during the second quarter.

Expenses

Operating expenses totalled ISK 17,707 million during the first quarter of 2007, an increase of 41.1% from the same period in 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 first quarter of 2007 was 40.2%, compared with 35.4% for the same period in 2006.

Salaries and related expenses during the first quarter of 2007 totalled ISK 10,534 million, increasing by 42.0% from the same period in 2006. This increase between years is primarily due to a general increase in the number of employees and performance related payments made during the year. The number of full-time equivalent positions at the Bank was 2,847 on 31 March 2007, compared with 2,449 on 31 March 2006, an increase of 398 or 16.3%.

Other operating expenses amounted to ISK 7,173 million during the first quarter of 2007, increasing by ISK 2,040 million from the same period in 2006, or 39.7%. 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 1,423 million during the first quarter of 2007, compared with ISK 710 million for the same period in 2006. This increase is primarily explained by higher collective provisions. The Bank's loan portfolio grew by 36.8% between 31 March 2006 and 31 March 2007.

Income tax expense amounted to ISK 4,236 million during the first quarter of 2007, which corresponds to 17% of earnings before income tax, compared with ISK 2,595 million during the same period in 2006, or 12% of earnings before income tax.

Balance Sheet

Assets

The Bank's total assets on 31 March 2007 amounted to ISK 4,198 billion, increasing by ISK 143 billion or 3.5% since the beginning of the year. Taking into account the 7.8% strengthening of the ISK during the first quarter the Bank's total assets increased by 10.1% during the period.

Loans to customers increased from ISK 2,539 billion to ISK 2,559 billion, or by 0.8%, during the quarter, (7.9% at a fixed exchange rate) whilst loans from credit institutions decreased from ISK 485.3 billion to ISK 452.4 billion, a decrease of 6.8% (an increase of 1.6% at a fixed exchange rate).

Financial assets as of 31 March totalled ISK 836.6 billion, increasing by ISK 171.5 billion from the beginning of the year, or 25.8%. Taking into account the appreciation of the ISK there was a 32.3% increase. Financial assets held for trading amounted to ISK 432.4 billion as of 31 March, increasing by 45.2% from the beginning of the year. Financial assets designated at fair value totalled ISK 394.6 billion, increasing by 9.4% from the beginning of the year. Derivatives used for hedging amounted to ISK 9.4 billion but totalled ISK 6.5 billion at the beginning of the year. Positions in shares and equity

instruments amounted to ISK 170.5 billion on 31 March. Furthermore the Bank holds shares as hedge against derivatives amounting to ISK 153.6 billion. The Bank is furthermore not exposed to market risk of ISK 7.6 billion due to minority interests in the Bank's subsidiary Norvestia in Finland. Listed shares amounted to ISK 106.2 billion or 2.5% of the Bank's total assets as of 31 March 2007. Of this total, ISK 19.9 billion is in the form of shares listed on the OMX Nordic Exchange in Iceland, or 18.7%.

Holdings in unlisted shares totalled ISK 54.1 billion, or 1.3% of the Bank's total assets as of 31 March, compared with 0.9% at the beginning of the year. The Bank's five largest positions in unlisted shares represented approximately 32% 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	Iceland	Telecommunication	28%
SPRON	Iceland	Financial Institution	5%
Phase Eight	UK	Retail	49%
Icopal Holding A/S	Denmark	Manufacturing	15%
Somerfield	UK	Retail	9%

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 third quarter that the Bank's holdings in listed and unlisted shares (Shares and equity instruments) should be less than 35% of the Bank's risk capital. As of 31 March the ratio totalled 32.3%. Thereof, the ratio of listed shares was 20.7% and unlisted shares 11.6% 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) and Mosaic Fashions (fashion retailer). 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 77.9 billion as of 31 March 2007 and decreased by 32.5% 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 119.9 billion as of 31 March 2007 and increased by ISK 9.4 billion or 8.5% since the beginning of the year.

Deposits amounted to ISK 892.2 billion as of 31 March, increasing by ISK 141.5 billion from the beginning of the year, or by 18.9%. Deposits increased by 25.8% taking into account the 7.8% appreciation of the ISK so far this year. Deposits represented 21.3% of the Bank's total assets as of 31 March, compared with 18.5% at the beginning of the year. Deposits as a ratio of loans to customers equalled 34.9% at the end of March, compared with 29.6% at the beginning of the year.

Borrowings amounted to ISK 2,435 billion as of 31 March 2007, compared with ISK 2,400 billion at the beginning of the year, an increase of ISK 35 billion or 1.5%. Borrowings increased by 9.1%, taking into account the 7.8% appreciation of the ISK so far this year.

Shareholders' equity amounted to ISK 313.9 billion as of 31 March 2007, compared with ISK 323.5 billion at the beginning of the year, a drop of ISK 9.6 billion or 3.0%. At the end of March the Bank paid a dividend of ISK 10.3 billion (ISK 14 a share) to shareholders, which explains partly the decrease in equity. The 7.8% appreciation of the ISK during the first quarter also reduced the Bank's equity.

The Board of Directors decided last autumn not to hedge in full the net investment in the Bank's foreign operations against the exchange rate of the ISK. The 7.8% 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 446.0 billion as of 31 March 2007. The CAD ratio was 13.8% as of 31 March, compared with 15.0% at the beginning of the year. Tier 1 capital was 9.6%, compared with 10.5% at the beginning of the year. It is the objective of the Bank's management that Tier 1 capital is at least 8.0% and the CAD ratio is at least 11.0%.

As of 31 March the Bank's issued share capital was ISK 7,404,530,530 at nominal value, which was divided into 740,453,053 shares. The total number of shareholders as of 31 March was 33,644. The Bank's largest shareholder and the only one to have a stake of more than 10% is Exista. Exista and related companies own a total holding of 23.0%.

Operating results of Kaupthing Bank's profit centres

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

All of the Bank's profit centres made a profit before income tax during the first quarter of 2007. The highest profit before income tax during the quarter was reported by Capital Markets, or ISK 9,822 million. Banking reported earnings before income tax of ISK 8,117 million, Investment Banking ISK 5,294 million, Treasury ISK 2,541 million and Asset Management & Private Banking reported earnings of ISK 775 million. The table below shows the operating results of the Bank's profit centres for the first quarter.

<i>ISK millions - Q1 2007</i>	Capital Markets	Investment Banking	Treasury	Banking	Asset management and Private banking	Eliminations and other cost centers	Total
Net interest income	-564	-1,095	4,428	13,423	324	-250	16,265
Net fee and commission income	4,126	3,483	-75	1,257	3,414	131	12,337
Net financial income	9,778	3,980	-441	94	28	17	13,456
Other income	56	65	67	1,555	81	177	2,002
Operating income	13,396	6,433	3,978	16,329	3,847	76	44,059
Operating expenses	-2,412	-708	-875	-4,380	-2,002	-7,330	-17,707
Impairment	0	0	0	-1,425	0	1	-1,423
Total expenses	-2,411	-707	-875	-5,805	-2,002	-7,329	-19,130
Earnings before cost allocation	10,985	5,726	3,103	10,524	1,845	-7,253	24,929
Allocated cost	-1,163	-432	-561	-2,407	-1,070	5,633	0
Earnings before income tax	9,822	5,294	2,541	8,117	775	-1,620	24,929

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 8,117 million for the first quarter of 2007. Operating income totalled ISK 16,329 million, an increase of 1.0% compared with the fourth quarter of 2006. Total expenses amounted to ISK 5,805 million, an increase of 6.7% compared with the fourth quarter of 2006. Impairments decreased by 12.1% from the fourth quarter of 2006 but were 102.1% higher than during the same quarter in 2006. This increase is primarily due to higher collective provisions.

<i>ISK millions</i>	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net interest income	13,423	12,471	11,959	11,264	10,208
Net fee and commission income	1,257	1,662	1,560	1,389	1,133
Net financial income	94	320	63	164	203
Other income	1,555	1,712	1,722	1,977	1,220
Operating income	16,329	16,165	15,305	14,794	12,764
Operating expenses	-4,380	-4,602	-3,630	-3,433	-3,304
Impairment	-1,425	-1,621	-1,684	-841	-705
Total expenses	-5,805	-6,223	-5,313	-4,274	-4,009
Earnings before cost allocation	10,524	9,942	9,992	10,520	8,755
Allocated cost	-2,407	-2,963	-1,567	-2,181	-2,033
Earnings before income tax	8,117	6,979	8,425	8,339	6,722

Capital Markets

Capital Markets comprises two separate profit centers: 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. It was announced in the Bank's 2006 annual results press release that as of 1 January 2007 Proprietary Trading would be moved into Treasury. However, this change will no longer be implemented and Proprietary Trading will continue to belong to Capital Markets. However, the foreign exchange and derivatives trading units have been transferred from Treasury to Capital Markets and are now included for the first time in the results of Capital Markets. Comparative figures for these profit centres have been adjusted to take these changes into account.

Capital Markets made a profit before income tax of ISK 9,822 million for the first quarter of 2007. Operating income amounted to ISK 13,396 million, compared with ISK 6,928 million in the fourth quarter of 2006. This increase is chiefly due to strong growth in net fee and commission income resulting from increased activities in the UK, Iceland and Luxembourg, and a more than twofold increase in net financial income between quarters. Net financial income chiefly came from the Bank's Nordic equities portfolio, including the Bank's holding in the Norwegian insurance and financial services company Storebrand, as market conditions were favourable for the Bank during the quarter. Total expenses amounted to ISK 2,411 million and decreased by 5.7% compared with the fourth quarter of 2006.

<i>ISK millions</i>	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net interest income	-564	-286	-509	605	-218
Net fee and commission income	4,126	2,807	2,258	2,018	2,798
Net financial income	9,778	4,407	2,269	-6,515	7,752
Other income	56	0	0	0	0
Operating income	13,396	6,928	4,018	-3,892	10,332
Operating expenses	-2,412	-2,558	-1,418	-1,370	-1,048
Impairment	0	0	0	123	0
Total expenses	-2,411	-2,558	-1,418	-1,493	-1,048
Earnings before cost allocation	10,985	4,370	2,600	-5,385	9,284
Allocated cost	-1,163	-1,034	-659	-908	-646
Earnings before income tax	9,822	3,336	1,942	-6,293	8,638

Treasury

Treasury is responsible for the Bank's funding, inter-bank trading, derivatives, and foreign exchange trading and brokerage. An organizational change was introduced on 1 January 2007 whereby the foreign exchange and derivatives trading units 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 2,541 million for the first quarter of 2007. Operating income amounted to ISK 3,978 million and decreased by 38.2% compared with the fourth quarter of 2006. This decrease is owing to negative net financial income of ISK 441 million, compared with net financial income of ISK 2,828 million in the fourth quarter of 2006. This loss from derivatives is primarily due to a drop in short-term interest rates in ISK. Net interest income increased by 33.0% between quarters. This increase is largely due to interest income from cash which the Bank has not disposed of following the share offering which took place at the end of November 2006. Total expenses amounted to ISK 875 million, a decrease of 6.6% between quarters.

<i>ISK millions</i>	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net interest income	4,428	3,328	2,324	3,272	1,462
Net fee and commission income	-75	262	-108	367	-78
Net financial income	-441	2,828	3,072	1,109	1,402
Other income	67	23	1	2	0
Operating income	3,978	6,441	5,288	4,750	2,786
Operating expenses	-875	-937	-758	-701	-492
Impairment	0	0	1	-2	6
Total expenses	-875	-938	-759	-699	-498
Earnings before cost allocation	3,103	5,503	4,529	4,051	2,288
Allocated cost	-561	-664	-370	-484	-455
Earnings before income tax	2,541	4,839	4,159	3,567	1,833

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 5,294 million during the first quarter of 2007. Operating income totalled ISK 6,433 million, compared with ISK 7,477 million in the fourth quarter of 2006. Net fee and commission income amounted to ISK 3,483 million for the quarter, a decrease of 8.1% between quarters. Net financial income amounted to ISK 3,980 million which is connected particularly to investments in the Nordic countries. Total expenses amounted to ISK 707 million, decreasing by ISK 598 million compared with the fourth quarter. This decrease is due to a drop in performance related payments from the fourth quarter of 2006 and a reduction in operating expenses.

<i>ISK millions</i>	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net interest income	-1,095	-914	-961	-624	-850
Net fee and commission income	3,483	3,792	1,295	2,471	2,019
Net financial income	3,980	4,592	31,652	2,505	4,235
Other income	65	7	-142	-84	262
Operating income	6,433	7,477	31,845	4,268	5,666
Operating expenses	-708	-1,310	-562	-1,208	-556
Impairment	0	-4	0	2	1
Total expenses	-707	-1,306	-562	-1,210	-557
Earnings before cost allocation	5,726	6,171	31,283	3,058	5,109
Allocated cost	-432	-123	-203	-340	-222
Earnings before income tax	5,294	6,048	31,080	2,718	4,887

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 775 million for the first quarter of 2007. Operating income totalled ISK 3,847 million, a decrease of 8.2% from the fourth quarter of 2006, which is usually the strongest quarter for the profit center. Net fee and commission income amounted to ISK 3,414 million, an increase of 6.0% from the fourth quarter of 2006. Total expenses amounted to ISK 2,002 million, slightly decreasing between quarters.

<i>ISK millions</i>	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net interest income	324	254	167	234	162
Net fee and commission income	3,414	3,221	2,544	2,837	2,628
Net financial income	28	110	91	134	196
Other income	81	605	357	0	0
Operating income	3,847	4,190	3,160	3,205	2,986
Operating expenses	-2,002	-2,037	-1,660	-1,745	-1,938
Impairment	0	0	1,138	0	0
Total expenses	-2,002	-2,037	-2,798	-1,745	-1,938
Earnings before cost allocation	1,845	2,153	361	1,460	1,048
Allocated cost	-1,070	-823	-766	-873	-965
Earnings before income tax	775	1,330	-405	587	83

Assets under custody at the Bank totalled ISK 2,181 billion as of 31 March 2007, an increase of 11.7% from the beginning of the year. Assets under management totalled ISK 1,444 billion at the end of March, increasing by 2.9% from the beginning of the year (an increase of 8.6% without exchange effects).

First Quarter Highlights

New private equity fund – Kaupthing Capital Partners II

Kaupthing Bank is committing £200 million (ISK 26.2 billion) to a new fund, Kaupthing Capital Partners II, which invests in unlisted companies and is the first fund of this kind to be founded by Kaupthing Bank with third-party investors. The Bank has also raised £300 million (ISK 39.3 billion) from third-party investors. Kaupthing Bank will therefore own 40% of the fund and its total size will be £500 million (ISK 65.5 billion). Henceforth Kaupthing Bank's investments in unlisted companies will be placed in this fund, which will be managed by Kaupthing Principal Investments, the team at the Bank which specializes in investments in private equity. The assets which the Bank held in unlisted companies at the turn of the year will not be transferred into the new fund. The establishment of the fund will create greater transparency and give the Bank's policy regarding unlisted companies greater clarity and stability.

Activities in the Middle East

Kaupthing Bank is currently preparing to commence activities in the Middle East. The Bank will initially focus on investment banking and wealth management in this region. Kaupthing Bank expects to employ approximately 10-15 people in the area during the first year.

Kaupthing Bank appoints Chief Credit Officer

Bjarki Diego has been appointed Chief Credit Officer of Kaupthing Bank, a new position at group level. Mr. Diego has been Managing Director of Corporate Banking at Kaupthing Bank in Iceland since 2003 and will continue to serve in this position. Prior to that, he was the Managing Director of Investment Banking in Iceland.

Funding and credit ratings

Kaupthing Bank's new credit rating Aa3

On 23 February 2007 Moody's Investors Service announced an upgrade of Kaupthing Bank's credit rating. The Bank's long-term deposits and senior debt ratings in local and foreign currencies were upgraded from A1 to Aaa. At the same time, FIH-Erhvervsbank, Kaupthing's subsidiary in Denmark (FIH) credit rating was upgraded from A1 to Aa3. These upgrades followed the implementation of Moody's new methodology, joint default analysis (JDA). Following certain criticism levelled at the JDA methodology, the rating agency revised the credit ratings of many banks, including Kaupthing Bank and FIH. Therefore, on 10 April 2007 Kaupthing's credit rating was downgraded from Aaa to Aa3 and FIH's credit rating was lowered from Aa3 to A1.

Further funding diversification

Kaupthing Bank launched a CAD 500 million bond issue in February. This transaction represents Kaupthing Bank's inaugural issue in the Canadian Maple bond market. The bond, which has a maturity of three years, pays a fixed coupon of 4.7%. This transaction is an important step in the Bank's strategy to further diversify its investor base.

In January FIH diversified its funding sources by launching its inaugural GBP 300 million transaction in the Sterling fixed rate market. The bond, which has a maturity of five years, was priced at Gilts +80bps and pays a fixed coupon of 6.0%.

In March, FIH concluded a EUR 200 million 6 years (with a call option after 3 years) Dated Upper Tier 2 transaction, priced at 3m Euribor +40bps. The subordinated capital was raised to meet the growth in FIH's lending business and substantially larger liquidity holdings.

Strong liquidity position

The Bank's liquidity position is strong. At the end of March the Bank had secured liquidity of ISK 1.226 billion which enables the Bank to meet all its obligations as well as support moderate growth over the next 12 months without accessing the capital markets. At the same time this strong liquidity is sufficient to cover all current long-term funding redemptions for 2007, 2008 and 2009.

Deposits

Kaupthing Bank aims to increase the deposit base of the Bank to up to 40% of total loans to customers over the next 15 months. As of 31 March this ratio was 34.9% compared with 29.6% at the beginning of year.

Second Quarter Highlights

Kaupthing sells all its share capital in Eik fasteignafélag hf.

On 4 April Kaupthing Bank sold all its share capital in Eik fasteignafélag hf. The purchase price was paid in cash. Kaupthing Bank generated a profit of approximately ISK 4 billion on this transaction, which will be booked in the second quarter of 2007. In 2006 Eik fasteignafélag hf. reported a pre-tax profit of ISK 582 million.

Outlook

Kaupthing Bank has made a strong start to 2007. The Bank's management believes there is a generally positive outlook for the Bank in the near future. The prospects on the markets in which the Bank operates are mostly bright for the activities and services on which the Bank bases its business.

Kaupthing Bank operates in ten countries. Considerable effort has been invested into the integration of Kaupthing Singer & Friedlander into the Group. The year 2007 has started well there and the management expects the company to achieve a return on equity of more than 15% in 2007, which is in keeping with Kaupthing Bank's objective of a minimum 15% return on equity at all subsidiaries.

A key area of focus has been to increase commission income on a group level. In 2006 new profit centres were set up, such as Investment Banking and Capital Markets at FIH in Denmark and Capital Markets in the UK. These profit centers are continuing to develop and income can be expected to increase from these sources as the year progresses.

Return on equity in first quarter of 2007 was 27.6%, which is well above the Bank's target of 15% annualized ROE in the long term. However, it should be kept in mind that the operations of a bank like Kaupthing Bank are contingent upon uncertainties, such as the developments of financial markets and various other factors, which are not under the Bank's control.

Five-year pro forma summary

Income statement					
<i>ISK millions</i>	2007 Q1	2006	2005	2004	2003
Net interest income	16,265	52,362	32,710	18,259	10,124
Other operating income	27,794	114,854	69,488	31,687	21,656
Operating income	44,059	167,216	102,198	49,946	31,780
Operating expenses	-17,707	-60,006	-35,524	-23,625	-18,493
Impairment	-1,423	-6,127	-4,389	-3,825	-3,894
Income tax	-4,236	-14,636	-11,228	-4,237	-1,486
Net earnings	20,694	86,447	51,056	18,258	7,907
Net shareholders' earnings	20,281	85,302	49,260	17,707	7,520
Minority interest	413	1,145	1,796	552	387
Balance Sheet					
<i>ISK millions</i>	31.3.2007	2006	2005	2004	2003
Assets					
Cash bal. with central banks	133,901	106,961	34,877	6,290	-
Loans to credit institutions	452,359	485,334	195,594	174,310	-
Loans to customers	2,559,121	2,538,609	1,543,700	980,107	-
Bonds and debt instruments	362,852	318,264	390,575	202,934	-
Shares and equity instruments	170,536	159,020	114,355	86,122	-
Derivatives	58,820	65,454	21,047	13,085	-
Derivatives used for hedging	9,409	6,453	4,459	3,820	-
Securities used for hedging	234,986	115,938	82,098	0	-
Investment in associates	5,369	5,304	13,888	3,649	-
Intangible assets	63,952	68,301	54,943	35,098	-
Investment property	30,625	31,584	24,156	19,155	-
Property and equipment	29,127	30,466	22,433	6,092	-
Tax assets	7,045	5,834	5,004	1,092	-
Non-current assets held for sale	2,348	2,334	2,303	3,631	-
Other assets	77,935	115,540	31,380	19,069	-
Total assets	4,198,385	4,055,396	2,540,811	1,554,453	558,569
Liabilities and equity					
Deposits	892,170	750,657	486,176	202,193	182,497
Subordinated loans	218,856	216,030	102,688	57,623	10,704
Other liabilities	2,763,220	2,753,816	1,749,436	1,135,728	308,837
Minority interest	10,241	11,382	8,329	9,539	10,603
Shareholders' equity	313,899	323,510	194,183	149,370	45,928
Total liabilities and equity	4,198,385	4,055,396	2,540,811	1,554,453	558,569
KEY RATIOS					
Cost / income ratio	40.2%	35.9%	34.8%	47.3%	58.2%
Return on shareholders' equity	27.6%	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	8.1	6.6	9.9	12.4	12.2
Earnings per share, ISK	27.4	127.1	75.2	35.6	18.5
Earnings per share diluted, ISK	26.7	123.4	73.9	35.1	18.4
Average no. of shares outstanding, million	739	671	655	497	406
Avg. no. of shares outstanding diluted, million	760	691	666	505	411
No. of shares at year end, million	734	732	664	652	438
No. of shares at year end diluted, million	756	752	675	660	443
Share price at year end	1.029	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 London

A presentation for shareholders and market participants will be held on Thursday 26 April at 9:30 a.m. (8:30 a.m. GMT) at the headquarters of Kaupthing Singer & Friedlander, One Hanover Street, London W1S 1AX. 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.net/ir or by calling +44 (0)207 108 6303, +1 866 676 58 69 or +46 (0)850 626 930 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.

Presentation in Iceland

A presentation of the Bank's results will be held by CEO Hreidar Már Sigurdsson on Friday 27 April at 08:30 a.m. GMT at the Bank's headquarters at Borgartún 19, Reykjavík.

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

25 July	Second quarter interim financial statement
26 October	Third quarter interim financial statement
31 January 2008	Fourth quarter interim financial statement and 2007 annual accounts

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 31 March 2007 the number of full-time equivalent positions was 2,847 at Kaupthing Bank and its subsidiaries.