



Consolidated Interim Financial Statements
1 January - 31 March 2007

Kaupthing Bank hf.
Borgartún 19
105 Reykjavík
Iceland

Reg. no. 560882-0419

Contents

	page		page
Endorsement and Signatures of the Board of Directors and the CEO	3	Notes to the Consolidated Interim Financial Statements:	
Independent Auditors' Review Report	4	Accounting Policies	9
Consolidated Interim Income Statement	5	Segment Reporting	9
Consolidated Interim Balance Sheet	6	Notes to the Income Statement	12
Consolidated Interim Statement of Changes in Equity	7	Notes to the Balance Sheet	13
Condensed Consolidated Interim Statement of Cash Flows	8	Off Balance Sheet Information	20
		Additional Information	21

Endorsement and Signatures of the Board of Directors and the CEO

The Consolidated Interim Financial Statements of Kaupthing Bank hf. for the three months ended 31 March 2007, have been prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34). The Consolidated Interim Financial Statements include the Interim Financial Statements of Kaupthing Bank hf. and its subsidiaries, together referred to as "the Bank".

Net earnings, according to the Consolidated Interim Income Statement, amounted to ISK 20,694 million for the period from 1 January to 31 March 2007. Total equity, according to the Consolidated Interim Balance Sheet, amounted to ISK 324,140 million at the end of the period, including share capital amounting to ISK 7,344 million. The equity ratio of the Bank, calculated according to the Act on Financial Undertakings, was 13.8%. This ratio may not be lower than 8.0%.

The Board of Directors and the CEO of Kaupthing Bank hf. hereby confirm the Consolidated Interim Financial Statements for the period ended 31 March 2007.

Reykjavík, 25 April 2007

Board of Directors

Sigurdur Einarsson
Chairman

Antonio Yerolemou

Ásgeir Thoroddsen

Bjarnfredur Ólafsson

Brynja Halldórsdóttir

Gunnar Páll Pálsson

Hjörleifur Thór Jakobsson

María Sólbergdóttir

CEO

Hreidar Már Sigurdsson

Independent Auditors' Review Report

To the Board of Directors of Kaupthing Bank hf.

Introduction

We have reviewed the accompanying Consolidated Interim Balance Sheet of Kaupthing Bank hf. as of 31 March 2007 and the related statements of income, changes in equity and cash flows for the three-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 31 March 2007, and of its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

Reykjavík, 25 April 2007

KPMG hf.

Saemundur Valdimarsson

Reynir Stefán Gylfason

Consolidated Interim Income Statement

for the Period from 1 January to 31 March 2007

	Notes	2007 1.1.-31.3.	2006 1.1.-31.3.
Interest income		62,047	35,434
Interest expense		(45,782)	(24,950)
Net interest income		16,265	10,484
Fee and commission income		15,413	9,454
Fee and commission expense		(3,076)	(852)
Net fee and commission income		12,337	8,602
Net financial income	7-12	13,456	13,505
Share of profit of associates		144	1,038
Other operating income	13	1,858	1,822
Operating income		44,060	35,451
Salaries and related expenses		(10,534)	(7,420)
Administration expenses		(5,516)	(3,749)
Depreciation and amortisation		(1,534)	(1,293)
Other operating expenses		(123)	(90)
Impairment on loans	22	(1,423)	(710)
Earnings before income tax		24,930	22,189
Income tax expense		(4,236)	(2,595)
Net earnings		20,694	19,594
Attributable to:			
Shareholders of Kaupthing Bank hf.		20,281	18,798
Minority interest		413	796
Net earnings		20,694	19,594
Earnings per share			
Basic earnings per share	15	27.4	28.3
Diluted earnings per share	15	26.7	27.8

Consolidated Interim Balance Sheet

as at 31 March 2007

	Notes	31.3.2007	31.12.2006
Assets			
Cash and balances with central banks	16	133,901	106,961
Loans to credit institutions	17	452,359	485,334
Loans to customers	18-22	2,559,121	2,538,609
Bonds and debt instruments	23	362,852	318,264
Shares and instruments with variable income	23	170,536	159,020
Derivatives	23,36	58,820	65,454
Derivatives used for hedging	23,36	9,409	6,453
Securities used for hedging	23	234,986	115,938
Investments in associates		5,369	5,304
Intangible assets	26	63,952	68,301
Investment property	27	30,625	31,584
Property and equipment		29,127	30,466
Tax assets		7,045	5,834
Other assets	28	80,283	117,874
Total Assets	40	4,198,385	4,055,396
Liabilities			
Due to credit institutions and central banks		119,871	110,456
Deposits		892,170	750,658
Financial liabilities measured at fair value	29-31	79,415	71,264
Borrowings	32	2,435,101	2,399,939
Subordinated loans	33	218,856	216,030
Tax liabilities		23,772	23,209
Other liabilities	34	105,060	148,948
Total Liabilities		3,874,245	3,720,504
Equity			
Share capital		7,344	7,321
Share premium		163,984	164,028
Reserves		(2,378)	17,220
Retained earnings		144,950	134,941
Total Shareholders' Equity		313,900	323,510
Minority interest		10,240	11,382
Total Equity		324,140	334,892
Total Liabilities and Equity		4,198,385	4,055,396

Consolidated Interim Statement of Changes in Equity

for the Period from 1 January to 31 March 2007

	Share capital and premium	Reserves	Retained earnings	Total Share- holders' equity	Minority interest	Total equity
Changes in equity in Q1 2007:						
Equity 31 December 2006	171,349	17,220	134,941	323,510	11,382	334,892
Translation difference		(19,613)		(19,613)	(989)	(20,602)
Fair value changes in AFS financial assets		15		15		15
Net loss recognised directly in equity		(19,598)		(19,598)	(989)	(20,587)
Net earnings according to the Income Statement			20,281	20,281	413	20,694
Total recognised earnings for the period		(19,598)	20,281	683	(576)	107
Dividends paid to equity holders, ISK 14 per share			(10,272)	(10,272)		(10,272)
Purchases and sales of treasury stock	(238)			(238)		(238)
Exercised stock options	217			217		217
Other changes				0	(566)	(566)
Equity 31 March 2007	171,328	(2,378)	144,950	313,900	10,240	324,140
Changes in equity in Q1 2006:						
Equity 31 December 2005	121,244	(1,540)	74,479	194,183	8,329	202,512
Translation difference		7,354		7,354	79	7,433
Fair value changes in AFS financial assets		2		2		2
Net earnings recognised directly in equity		7,356		7,356	79	7,435
Net earnings according to the Income Statement			18,798	18,798	796	19,594
Total recognised earnings for the period		7,356	18,798	26,154	875	27,029
Dividends paid to equity holders, ISK 10 per share			(6,610)	(6,610)		(6,610)
Purchases and sales of treasury stock	19			19		19
Exercised stock options	104			104		104
Other changes		157		157	677	834
Equity 31 March 2006	121,367	5,973	86,667	214,007	9,881	223,888

Condensed Consolidated Interim Statement of Cash Flows

for the Period from 1 January to 31 March 2007

	2007	2006
	1.1.-31.3.	1.1.-31.3.
Net cash provided by operating activities.....	53,243	1,377
Net cash flow used in investing activities.....	(1,148)	(5,623)
Net cash flow (used in) provided by financing activities.....	(7,684)	4,634
	44,411	388
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.....	(17,703)	7,482
	229,497	89,628
Cash and cash equivalents at end of the period.....	229,497	89,628

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 Consolidated Interim Financial Statements for the three months ended 31 March 2007 comprise Kaupthing Bank hf. (the parent) and its subsidiaries (together referred to as "the Bank"). The Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Kaupthing Bank hf. on 25 April 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 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.net or www.omx.is.

The 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.-31.3.2007	Capital Markets	Investment Banking	Treasury	Banking	Asset Managem. and Private Banking	Elimination and cost centres	Total
Net interest income	(564)	(1,095)	4,428	13,423	324	(251)	16,265
Net fee and commission income	4,126	3,483	(75)	1,257	3,414	132	12,337
Net financial income	9,778	3,980	(441)	94	28	17	13,456
Other income	56	65	67	1,555	81	178	2,002
Operating income	13,396	6,433	3,979	16,329	3,847	76	44,060
Operating expense	(2,412)	(708)	(875)	(4,380)	(2,002)	(7,330)	(17,707)
Impairment	0	0	0	(1,424)	0	1	(1,423)
Total expense	(2,412)	(708)	(875)	(5,804)	(2,002)	(7,329)	(19,130)
Earnings before cost allocation	10,985	5,725	3,104	10,525	1,845	(7,253)	24,930
Allocated cost	(1,163)	(432)	(561)	(2,407)	(1,070)	5,633	0
Earnings before income tax	9,821	5,293	2,543	8,118	775	(1,620)	24,930
Net segment revenue from external customers	18,112	6,456	(25,359)	45,179	1,962	(2,290)	44,060
Net segment revenue from other segments	(4,715)	(23)	29,337	(28,850)	1,885	2,366	0
Operating income	13,396	6,433	3,979	16,329	3,847	76	44,060
Depreciation and amortisation	3	1	11	988	17	514	1,534
Total assets 31.3.2007	379,416	117,545	1,630,837	2,508,260	13,805	(451,478)	4,198,385
Total liabilities 31.3.2007	342,739	81,976	1,577,889	2,318,907	6,033	(453,299)	3,874,245
Allocated equity 31.3.2007	36,677	35,569	52,948	189,353	7,772	1,821	324,140
Total liabilities and equity 31.3.2007	379,416	117,545	1,630,837	2,508,260	13,805	(451,478)	4,198,385
1.1.-31.3.2006	Capital Markets	Investment Banking	Treasury	Banking	Asset Managem. and Private Banking	Elimination and cost centres	Total
Net interest income	(218)	(850)	1,462	10,208	162	(280)	10,484
Net fee and commission income	2,798	2,019	(78)	1,133	2,628	102	8,602
Net financial income	7,752	4,235	1,402	203	196	(283)	13,505
Other income	0	262	0	1,220	0	1,378	2,860
Operating income	10,332	5,666	2,786	12,764	2,986	917	35,451
Operating expense	(1,048)	(556)	(492)	(3,304)	(1,938)	(5,214)	(12,552)
Impairment	0	(1)	(6)	(705)	0	2	(710)
Total expense	(1,048)	(557)	(498)	(4,009)	(1,938)	(5,212)	(13,262)
Earnings before cost allocation	9,284	5,109	2,288	8,755	1,048	(4,295)	22,189
Allocated cost	(646)	(222)	(455)	(2,033)	(965)	4,321	0
Earnings before income tax	8,638	4,887	1,833	6,722	83	26	22,189
Net segment revenue from external customers	11,576	6,188	(9,517)	23,485	1,928	1,791	35,451
Net segment revenue from other segments	(1,244)	(522)	12,303	(10,721)	1,058	(874)	0
Operating income	10,332	5,666	2,786	12,764	2,986	917	35,451
Depreciation and amortisation	2	2	2	734	6	547	1,293
Total assets 31.12.2006	328,176	108,946	1,536,197	2,597,032	12,386	(527,341)	4,055,396
Total liabilities 31.12.2006	288,327	47,998	1,487,116	2,421,953	4,171	(529,061)	3,720,504
Allocated equity 31.12.2006	39,849	60,948	49,081	175,079	8,215	1,720	334,892
Total liabilities and equity 31.12.2006	328,176	108,946	1,536,197	2,597,032	12,386	(527,341)	4,055,396

Notes to the Consolidated Interim Financial Statements

Geographical analysis

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

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

1.1.-31.3.2007	Iceland	Scandi- navia	UK	Luxem- bourg	Other	Total
Net interest income	4,652	5,122	4,491	1,510	490	16,265
Net fee and commission income	4,960	1,755	3,909	1,528	185	12,337
Net financial income	1,531	10,221	1,221	536	(53)	13,456
Other income	606	294	1,102	0	0	2,002
Operating income	11,749	17,392	10,723	3,574	622	44,060

1.1.-31.3.2006

Net interest income	2,305	3,625	3,136	1,158	260	10,485
Net fee and commission income	3,157	1,614	2,218	1,393	220	8,602
Net financial income	1,647	7,985	2,153	1,009	711	13,505
Other income	1,628	400	833	(1)	0	2,860
Operating income	8,737	13,624	8,340	3,559	1,191	35,451

The figures for net interest income for the first quarter in 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.

31.3.2007	Iceland	Scandi- navia	UK	Luxem- bourg	Other	Total
Cash and cash balances with central banks	1,056	104,822	24,023	3,768	232	133,901
Loans to credit institutions	80,044	144,811	145,994	41,762	39,748	452,359
Loans to customers	559,802	1,035,784	566,485	298,361	98,689	2,559,121
Financial assets measured at fair value	450,654	315,824	21,708	45,993	2,424	836,603
Other assets	85,637	64,254	61,318	4,664	528	216,401
Total Assets	1,177,193	1,665,495	819,528	394,548	141,621	4,198,385

31.12.2006

Cash and cash 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 2007	Q1 2006
Dividend income	1,858	1,614
Net gain on financial assets and liabilities at fair value	11,526	11,137
Net foreign exchange gain	62	728
Net gain on financial assets and liabilities not at fair value	10	26
Net financial income	13,456	13,505

Dividend income

8. Dividend income is specified as follows:		
Dividend income on trading assets	1,732	1,574
Dividend income on assets at fair value through profit and loss	126	40
Dividend income	1,858	1,614

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	9,376	7,109
Net gain on assets designated at fair value through profit and loss	2,043	3,816
Fair value adjustments on hedge accounting	107	212
Net gain on financial assets and liabilities at fair value	11,526	11,137

Net gain on trading portfolio

10. Net gain on trading portfolio are specified as follows:		
Gain on equity instruments and related derivatives	10,485	7,032
(Loss) gain on other derivatives	(1,120)	420
Gain (loss) on interest rate instruments and related derivatives	11	(343)
Net gain on trading portfolio	9,376	7,109

Net gain on assets designated at fair value through profit and loss

11. Net gain on assets designated at fair value through profit and loss are specified as follows:		
Gain (loss) on interest rate instruments designated at fair value	488	(380)
Gain on equity instruments designated at fair value	1,555	4,196
Net gain on assets designated at fair value through profit and loss	2,043	3,816

Net gain on financial assets and liabilities not at fair value

12. Net gain on financial assets and liabilities not at fair value are specified as follows:		
Net realised gain on loans and finance leases	8	22
Net realised gain on available-for-sale assets	2	2
Other net realised gain	0	2
Net gain on financial assets and liabilities not at fair value	10	26

Notes to the Consolidated Interim Financial Statements

Other operating income

13. Other operating income is specified as follows:	Q1 2007	Q1 2006
Income from operating lease	1,155	857
Fair value adjustments on investment properties	(57)	399
Realised gain on investment properties	0	94
Other income	760	472
Other operating income	1,858	1,822

Personnel

14. The Bank's total number of employees is as follows:	31.3.2007	31.12.2006
Average number of full time equivalent positions during the period	2,805	2,553
Full time equivalent positions at the end of the period	2,847	2,719

Earnings per share

15. Earnings per share are specified as follows:	Q1 2007	Q1 2006
Net earnings attributable to the shareholders of Kaupthing Bank hf.	20,281	18,798
Weighted average share capital:		
Weighted average of outstanding shares for the period	739.1	663.7
Effects of stock options	21.4	11.7
Weighted average of total shares for the period, diluted	760.5	675.4
Basic earnings per share	27.4	28.3
Diluted earnings per share	26.7	27.8
Number of outstanding shares at the end of the period, million	734.4	663.6
Number of total shares at the end of the period, million, diluted	755.8	675.2
Average number of own shares, million	5.8	4.1
Number of own shares at the end of the period, million	6.1	1.0

Notes to the Balance Sheet

Cash and balances with central banks

16. Cash and balances with central banks are specified as follows:	31.3.2007	31.12.2006
Cash and cash balances	32,881	10,537
Cash equivalent	101,020	96,424
Cash and balances with central banks	133,901	106,961

Loans to credit institutions

17. Loans to credit institutions specified by types of loans:		
Money market loans	265,568	242,284
Bank accounts	95,595	95,828
Overdrafts	6,374	7,902
Repos	0	50,753
Other loans	84,822	88,567
Loans to credit institutions	452,359	485,334

Notes to the Consolidated Interim Financial Statements

Loans to customers

	31.3.2007	31.12.2006
18. Loans to customers specified by types of loans:		
Overdrafts	112,870	113,354
Finance lease	87,101	93,006
Subordinated loans	7,044	7,369
Other loans	2,368,661	2,341,462
Provision on loans	(16,555)	(16,582)
Loans to customers	2,559,121	2,538,609
19. Loans to customers specified by sectors:		
Individuals	17.1%	16.6%
Holding companies	12.1%	13.5%
Industry	18.1%	20.3%
Real estate	17.9%	15.6%
Service	19.6%	19.9%
Trade	14.0%	12.5%
Transportation	1.2%	1.6%
Loans to customers	100.0%	100.0%
20. Specification of subordinated loans:		
Loans to customers	4,725	4,907
Bonds and other fixed income securities	2,319	2,462
Subordinated loans	7,044	7,369
21. Provisions on loans are specified as follows:		
Specific provision	12,699	13,404
Collective assessment	3,856	3,178
Provision on loans	16,555	16,582
22. Changes in the provision on loans are specified as follows:	Q1 2007	Q1 2006
Balance at the beginning of the year	16,582	12,953
Impairment on loans during the period	1,423	710
Exchange rate difference on translation	(724)	864
Write-offs during the period	(760)	(992)
Payment of loans previously written-off	34	82
Provision on loans at the end of the period	16,555	13,617

Included within interest income is ISK 190 million (31.12.2006: ISK 642 million) with respect of interest income accrued on impairment on financial assets and ISK 49 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 March 2007 to ISK 26,331 million (31.12.2006: ISK 25,506 million), 1.03% of total loans to customers (31.12.2006: 1.00%).

Notes to the Consolidated Interim Financial Statements

Financial assets

23. Financial assets are specified as follows:

31.3.2007	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	41,518	283,536	0	0	325,054
Unlisted	530	27,965	0	0	28,495
Mortgage loans	0	9,303	0	0	9,303
Bonds and debt instruments	42,048	320,804	0	0	362,852
<i>Shares and instruments with variable income</i>					
Listed	83,827	22,403	0	0	106,230
Unlisted	3,926	50,055	152	0	54,133
Bond fund with variable income	8,817	1,356	0	0	10,173
Shares and instruments with variable income	96,570	73,814	152	0	170,536
<i>Derivatives</i>					
OTC derivatives	44,112	0	0	0	44,112
Futures	12	0	0	0	12
Other trading derivatives	14,696	0	0	0	14,696
Derivatives	58,820	0	0	0	58,820
<i>Derivatives used for hedging</i>					
Fair value hedge	0	0	0	5,444	5,444
Portfolio hedge of interest rate risk	0	0	0	3,965	3,965
Derivatives used for hedging	0	0	0	9,409	9,409
<i>Securities used for hedging</i>					
Bonds and debt instruments	81,358	0	0	0	81,358
Shares and equity instruments	153,628	0	0	0	153,628
Securities used for hedging	234,986	0	0	0	234,986
Financial assets	432,424	394,618	152	9,409	836,603

Notes to the Consolidated Interim Financial Statements

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 fund 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

24. Bonds and debt instruments designated at fair value specified by issuer:	31.3.2007	31.12.2006
Financial institutes	307,297	270,879
Government	1,513	1,032
Corporates	11,994	16,586
Bonds and debt instruments designated at fair value	320,804	288,497

Pledged assets

25. Pledged assets are specified as follows:

Mortgage loans in Kaupthing mortgages Fund	84,463	84,165
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In the ordinary course of business, the Bank enters into transactions that result in the transfer of financial assets to third parties or special entities. The Bank has transferred retail mortgage loans to the Kaupthing mortgages Fund, but has retained substantially all of the credit risk associated with the transferred assets, and continues to recognise these assets within loans to customers.

The Bank has entered into repurchase agreements that are conducted under terms usual and customary to standard lending, and stock borrowing and lending activities. Pledged assets according to these agreements amounted to ISK 101 billion at the end of March 2007 (31.12.2006: ISK 121 billion).

Notes to the Consolidated Interim Financial Statements

Intangible assets

26. Intangible assets are specified as follows:

	Goodwill	Other intangible assets	31.3.2007 Total	31.12.2006 Total
Balance at the beginning of the year	63,118	5,183	68,301	54,943
Exchange rate difference	(4,396)	(208)	(4,604)	13,880
Additions during the period	0	388	388	1,810
Impairment during the period	0	0	0	(1,270)
Amortisation during the period	0	(133)	(133)	(1,062)
Intangible assets	58,722	5,230	63,952	68,301

Investment property

27. Investment property are specified as follows:

	31.3.2007	31.12.2006
Balance at the beginning of the year	31,584	24,156
Exchange rate difference	(1,227)	3,426
Additions during the period	390	3,475
Disposals during the period	0	(2,347)
Revaluation during the period	(122)	96
Transfers	0	2,778
Investment property at the end of the period	30,625	31,584

Other assets

28. Other assets are specified as follows:

Unsettled securities trading	45,641	90,427
Accounts receivables	6,618	8,617
Accrued income	9,885	8,004
Prepaid expenses	3,553	2,846
Non-current assets and disposal groups classified as held for sale	2,348	2,334
Sundry assets	12,238	5,646
Other assets	80,283	117,874

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

Financial liabilities measured at fair value

29. Financial liabilities measured at fair value are specified as follows:

Trading liabilities	61,130	51,095
Derivatives used for hedging - portfolio hedge of interest rate risk	8,565	8,768
Mortgage funding measured at fair value	9,720	11,401
Financial liabilities measured at fair value	79,415	71,264

Notes to the Consolidated Interim Financial Statements

30. Trading liabilities are specified as follows:	31.3.2007	31.12.2006
Short position in equity instruments held for trading	3,702	2,122
Derivatives held for trading	57,428	48,788
Other liabilities held for trading	0	185
Trading liabilities	<u>61,130</u>	<u>51,095</u>

31. Derivatives used for hedging are specified as follows:		
Fair value hedge	331	1,070
Portfolio hedge of interest rate risk	8,234	7,698
Derivatives used for hedging	<u>8,565</u>	<u>8,768</u>

Borrowings

32. Borrowings are specified as follows:		
Bonds issued	1,735,629	1,762,483
Bills issued	236,702	156,203
Money market loans	326,137	373,285
Other loans	136,633	107,968
Borrowings	<u>2,435,101</u>	<u>2,399,939</u>

Included are Repurchase agreements with banks amounting to ISK 30,471 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:	31.3.2007	31.12.2006
Tier I capital	48,727	51,817
Tier II capital	170,129	164,213
Subordinated loans	<u>218,856</u>	<u>216,030</u>

Other liabilities

34. Other liabilities are specified as follows:		
Unsettled securities trading	49,361	91,661
Provisions	2,784	4,666
Accounts payable	5,989	4,410
Sundry liabilities	46,926	48,211
Other liabilities	<u>105,060</u>	<u>148,948</u>

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

Notes to the Consolidated Interim Financial Statements

Equity

35. Equity at the end of the period amounts to ISK 324,140 million. The equity ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 13.8%. According to the law the ratio may not be lower than 8.0%.

The ratio is calculated as follows:

	31.3.2007		12/31/2006	
	Book value	Weighted value	Book value	Weighted value
Risk base:				
Assets recorded in the Financial Statements	4,198,385	3,076,766	4,055,396	2,875,539
Assets deducted from equity		(62,403)		(66,922)
Guarantees and other items not included in the Balance Sheet		226,844		259,023
		<u>3,241,207</u>		<u>3,067,640</u>
Equity:				
Tier I capital:				
Equity		324,140		334,892
Intangible assets		(60,830)		(65,276)
Subordinated loans		48,727		51,817
Tier II capital:				
Subordinated loans		156,019		160,717
Investment in credit institutions		(22,044)		(21,324)
		<u>446,012</u>		<u>460,826</u>
Equity ratio		13.8%		15.0%
Thereof Tier I ratio		9.6%		10.5%

Derivatives

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

31.3.2007	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	1,651,908	141,565	3,569	1,797,042	12,694	13,852
Interest rate and exchange rate agreements	214,339	601,371	1,924,485	2,740,195	31,255	34,384
Options - purchased agreements	8,355	73,943	51,762	134,060	2,061	94
Options - sold agreements	10,928	75,727	48,458	135,113	84	2,196
	<u>1,885,530</u>	<u>892,606</u>	<u>2,028,274</u>	<u>4,806,410</u>	<u>46,094</u>	<u>50,526</u>
Equity derivatives:						
Equity swaps, agreements unlisted	113,541	40,357	4,873	158,771	10,540	7,986
Equity options, purchased unlisted agreements	3,309	2,732	0	6,041	196	31
Equity options, sold unlisted agreements	1,017	2,918	0	3,935	86	377
Futures, agreements listed	5,607	88	0	5,695	7	18
Contracts for differences	0	2	0	2	119	0
	<u>123,474</u>	<u>46,097</u>	<u>4,873</u>	<u>174,444</u>	<u>10,948</u>	<u>8,412</u>
Credit derivative contracts:						
Credit default swaps	0	0	186,753	186,753	31	3
Total rate of return swaps	0	0	50,888	50,888	1,620	0
	<u>0</u>	<u>0</u>	<u>237,641</u>	<u>237,641</u>	<u>1,651</u>	<u>3</u>
Bond derivatives:						
Bond swaps, agreements unlisted	46,716	1,338	23,703	71,757	3,339	483
Options - purchased agreements	161	204	13,843	14,208	6,197	0
Options - sold agreements	161	204	13,843	14,208	0	6,569
	<u>47,038</u>	<u>1,746</u>	<u>51,389</u>	<u>100,173</u>	<u>9,536</u>	<u>7,052</u>
Derivatives	<u>2,056,042</u>	<u>940,449</u>	<u>2,322,177</u>	<u>5,318,668</u>	<u>68,229</u>	<u>65,993</u>

Notes to the Consolidated Interim Financial Statements

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	<u>1,719,983</u>	<u>562,173</u>	<u>2,373,336</u>	<u>4,655,492</u>	<u>71,907</u>	<u>57,631</u>

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 36,626 million when calculating the capital ratio of the Bank at 31 March 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:

	31.3.2007	31.12.2006
Guarantees	266,864	324,929
Credit default swaps, investment grade	187,081	217,186
Unused overdrafts	48,939	50,927
Loan commitments	299,243	317,689

The credit risk is valued at ISK 189 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:	31.3.2007	31.12.2006
Assets under management	1,443,681	1,403,376
Assets under custody	2,181,270	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 Kjalar Investmens hf. (9.7%). Information regarding related parties are as follows:

Significant related companies:

Loans:	31.3.2007	31.12.2006
Balance at the beginning of the year	109,556	36,888
Additions	71	91,274
Reductions	(5,096)	(18,606)
Balance at the end of the period	<u>104,531</u>	<u>109,556</u>

Lýsing, which is a financial institution, supervised by FSA in Iceland, had ISK 38,717 million of the total loans to related parties at 31 March 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 14,644 million at 31 March 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 quarter 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	133,901	0	0	0	0	133,901
Loans to credit institutions	56,682	301,268	25,414	41,100	27,895	452,359
Loans to customers	235,189	437,773	354,237	795,091	736,831	2,559,121
Bonds and debt instruments	44,268	91,138	127,354	5,439	94,653	362,852
Shares and equity instruments	96,570	73,814	0	152	0	170,536
Derivatives	40	18,184	14,003	24,937	1,656	58,820
Derivatives used for hedging	0	1,311	218	2,165	5,715	9,409
Securities used for hedging	234,986	0	0	0	0	234,986
Investments in associates	0	0	0	0	5,369	5,369
Intangible assets	0	0	0	0	63,952	63,952
Investment property	0	0	0	0	30,625	30,625
Property and equipment	0	0	0	0	29,127	29,127
Tax assets	0	0	1,987	5,058	0	7,045
Other assets	45,641	0	34,642	0	0	80,283
Total Assets 31.3.2007	847,277	923,488	557,855	873,942	995,823	4,198,385
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	12,290	87,138	18,498	0	1,945	119,871
Deposits	242,808	309,504	272,118	53,486	14,254	892,170
Financial liabilities measured at fair value	3,706	19,213	14,645	24,850	17,001	79,415
Borrowings	1,797	538,027	342,990	1,286,249	266,038	2,435,101
Subordinated loans	0	0	142	20,479	198,235	218,856
Tax liabilities	0	0	11,942	11,830	0	23,772
Other liabilities	49,359	0	55,701	0	0	105,060
Total Liabilities 31.3.2007	309,960	953,882	716,036	1,396,894	497,473	3,874,245
Total Liabilities 31.12.2006	336,083	1,004,574	608,811	1,179,243	591,793	3,720,504
Assets - liabilities 31.3.2007	537,317	(30,394)	(158,181)	(522,952)	498,350	324,140
Assets - liabilities 31.12.2006	357,095	(103,905)	(213,877)	(145,362)	440,941	334,892

Events after the Balance Sheet date

41. Kaupthing Bank completed the sale of wholly-owned subsidiary, Eik Fasteignafélag hf., at the beginning of April 2007. The sale of the subsidiary resulted in a profit before income tax of approximately ISK 4,000 million, which will be booked in the second quarter of 2007.