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**Minutes of the 342nd meeting of the Board of Directors of
Kaupthing Bank hf., Thursday 25th and Friday 26th September 2008**

The following people attended the meeting of the Board of Directors of Kaupthing Bank hf. held in Reykjavik on Thursday 25 and Friday 26 September at the Vineyard Hotel, London. The meeting started at 10 a.m.

Sigurður Einarsson, Executive Chairman
Lýður Guðmundsson, member of the Board,
Hjörleifur Jakobsson, member of the Board,
Tommy Persson, member of the Board,
Niels de Coninck-Smith, member of the Board,
Ásgeir Thoroddsen, member of the Board
Brynja Halldórsdóttir, member of the Board
Gunnar Páll Pálsson, member of the Board
Bjarnfredur Ólafsson, member of the Board
Hreidar Már Sigurdsson, CEO
Guðný Arna Sveinsdóttir, Chief Financial Officer
Steingrímur Kárasen, Chief Risk Officer
Guðni Adalsteinsson, Group Treasurer
Helgi Sigurdsson, Managing Director

The following agenda was presented at the meeting:

- | | |
|--------------------------------------|-------------|
| 1. Minutes 341. | Approval |
| 2. CEO's report | Information |
| 3. Financial report, July and August | Approval |
| 4. Risk report | Information |
| 5. Liquidity report | Information |
| • Liquidity situation today | |
| • Kaupthing Edge | |
| • Katla Securitization project | |
| • Tolmount | |
| 6. Kaupthing Edge, new branches | Resolution |
| 7. Functional currency of the Bank | |
| 8. Audit Committee | |
| • Report from the chair | Information |
| 9. Compensation Committee | |
| • Report from the chair | Information |
| 10. Credit and Investment Committee | |
| • Report from the chair | Information |
| 11. Risk and regulation handbook | |
| • Risk Management | |
| • Legal | |
| 12. Nomination Committee | |
| 13. Organisational structure | |
| 14. Authorised Signature List | |

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Sérstakur saksóknari	
Haldlagt	
Dagsetn. haldl.	Starfsm.
11. JAN. 2010	
Málsnr.	090-2009-46
Skjal nr.	II/5.0.2.2
Hald.nr.	SKP-1-1

15. SPRON, integration plan
 16. Review of large credit exposures
 17. Board meeting plan
 18. Other business
-

The Chairman opened the meeting and welcomed those present. He suggested changes to the Agenda because the Group Treasurer is coming after lunch to discuss the liquidity and funding of the Bank, so item 5 has been moved to after lunch if we are ahead of schedule.

1 Minutes

The minutes of the 341st Board meeting were examined and approved by signing.

2.-3. CEO's report and Financial report

The Chairman suggested that items 2 and 3 be discussed together and this was approved.

The CEO presented his report and the financial report.7

Business so far this quarter has been acceptable and the outlook is satisfactory. There is a lot of volatility in the market, and the depreciation of the ISK is having a considerable effect. The Bank has sold assets to improve liquidity, such as selling Swedbank. Profit centres having been performing reasonably well and the funding side is satisfactory because of Edge. The money market in Denmark and other countries is frozen, which makes it more difficult to draw liquidity to FIH. Most of our liquidity is based in the UK.

We are currently working on mergers with two saving banks. We have closed down one of the branches of SM in Akranes, and laid off people in Rvk Capital. The CEO of SM has left the business. Other saving banks have been making enquiries about possibly being acquired. The asset quality and liquidity of these banks is very poor.

We believe that the third quarter results will represent an improvement from the second quarter. But it is difficult to estimate such things accurately in such turbulent times; the situation can change rapidly. If we exclude the effect of the currency, we are underperforming in almost every field. If the Bank manages to maintain liquidity and successfully implement the structural changes which will be discussed later at this meeting, then we will be able to take the Bank to the next level because we will have the resources to attract the best customers.

There have been lots of changes in the business environment. The loan portfolio in Icelandic holding companies has been under scrutiny and efforts have been made to reduce currency risk. The market has been rather stable, but major damage to the Icelandic economy can happen extremely quickly. The reaction from all other central banks has been to lower interest rates, and to inject liquidity into the market. However, the Central Bank of Iceland has not followed this course of action, but on the contrary has increased bond issuances and thus withdrawn ISK from the market and at the same time is not bringing in any foreign currency.

Costs have been developing well, especially in Iceland, e.g. salary costs in marketing and IT have been reduced. Costcutting measures in Luxembourg have also been very successful, but progress in the UK is far too slow and the operation is too expensive operation, partly because of the middle management culture in the UK. The Bank has also begun to sell off assets in order to keep the business focused and streamlined.

We believe we can recover some of the provisions and think that the loan portfolio in Iceland, which is a source of concern to many, is performing better than others. Item 16 on the agenda concerns a review of large credit exposures.

4. Risk report

Steingrímur Kárasón, Chief Risk Officer, explained the monthly risk report which was distributed to Board members before the meeting, cf. appendix 4.

The Loan Portfolio has not grown in EUR term since last year. The loan portfolio has contracted in Luxemburg but is on the same size level in other subsidiaries.

Special section on the attribution of the capital adequacy ratio (CAD), since Q4/06 to the end of last quarter. Several factors affect the ratio, FX is one of them. This is a good measure of how effective the FX hedge has been (subtracting Swedbank and Storebrand). During 2007 the ISK strengthened by ~7% and since Kaupthing hedges the CAD against devaluation of the ISK this actually led to a lowering of the CAD by -1.04% as shown under the label Translation Differences. This was counteracted directly by the component FX Credit RWA which captures the changes in CAD due to credits in non-ISK currencies which lowered the RWA and consequently increased the CAD by 0.80%. Furthermore, new Tier 1 debt increased the CAD by 1.6% but the most significant increase came from profit during the period or 2.71% in Retained Earnings. This was counteracted by absolute additions to RWA from an increase in credits -4.71%. Dividend pay-out lowered the CAD by 0.33% and investments in other Financial Institutions are subtracted from the RC and this led to a further decrease of -1.71% during the period. During H1 2008 changes due to shifts in the composition in RC or RWA were smaller. However, the sharp devaluation of the ISK during the period led to an inverse effect from the hedge which increased the CAD by 1.84%. This was counteracted by FX effects on RWA, most notably FX Credit RWA led to -2.87% decrease in the CAD.

The Tier II ratio is not sensitive to translation differences as they contribute only to the Tier 1 RC factors similarly as retained earnings, dividends and reserves. The lowering of Tier II during 2007 is therefore mostly due to the increase in Credits through RWA and to Investments in other financial institutions. During H1 2008 Tier 2 debt increased while the other RC factors Goodwill and investments in other financial institutions decreased the Tier II ratio. Similarly, as in Tier 1 the changes to foreign currencies in RWA, FX Credit RWA, decreased the Tier II Ratio still further.

With regards to Basel 2 (B2), the FME is very reluctant to give final approval, although we have been expecting it every day.

Redford is doing well and not seeing any funding problems. 29% of the capital in equities, 13% in listed equities and 17% in unlisted equities which is over the limit of 15%. Kaupthing is in the process of selling Refresco.

ILVA closed down in the UK. Selling companies is very difficult at present even if the companies are doing well and it is impossible to get a fair price in the current market conditions. We are therefore monitoring the companies and seeing how well they are doing and waiting for a better opportunity to exit the investment.

Unlike listed equities Kaupthing has a more conservative approach for unlisted equities as rating agencies request this. Sometimes Kaupthing uses these assets in repo.

6. Kaupthing Edge, new branches

The Board resolved to establish a branch of Kaupthing Bank hf. in the following countries: Hungary, Czech Republic, Greece, Ireland and Portugal (under the name "Kaupthing Bank hf - Sucursal em Portugal"). A branch of Kaupthing Bank hf. in those countries will initiate its activities once its incorporation has been effected and any and all authorizations to provide the relevant banking services have been obtained. The purpose of the branches will be to provide financial services and other services normally connected with such services, including from the beginning the deposit-taking and other closely relevant services. The Group CEO or the CEO of Kaupthing Bank hf. in Iceland may resolve the addresses of these offices and, at a later time, expand the services of the branches in the aforesaid countries subject to necessary authorizations being obtained.

The Board resolved to grant Hreidar Már Sigurdsson, Group CEO, and Ingólfur Helgason CEO in Iceland, a power of attorney, jointly or solely, with a full power of substitution, to appoint a Branch Manager in each country and make all necessary arrangements concerning the establishment and operations of the branches in the aforesaid countries.

7. Functional Currency

Helgi Sigurdsson, Managing Director of Legal Department discussed the presentation of functional currency which was distributed to Board members before the meeting, cf. appendix 7.

The Board of Kaupthing Bank hf. resolves, pursuant to IAS 21, that the functional currency of Kaupthing Bank hf. will be the euro as of 1 January 2009.

8 Audit Committee Report

Hjörleifur Jakobsson discussed the Audit Committee report which was distributed to Board members before the meeting, cf. appendix 8. He expressed the opinion that the bank need to consider how compliance is managed in other banks and clarify the distinction between compliance, risk and internal audit.

The Audit Committee has made several comments to the Board like the importance of negotiating with key employees regarding loan to equity, which will be discussed later at this meeting. The time frame for the finalisation of the annual accounts is too narrow.

The Chairman suggested that the CFO of Kaupthing also attend the Audit Committee meetings which was approved.

9 Compensation Committee

Sigurdur Einarsson, Gudny Arna Sveinsdottir, Hreidar Mar Sigurdsson and Steingrimur Karason left the meeting.

Lydur Gudmundsson chaired the meeting.

Asgeir Thoroddsen, the chairman of the Compensation Committee, discussed the Compensation Committee report. The main concern of the Committee is in paragraph 4 regarding loans to employees to finance shares in the bank. The chairman of the Compensation Committee thought that it was not appropriate to enter into details regarding individual employees but stressed that the situation with the Chairman and the CEO of the bank is in good order. The Compensation Committee has been aware of this problem for some time and has discussed it. Steps have been taken to counter this negative results for employees and employees have been assured that solutions will be found.

In this context, it should be kept in mind that it has been a part of the Bank's remuneration policy to enable employees to purchase shares in the Bank, to align their incentives with long-term shareholder value. The fact that the Bank has placed emphasis on long-term shareholdings of key employees has effectively limited the employees' possibility to sell shares to limit their personal exposure.

Based on the recommendation from the Compensation Committee, the Board has agreed to grant Hreidar Mar Sigurdsson, CEO, authorization to cancel and terminate the personal guarantee of employees with regards to all equity loans to employees who have purchased shares in Kaupthing, with a view to ensuring that the employees can remain focused on their work within the Bank. The employees' liability is limited to the shares which have been pledged. The same shall apply to equity loans to the executive Chairman of the Board and the Board granted the chairman of the Compensation Committee the authority to complete and sign the documents.

Hreidar Mar Sigurdsson, Sigurdur Einarsson, Gudny Arna Sveinsdottir and Steingrimur Karason returned to the meeting and Gudni Adalsteinsson joined the meeting.

5. Liquidity report

The CEO discussed two cases, VECA and ONCA, which are related to the transaction of NIBC to assist their capital base. VECA was pledged by deposits and NIBC holdings against structured credit loans which were unwound at the end of March. The VECA loan has been paid up, but the ONCA loan which was worth approximately USD 210 million out of USD 700 million has entered into difficulties when the structured finance business collapsed. Impairments in first quarter this year totalled USD 140 million in Q1 and initially assets of USD 700 million in triple B or higher are booked as USD 70 million. A number of structures have collapsed but some others are still paying.

Gudni Adalsteinsson presented and explained the liquidity report, which was distributed to Board members before the meeting, and the presentation on funding and liquidity, cf. appendix 5.

The stress on deposits in 2007 as a funding source instead of other funding sources has been very fortunate for the Bank. Those banks which have relied on wholesale funding are in difficulties, but it is always difficult to estimate what is the best source and in 2005 and 2006 wholesale funding was the best option. During this year the Bank has bought back its outstanding debt obligations of 800 billion euros and will continue to do so, since this is a profitable trade for the Bank. The Bank's redemption need is low compared to other banks. The goal of having a 40% ratio of deposits to loan to customers has been reached and the Bank has raised the target for deposits to loans to customers ratio to 50% at the end of 2008, since no bank in the top 50 has a lower deposit ratio than Kaupthing. The changes in the structure of the Bank will make it easier to use the deposit in KSF, and it has been discussed that FIH open up its own deposit programme in Germany.

The Dutch authorities have not complied with the rules and regulations within the EEA on the free movement of capital, and they tried to prevent the Bank from participating in the local guarantee fund. It is possible to open up in the Netherlands through KSF. It is understandable that regulators in other countries are cautious in their approach towards Kaupthing Edge because this is a new product for them, but the response in the Netherlands steps over the line. The Edge programme is now up and running in 11 countries, and the intention is to enter into further new markets, like Spain where the Bank is now finalising the clearing structure, since access to clearing is a vital issue; in Italy where the Bank is negotiating with the guarantee fund; and in France in late November. The aim is to cross-sell other products to these new customers and generate further income, but this will require a lot of effort.

No changes have been made to the Secured Liquidity measure since it was approved by the Board of Directors in the summer of 2006. The liquidity position of the Bank has remained strong and the target is to have enough secured liquidity to cover all maturing obligations for at least 360 days. Kaupthing Edge has strengthened the liquidity of the Bank considerably in 2008. The performance of Kaupthing Edge exceeds expectations and inflow has been positive at all times even though Kaupthing had experienced negative press coverage in Q1 in some of the markets where Edge operates. It is difficult for other banks with a large deposit base to compete with this product and it is difficult to get deposits unless you can offer interest rates above certain levels. The transformation of the funding profile to deposit funding away from wholesale funding changes the liquidity risk profile of the Bank. The aim is that at the end of 2009 the deposits will be able to pay all outstanding long-term debts for Kaupthing Bank. Secured liquidity as of the end of August 2008 was EUR 8.4 billion, up from EUR 8 billion as of the end of H1 2008.

Kaupthing is currently working on two securitization projects for contingent funding purposes that will further strengthen the liquidity of the Bank. The transactions are structured to be eligible for repo financing at the Bank of England, the Central Bank of Iceland and the ECB.

It was very important when the Bank changed its goal to have enough secured liquidity to repay all maturing obligations for at least 180 days to 360 days. The Bank is now within this limit, but as of the end of August 2008 Kaupthing Bank had EUR 8.4 billion (ISK 1,025 billion) of Secured Liquidity which covered all maturing

obligations of the group for 308 days. To explain this, it is necessary to look at slide 27, which shows that long-term redemptions in Q3 2009 are much greater than in Q3 2008.

The Board thanked Gudni for the presentation

The Board of Directors of Kaupthing Bank hf. discussed Project Katla which is a securitization project involving European leveraged loans and establishment of a securitization vehicle, Katla Funding 2008-1 B.V., in relation thereto.

The transaction involves the sale of a portfolio of European leveraged loans by Kaupthing Bank hf. ("Kaupthing Iceland") and its UK subsidiary, Kaupthing Singer & Friedlander Limited ("KSF"), to Katla Funding 2008-1 B.V. (the "SPV"), a Dutch special purpose vehicle. The SPV will issue two or more classes of floating rate notes backed by the loan portfolio. The notes will initially be acquired by Kaupthing Iceland and KSF. Under the accounting rules applicable to Kaupthing Iceland and KSF, all the loans will be retained on Kaupthing Group's balance sheet. The senior class of notes (expected to be in an amount equal to 50-65%) is expected to be rated AAA/AA by a rating agency and will be eligible collateral for Repo financing with the European and the Icelandic central banks. The initial principal amount of the AAA/AA notes is expected to be approximately EUR 450 million.

The Board of Directors of Kaupthing Bank hf., approved the terms of any agreement, letter or document of any type to be entered into by Kaupthing Bank hf in connection with the Katla Securitisation Project and the setting up of Katla Funding 2008-1 B.V.

The Board appointed Hreidar Már Sigurdsson, CEO, Gudni Niels Adalsteinsson, Group Treasurer, Gudny Arna Sveinsdottir, CFO, and Steingrímur Karason, CRO, any two of them acting jointly, with full power of substitution, to sign, execute, complete and deliver any agreement, notice or document of any type (the "Documents") in connection with the completion of the transaction on behalf of the Board as they see fit in their absolute discretion.

For the avoidance of doubt, any notices or other documents issued from time to time after completion in accordance with the Documents can be signed by any person or persons having the appropriate authority under Kaupthing Bank's signature rules.

Project Toulmont

The Board of Directors of Kaupthing Bank hf. discussed the securitization of the UK residential mortgage portfolio of Kaupthing Singer & Friedlander ("KSF") for the use of securing financing from the Special Liquidity Scheme of Bank of England ("SLS of BoE") or the European Central Bank (ECB) ("Project Tolmount").

The transaction involves the sale of a portfolio of £300 - 500 m of predominantly UK residential mortgages owned by Kaupthing Singer & Friedlander (KSF) to an English special purpose vehicle (the "SPV"). The rationale behind the transaction is to have the option to release liquidity from otherwise illiquid assets by accessing the special liquidity scheme (SLS) of the Bank of England and/or the ECB. The SPV will issue notes (one senior class and two junior classes) backed by the loan portfolio to be sold

to KSF. Then KSF plans to put the senior notes into the SLS of Bank of England or into the ECB to be able to access contingent liquidity if the need arises.

A parent guarantee in favour of the Bank of England was approved at the June meeting but Kaupthing will also be granting certain other guarantees in relation to this Project and might be providing a liquidity facility.

The guarantees are unlimited in time. However, since the final repayment date on the notes is scheduled to be in late 2013 it is likely that any claims under the guarantee will be made before that or soon afterwards. The guarantee is granted in the favour of the SPV and the Trustee (which represents the Noteholders).

Kaupthing will be guaranteeing that KSF provides the services it has undertaken in relation to the mortgage administration services and that Kaupthing will carry out and perform on demand any of the service obligations of KSF.

Kaupthing will be guaranteeing that KSF pays on demand any amounts which would otherwise have been recoverable by the SPV from KSF under the servicing agreement including its obligation to transfer collected amounts from the borrowers to the SPV. However this does not constitute a guarantee by Kaupthing that payments will be made by each borrower under the mortgages. Collected amounts will be transferred every day to the account of the SPV in Deutsche Bank. Total collected amounts standing to the credit of the account of the SPV at KSF is estimated to be at most between £ 40 - 42 million. However prepayments might affect that number upward.

Furthermore, Kaupthing will need to grant a guarantee in favour of the SPV and the Trustee in connection with some of the representation and warranties to be given by KSF. The scope of this guarantee is still under discussion with the rating agencies.

Kaupthing might provide a back up line (be a liquidity facility provider) to the SPV if it has insufficient funds to meet its obligations. The size of the liquidity facility is estimated to be up to 10% of underlying mortgages. Due to its role as guarantor and lender Kaupthing will be a party to several of the agreements that needs to be concluded in relation to the Project.

The Board of Directors of Kaupthing Bank hf., approved the terms of any guarantee, agreement, letter or document of any type to be entered into by Kaupthing Bank hf in connection with the establishment of the Tolmount Project and subsequently KSF entering into the SLS of BoE or a repurchase facility with the ECB.

The Board appointed Hreidar Már Sigurdsson, CEO, Gudni Niels Adalsteinsson, Group Treasurer, Gudny Arna Sveinsdottir, CFO, and Steingrímur Karason, CRO, any two of them acting jointly, with full power of substitution, to sign, execute, complete and deliver any document (the "Documents") in connection with the completion of the transaction on behalf of the Board as they see fit in their absolute discretion.

For the avoidance of doubt, any notices or other documents issued from time to time after completion in accordance with the Documents can be signed by any person or persons having the appropriate authority under Kaupthing Bank's signature rules.

10. Credit and Investment Committee

The Chairman discussed the work of the Board Credit Committee and went through a list of the companies which have been dealt with by the committee, the loan amounts, mortgages and guarantees, cf. appendix 10

11. Risk and Regulation Handbook

Steingrímur Kárasón and Helgi Sigurdsson discussed the main changes to the rules and regulation handbook. Both the handbook and the overview of the main changes were sent to Board members before the meeting, cf. appendix 11.

12. Nomination Committee

The Chairman discussed the Nomination Committee Charter which was distributed to Board members before the meeting cf. Appendix 12.

13. Organisational structure

The CEO discussed the presentation which was distributed to Board members before the meeting, cf. Appendix 13, which contained new ideas about the organisational structure.

The Board agrees to grant Sigurdur Einarsson, Executive Chairman, Hreidar Már Sigurdsson, CEO, Steingrímur Kárasón, Chief Risk Officer, Gudný Arna Sveinsdóttir, Chief Financial Officer, any two of them acting jointly, the authority to continue analyse the project, with regards to legal structure and tax issues (e.g. regarding agreements with creditors) and the possibilities of restructuring the activities in the Nordic countries (apart from Iceland) under FIH; and re-organise the Group's international operations, other than the Nordic businesses, under Kaupthing Singer & Friedlander. The transfers will be done at fair value, which in present market circumstances are deemed to be around book value of these individual legal entities.

To the extent that this is possible from a legal structure and tax perspective, the authorization includes the authority to finalize necessary arrangements regarding the increase and subscription for share capital in KSF and FIH, and to transfer assets, branches and/or subsidiaries within the group, however with the condition that the CEO shall keep the Board up to date on this process and shall obtain a final approval from the Board before any changes to the legal structure of the group is finalised, at which point the Board will make the relevant notifications to the stock exchange, if deemed necessary at each given time.

14. Authorised Signature list

Gudny Arna Sveinsdottir discussed the main changes in the authorised signature list and referred to the presentation which was distributed to Board members, cf. appendix 14. The updated list was approved by the Board.

15. SPRON Integration

The Chairman discussed the SPRON integration plan, which was distributed to Board members before the meeting.

The Bank conducted due diligence on SPRON one month ago and concluded that it was sufficiently capitalised. The Competition Authority is dissatisfied that the merger will reduce competition in the banking sector and would possibly impose restrictions on the separation of the companies, which would affect the possibilities of cost-saving measures. If this were to be the case, we would not accept the merger. In order to go through with the unconditional merger, the Bank filed a failing firm defence with regard to SPRON on the basis that it cannot fund itself on a stand alone basis. We expect the authorities to approve this later today.

The meeting was adjourned at 5:10

Friday 26 September

The meeting continued at 9:15 a.m. The Chairman welcomed those present.

16. Review of large credit exposures

The Chairman asked Board members whether they were aware of any conflicts of interest which would prevent them from discussing this matter, and evaluate whether they should participate in the entire discussion or just part of it.

Hreidar Már Sigurdsson, CEO, discussed the Bank's large exposures. A presentation was distributed to Board members at the meeting in which every debt was analysed.

Brynja Halldorsdottir, Lydur Gudmundsson, Hjorleifur Jakobsson and Niels de Coninck-Smith left the meeting during the part of the discussion in which companies connected to them were discussed.

The Chairman informed the Board that the management was working hard on improving the credit policy of the bank. One of the things which needs to be considered is the size of large credit exposures and whether we should reduce them, even though we have not used the maximum limits. The list is critical but it still looks better than we had expected. Special focus was placed in this discussion on the worst loans. We have already put aside approximately ISK 25 billion in impairments and the market is expecting high impairments. Impairments are split into general and specific but according to Basel rules it is difficult to allow general impairments.

17. Board meeting plan

The CEO submitted a Board meeting plan for 2009 and the Board members were asked to inform Ida whether they were able to attend the meetings on the proposed dates.

18. Other business

The Chairman informed the Board about the recent purchase of Sheikh Hamad in the bank.

The Russian project Tsar is ongoing; the drafting of the Memorandum of Understanding has taken a long time but is coming to an end.

A notice regarding the proposed merger of Kaupthing Bank hf. and Vidjar ehf. was published in the Icelandic Legal Gazette on 19 August 2008, cf. the merger plan of the companies dated 30 June 2008, which was approved by the boards of both

companies. Since the necessary notice process according to law has been finalized and since no objections have been raised, the Board of Directors of Kaupthing Bank hf. hereby approves the merger.

The meeting ended at 11:45 a.m.

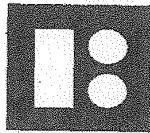
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KAUPTHING BANK

Condensed Consolidated Interim Financial Statements
1 January - 30 June 2008

Kaupthing Bank hf.
Borgartún 19
105 Reykjavík
Íceland

Reg. no. 560882-0419

Sérstakur saksóknari	
Haldlagt	
Dagsetn. haldi.	Starfsm.
7 JAN. 2013	
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Skjal nr.	
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Contents

2/9

	page		page
Endorsement and Statement by 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	Other Information	23
		Off Balance Sheet Information	25

Endorsement and Statement by the Board of Directors and the CEO

3/9

Net earnings, according to the Condensed Consolidated Interim Income Statement, amounted to ISK 34,042 million for the period from 1 January to 30 June 2008. Total equity, according to the Consolidated Interim Balance Sheet, amounted to ISK 437,696 million at the end of the period, including share capital amounting to ISK 7,187 million. The equity ratio of the Bank, calculated according to the Act on Financial Undertakings, was 11.2%. This ratio may not be lower than 8.0%.

Registered shareholders at 30 June 2008 numbered 30,830 compared to 32,264 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 24.7% of the shares.

The Condensed Consolidated Interim Financial Statements of Kaupthing Bank hf. for the six months ended 30 June 2008, 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".

Statement by the Board of Directors and CEO

To the best of our knowledge the Condensed Consolidated Interim Financial Statements give a true and fair view of the consolidated financial performance of the Bank for the period 1 January to 30 June 2008, its assets, liabilities and consolidated financial position as at 30 June 2008 and its Condensed Consolidated Interim Statement of Cash Flows for the period.

Further, in our opinion the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Bank's operations and its financial position and fairly describes the principal risks and uncertainties faced by the Bank.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Kaupthing Bank hf. for the six-month period ended 30 June 2008 and confirm them by means of their signatures.

Reykjavík, 30 July 2008

Board of Directors
Sigurdur Einarsson
Chairman

Lýður Gudmundsson

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 2008 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 2008, 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, 30 July 2008

KPMG hf.

Sigurður Jónsson

Reynir Stefán Gylfason

Consolidated Interim Income Statement for the Period from 1 January to 30 June 2008

	Notes	2008 1.1.-30.6.	2007 1.1.-30.6.	2008 1.1.-30.6.	2007 1.1.-30.6.
Interest income		115,402	72,136	207,522	134,183
Interest expense		(88,539)	(52,286)	(159,327)	(98,068)
Net interest income.....		26,863	19,850	48,195	36,115
Fee and commission income		16,396	18,696	29,714	34,110
Fee and commission expense		(2,138)	(3,508)	(4,508)	(6,585)
Net fee and commission income.....		14,258	15,188	25,206	27,525
Net financial income	8-13	927	10,772	10,614	24,228
Share of profit of associates	28	(323)	613	1,678	757
Other operating income	14	2,251	5,383	4,184	7,241
Operating income.....		43,976	51,806	89,877	95,866
Salaries and related expenses		(13,672)	(11,833)	(25,765)	(22,367)
Administration expense		(8,802)	(5,469)	(16,136)	(11,012)
Depreciation and amortisation		(2,285)	(1,465)	(4,227)	(2,999)
Other operating expense		(744)	(250)	(937)	(346)
Impairment on loans	23	(5,591)	(1,075)	(9,650)	(2,498)
Earnings before income tax.....		12,882	31,714	33,162	56,644
Income tax expense	15	2,372	(5,652)	880	(9,888)
Net earnings.....		15,254	26,062	34,042	46,756
Attributable to:					
Shareholders of Kaupthing Bank hf.		15,365	25,484	34,114	45,765
Minority interest		(111)	578	(72)	991
Net earnings.....		15,254	26,062	34,042	46,756
Earnings per share:					
Basic earnings per share (ISK)	17	21.5	34.6	47.7	62.2
Diluted earnings per share (ISK)	17	21.2	33.6	46.9	60.4

The notes on pages 9 to 25 are an integral part of these Condensed Consolidated Financial Statements.

Consolidated Interim Balance Sheet

as at 30 June 2008

	Notes	30.6.2008	31.12.2007
Assets			
Cash and balances with central banks	18	154,318	97,959
Loans to credit institutions	19	529,620	588,441
Loans to customers	20-23	4,169,181	3,304,408
Bonds and debt instruments	24	676,316	367,350
Shares and instruments with variable income	24	172,286	160,797
Derivatives	24,39	328,217	134,856
Derivatives used for hedging	24,39	27,742	22,503
Securities used for hedging	24	81,207	159,949
Investments in associates	28	107,574	83,831
Intangible assets	29	85,757	66,774
Investment property	30	37,013	28,155
Property and equipment		39,240	32,714
Tax assets	15	12,027	6,895
Other assets	31	183,217	292,709
Total Assets	41	6,603,715	5,347,345
Liabilities			
Due to credit institutions and central banks	24	670,930	339,088
Deposits	24	1,848,155	1,381,457
Financial liabilities measured at fair value	24,32-34	230,663	217,945
Borrowings	35	2,883,261	2,615,960
Subordinated loans	36	328,153	267,289
Tax liabilities	15	18,099	22,478
Other liabilities	37	186,758	146,697
Total Liabilities	41	6,166,019	4,990,914
Equity			
Share capital		7,187	7,371
Share premium		148,362	162,221
Other reserves		61,196	(14,627)
Retained earnings		207,461	190,643
Total Shareholders' Equity		424,206	345,608
Minority interest		13,490	10,823
Total Equity		437,696	356,431
Total Liabilities and Equity		6,603,715	5,347,345

The notes on pages 9 to 25 are an integral part of these Condensed Consolidated Financial Statements.

7/9

Consolidated Interim Statement of Changes in Equity for the Period from 1 January to 30 June 2008

	Share capital and share premium	Other reserves	Retained earnings	Total Share- holders' equity	Minority interest	Total equity
Changes in equity from 1 January to 30 June 2008:						
Equity at the beginning of the year	169,592	(14,627)	190,643	345,608	10,823	356,431
Translation difference from foreign operations		75,770		75,770	3,667	79,437
Net earnings according to the Income-Statement			34,114	34,114	(72)	34,042
Total recognised earnings for the period		75,770	34,114	109,884	3,595	113,479
Dividends paid to shareholders, ISK 20 per share			(14,025)	(14,025)	(615)	(14,640)
Purchases and sales of treasury stock	(14,844)			(14,844)		(14,844)
Exercised stock options	(49)			(49)		(49)
Stock option expense	850			850		850
Other changes		53	(3,271)	(3,218)	(313)	(3,531)
Equity 30 June 2008	155,549	61,196	207,461	424,206	13,490	437,696
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 financial assets available-for-sale		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 shareholders, 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			29	29	(565)	(536)
Equity 30 June 2007	174,753	(15,744)	165,352	324,361	10,374	334,735

The notes on pages 9 to 25 are an integral part of these Condensed Consolidated Financial Statements.

8/9

Condensed Consolidated Interim Statement of Cash Flows for the Period from 1 January to 30 June 2008

	Notes	2008 1.1.-30.6.	2007 1.1.-30.6.
Net cash provided by operating activities.....		73,008	145,130
Net cash flow used in investing activities.....		(4,195)	(22,833)
Net cash flow used in financing activities.....		(39,491)	(12,364)
Net increase in cash and cash equivalents.....		29,322	109,933
Cash and cash equivalents at beginning of the year.....		295,199	202,789
Effect of exchange rate changes on cash held.....		76,139	(21,506)
Cash and cash equivalents at end of the period.....		400,660	291,216
Cash and cash equivalents:			
Cash in hand and demand deposits.....	18	154,318	145,011
Due from credit institutions.....	19	246,342	146,205
Total cash and cash equivalents.....		400,660	291,216

The notes on pages 9 to 25 are an integral part of these Condensed Consolidated Financial Statements.

9/9

Notes to the Consolidated Interim Financial Statements

Accounting Policies

General information

1. Reporting entity

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 2008 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 30 July 2008.

2. Statement of compliance

These Condensed 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 2007.

3. 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 2007.

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

4. 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.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets other than goodwill.

Business segments

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

Capital Markets delivers high quality research and advice, distribution, and trading services to its clients. There are four primary roles across the various business lines: Sales, Trading/Execution, Proprietary Trading and Research.

Investment Banking offers mid-market clients a full range of financial services, including M&A advisory and capital markets advisory, together with comprehensive debt and equity financing solutions across the entire capital structure.

Treasury is responsible for managing the Bank's funding, liquidity, interest rate exposure and trading in foreign currencies and derivatives, which includes warehousing of risk arising from financial products sold to the Bank's clients. Group Treasury is a central coordination unit responsible for the overall Treasury strategy of the Bank with a presence in both Iceland and the UK. The internet deposit bank, Kaupthing Edge, is also part of Treasury.

Banking is divided into two distinct units: Corporate Banking and Retail Banking. Corporate Banking offers a range of financing services and products for its corporate clients, from smaller businesses to larger companies operating in complex international environments. The Retail Banking unit is responsible for traditional retail banking operations, with a focus on individual and smaller businesses. The vast majority of retail banking activity takes place in Iceland. In addition, the Banking unit also provides banking services to Private Banking customers, primarily through the offices in Luxembourg, Iceland and the UK.

Asset Management & Private Banking are divided into four main areas: fund management, private banking, institutional asset management and services to institutional investors. Asset Management offers customised asset allocation strategies and managed accounts, designed to meet the diverse needs of corporate, institutional and private clients, in addition to a variety of mutual funds, alternative investments vehicles and pension plans schemes. Private Banking entails wealth management services, as well as discretionary and non-discretionary portfolio management.

Cost Centres are: Overhead, Back Office, Risk Management, Finance, Legal Department, Information Technology, Human Resources and Marketing.

Geographical segments

The Bank operates in four main geographical regions, being: Iceland, Scandinavia, the United Kingdom and Luxembourg.

0415