

28 September, 2006



KAUPTHING BANK

KAUPTHING BANK HF.

**Issue of US\$1,250,000,000 7.125% Fixed Rate
Subordinated Notes due 2016**

FINAL TERMS

This Final Terms document relates to fixed rate notes, which are referred to as the Series B 7.125% Fixed Rate Subordinated Notes due 2016 described below (the “**Notes**”) and has been prepared in connection with our application to admit the Notes to trading on the EuroMTF Market of the Luxembourg Stock Exchange. This Final Terms document constitutes the final terms of the Notes described herein and should be read in conjunction with the Offering Circular relating to the US\$10,000,000,000 Senior/Subordinated Medium-Term Notes Program of Kaupthing Bank hf. (the “**Offering Circular**”) dated April 26, 2006, the offering circular supplement submitted to the Luxembourg Stock Exchange dated September 28, 2006 (the “**Offering Circular Supplement**”), the Pricing Supplement for the original issue of the Notes dated May 12, 2006 (the “**Pricing Supplement**”) which is incorporated by reference herein and a copy of which is attached hereto as Schedule 1.

Copies of the Offering Circular, the Offering Circular Supplement, the Pricing Supplement, these Final Terms and any amendments or supplements thereto are available for inspection at the registered office of the Issuer or from the specified office of each of the Principal Paying Agent and the Paying Agent in Luxembourg. Unless defined below, capitalized terms used herein will have the meanings given to them in the Offering Circular and the Pricing Supplement.

The Common Codes of the Notes are as follows:

Regulation S: 025572238

144A: 025584210

Citigroup

Deutsche Bank

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DOCUMENTS INCORPORATED BY REFERENCE

The Pricing Supplement for the original issue of the Notes dated May 12, 2006 and attached herein in Schedule 1.

Schedule 1

Pricing Supplement dated May 12, 2006

(To Offering Circular, as amended by the Offering Circular Supplement dated May 11, 2006)



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**Issue of US\$1,250,000,000 7.125% Fixed Rate
Subordinated Notes due 2016**

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The subordinated notes described in this Pricing Supplement, which are referred to as the Series B 7.125% Fixed Rate Subordinated Notes due 2016 (the “Notes”), mature on May 19, 2016 (the “Stated Maturity”). Unless defined herein, terms included in this Pricing Supplement shall have the definitions ascribed to them in the Offering Circular.

The Notes will bear interest at a rate of 7.125% per annum from and including May 19, 2006 to but excluding May 19, 2016. We will pay interest on the Notes on May 19 and November 19 of each year beginning November 19, 2006 and including May 19, 2016.

The Notes will be subordinated to the claims of depositors and other creditors of Kaupthing Bank hf. (the “Issuer”), except liabilities which by their terms rank equally with or subordinate to the Notes. Each Note will be the Issuer’s direct, unconditional and unsecured general obligation.

The Notes will initially be limited to US\$1,250,000,000 in aggregate principal amount. The Issuer may create and issue additional notes with the same terms as the Notes so that such additional notes will be combined with this Series of Notes.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws, and are being offered only to qualified institutional buyers (within the meaning of Rule 144A under the Securities Act (“Rule 144A”) or in other transactions exempt from registration in accordance with Regulation S under the Securities Act, in each case, in compliance with the applicable securities law.

The Notes will be issued in registered global form and will remain on deposit with The Depository Trust Company, the depository for the Notes.

The Settlement Date for the issuance of the Notes is expected to be May 19, 2006.

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Citigroup

Deutsche Bank

Principal Amount: U.S.\$1,250,000,000

Fixed Interest Rate: 7.125%

Status of the Notes: Subordinated

Dealer's Discount or Commission: 0.65%

Original Issue Date: May 19, 2006

Net Proceeds to Issuer: The estimated net proceeds to the Issuer net of commissions and expenses, are approximately, U.S.\$1,235,175,000

Stated Maturity: May 19, 2016

Currency Determination Agent: Not Applicable

Interest Payment Dates: May 19 and November 19 starting November 19, 2006

Day Count Convention:

- Actual/360, Adjusted Modified Following New York Business Day Convention
- Actual/Actual for the period from [] to []
- 30/360

Redemption at the option of the Issuer:

- The Notes cannot be redeemed at the option of the Issuer prior to the Stated Maturity (other than for tax reasons)
- The Notes may be redeemed for tax reasons and may be redeemed prior to their Stated Maturity
- Initial Redemption Date:
- Subsequent Redemption Dates:
- Redemption Percentage:
- Annual Redemption Percentage Reduction:

Redemption at the option of Holders:

- The Notes cannot be repaid prior to their Stated Maturity.
- The Issuer will be required to redeem the Notes, in whole or in part, prior to their Stated Maturity at the option of the Holders of the Notes
- Optional Repayment Date: [], 200[]
- Repayment Price: []% (plus accrued and unpaid interest and Additional Amounts, if any)

Currency:

Specified Currency: U.S. dollars

Minimum Denominations: U.S.\$100,000 and integral multiples of US\$1,000 in excess thereof

Original Issue Discount: Yes No

Total Amount of OID:

Yield to Maturity:

Initial Accrual Period:

Form: Global
 Certificated

Dealer: Citigroup Global Markets Inc. Credit Suisse Securities (USA) LLC
 Deutsche Bank Securities Inc. Morgan Stanley & Co. Incorporated
 Merrill Lynch, Pierce, Fenner & Smith Incorporated Other

Dealers acting in the capacity as indicated below:

Agent
 Principal

If as principal:

The Notes are being offered at varying prices relating to prevailing market prices at the time of resale.
 The Notes are being offered at a fixed initial offering price of 99.472% of the principal amount.

If as agent:

The Notes are being offered at a fixed initial offering price of []% of the principal amount.

Trade date: May 12, 2006

Addendum attached:

Yes
 No

Registered Note information:

U.S. Global Notes:

CUSIP numbers: ISIN numbers:
CUSIP 48632HAA5/ISIN US48632HAA59

International Global Notes:

CUSIP numbers ISIN numbers:
CUSIP 48632JAA1/ISIN US48632JAA16

Dealers:

Citigroup Global Markets Inc.	US\$ 625,000,000
Deutsche Bank Securities Inc.	US\$ 625,000,000
Total	<u>US\$1,250,000,000</u>

Other/Additional Provisions; Addendum:

Listing: Application has been made for the Program to be listed and we intend to make an application for this series of Notes to be admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange

APPENDIX A: United States Federal Income Tax Considerations

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

APPENDIX A

United States Federal Income Tax Considerations

To ensure compliance with Internal Revenue Service Circular 230, we advise you that any tax discussion herein was not written and is not intended to be used and cannot be used by any taxpayer for purposes of avoiding penalties that may be imposed on the taxpayer under the Internal Revenue Code of 1986, as amended (the "Code"). Any such tax discussion was written to support the promotion or marketing of the Notes to be issued pursuant to this Pricing Supplement. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

The following summary of certain United States federal income tax consequences of the purchase, ownership and disposition of the Notes deals only with Notes purchased in the original offering at the Initial Offering Price (as defined below) and held as capital assets and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, tax-exempt entities, persons liable for alternative minimum tax, regulated investment companies, dealers in securities or currencies, traders in securities that elect to use a mark to market method of accounting, persons holding Notes as part of a hedging, integrated, conversion or constructive sale transaction, or as a position in a "straddle" for tax purposes, partnerships or persons holding notes through partnerships or persons whose functional currency is not the United States dollar. Further, this summary does not address any tax consequences applicable to holders of equity interests in a holder of the Notes. It also does not deal with holders other than U.S. Holders of the Notes (as defined below). If a partnership holds our Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Notes, you should consult your tax advisers. For purposes of this discussion, the "Initial Offering Price" of a Note is the initial offering price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money.

Persons considering the purchase of the Notes should consult their own tax advisers concerning the application of United States federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to United States federal income tax regardless of its source, or (iv) a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable U.S. Treasury regulations (the "Regulations") to be treated as a United States person.

This discussion is based on the Code, judicial decisions, published rulings, administrative pronouncements, and existing and proposed Regulations, all as are in effect on the date of this

Pricing Supplement and all of which are subject to change after such date, possibly with retroactive effect.

Payments of Interest

The term “interest” as used in this section “United States Federal Income Tax Considerations” shall include any additional amounts required to be paid under the terms of the Notes. Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the U.S. Holder’s method of accounting for tax purposes. For foreign tax credit limitation purposes, for tax years beginning before January 1, 2007, such income will generally constitute “passive income” and, for tax years beginning after December 31, 2006, such income will generally constitute “passive category income”. The rules regarding the availability of foreign tax credits are complex and U.S. Holders may be subject to various limitations thereon.

Purchase, Sale and Retirement of Notes

A U.S. Holder’s tax basis in a Note will generally be its cost. A U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and the tax basis of the Note. Except to the extent attributable to accrued but unpaid interest which will be taxed as described in “Payments of Interest” above, gain or loss recognized on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Notes exceeds one year. Long-term capital gain is currently taxable at a reduced rate for individuals, trusts and estates. The deductibility of capital losses is subject to significant limitations.

Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be attributed to U.S. sources.

Backup Withholding and Information Reporting

In general, payments of interest on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the U.S. Internal Revenue Service and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status, fails to report all interest and dividends required to be shown on its U.S. federal income tax returns, or otherwise fails to comply with the backup withholding rules. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.