

3 January, 2006

Kaupthing Bank hf.

**Issue of EUR 5,000,000 Variable Redemption Amount Notes due January 2014
under the €12,000,000,000
Euro Medium Term Note Programme**

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 2nd September, 2005 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

1.	Issuer:	Kaupthing Bank hf.
	(i) Series Number:	25
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	Euro ("EUR")
3.	Aggregate Nominal Amount:	
	(i) Series:	EUR 5,000,000
	(ii) Tranche:	EUR 5,000,000
4.	Issue Price:	100 per cent of the Aggregate Nominal Amount
5.	Specified Denominations:	EUR1,000
6.	(i) Issue Date:	3 January, 2006
	(ii) Interest Commencement Date:	Not Applicable
7.	Maturity Date:	3 January 2014
8.	Interest Basis:	Not Applicable
9.	Redemption/Payment Basis:	Other (see Appendix)

10.	Change of Interest Basis or Redemption/ Payment Basis:	Not Applicable
11.	Put/Call Options:	Not Applicable
12.	(a) Status of the Notes:	Senior
	(b) Date Board approval for issuance of Notes obtained:	Not Applicable
13.	Method of distribution:	Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions	Not Applicable
15.	Floating Rate Note Provisions	Not Applicable
16.	Zero Coupon Note Provisions	Applicable
	(i) Accrual Yield:	0.00 per cent. per annum
	(ii) Reference Price:	Not Applicable
	(iii) Any other formula/basis of determining amount payable:	Not Applicable
	(iv) Day Count Fraction in relation to Early Redemption Amount and late payment:	Not Applicable
20.	Range Accrual Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21.	Issuer Call	Not Applicable
22.	Investor Put	Not Applicable
23.	Target Redemption Note Provisions:	Not Applicable
24.	Final Redemption Amount of each Note	As set out in the Appendix hereto
25.	Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(f)):	In the case of an early redemption of the Note for taxation reasons or on an Event of Default, the Calculation Agent will determine in consultation with the Issuer (on such basis as it, in its absolute discretion, considers fair and reasonable in the circumstances) the Early Redemption Amount payable for the Note as the fair market value which the Note would have had on the date fixed for early redemption if the taxation reasons or the Event of Default had not occurred less, in case of early redemption for taxation reasons, the reasonable cost

to the Issuer of unwinding any related hedging arrangements, all as calculated by the Calculation Agent and as agreed with the Issuer.

26. Capital Notes Provisions Not Applicable

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27. Form of Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event

28. Additional Financial Centre(s) or other special provisions relating to Payment Dates: Not Applicable

29. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No

30. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and, consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable

31. Details relating to Instalment Notes:

(i) Instalment Amount(s): Not Applicable

(ii) Instalment Date(s): Not Applicable

32. Redenomination applicable: Redenomination not applicable

33. Other final terms: Not Applicable

DISTRIBUTION

34. (i) If syndicated, names and addresses of Managers and underwriting commitments: Not Applicable

(ii) Date of Subscription Agreement: Not Applicable

(iii) Stabilising Manager (if any): Not Applicable

35. If non-syndicated, name and address of relevant Dealer: Exane
16, avenue Matignon – 75008 Paris

36. Total commission and concession: Not Applicable
37. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: TEFRA D
38. Additional selling restrictions: Not Applicable

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

Guðni N. Aðalsteinsson
By: Framkvæmdastjóri, Managing Director
Dulfrann Kristófer



sign. Áslaug Guðjónsdóttir

PART B – OTHER INFORMATION

1. LISTING

- | | |
|---|----------------|
| (i) Listing: | None |
| (ii) Admission to trading: | Not Applicable |
| (iii) Estimate of total expenses related to admission to trading: | Not Applicable |

2. RATINGS

- | | | |
|----------|--|----|
| Ratings: | The Notes to be issued have been rated | |
| | Moody's | A1 |
| | Fitch | A |

3. NOTIFICATION

Not Applicable

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- | | |
|---------------------------------|--------------------------------|
| (i) Reasons for the Offer: | For general corporate purposes |
| (ii) Estimated net proceeds: | Not Applicable |
| (iii) Estimated total expenses: | Not Applicable |

6. YIELD

Indication of yield:	Not Applicable
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7. HISTORIC INTEREST RATES

Not Applicable

8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING

Not Applicable

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT

Not Applicable

10. OPERATIONAL INFORMATION

- (i) ISIN Code: XS0239437949
- (ii) Common Code: 23943794
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): Not Applicable
- (iv) Delivery: Delivery against
- (v) Names and addresses of additional Paying Agent(s) (if any): Not Applicable

APPENDIX

(This Appendix forms part of these Final Terms to which it is attached)

I. FINAL REDEMPTION AMOUNT

Unless previously redeemed or purchased and cancelled, as provided in these Final Terms, the Final Redemption Amount upon redemption of each Note on the Maturity Date shall be an amount in EUR calculated by the Calculation Agent as follows:

$$\text{Notional} \times \left[90\% + \text{Max} \left(0; 118\% \times \frac{\sum_{d \in [1;4]} \text{PerfMax}(d)}{4} \right) - \text{GF} \right]$$

Where:

“**PerfMax(1)**” means $\text{Max}_{i \in [1;4]} (\text{Perf}(i,1)) = \text{Perf}(D1, 1)$

“**PerfMax(2)**” means $\text{Max}_{\substack{i \in [1;4] \\ i \neq D1}} (\text{Perf}(i,2)) = \text{Perf}(D2, 2)$

“**PerfMax(3)**” means $\text{Max}_{\substack{i \in [1;4] \\ i \neq D1, i \neq D2}} (\text{Perf}(i,3)) = \text{Perf}(D3, 3)$

“**PerfMax(4)**” means $\text{Max}_{\substack{i \in [1;4] \\ i \neq D1, i \neq D2, i \neq D3}} (\text{Perf}(i,4)) = \text{Perf}(D4, 4)$

And:

“**Perf(i,d)**” means the performance of the Fund(i) on the Fixing Date(d) since 14 December, 2005 calculated as follows:

$$\text{Perf}(i,d) = \frac{\omega_{i,d} \text{Fund}_{i,d}}{\omega_{i,0} \text{Fund}_{i,0}} - 1$$

“**Fund_(i,d)**” means the official NAV of the Fund(i) on the Fixing Date(d)

“ **$\omega_{i,d}$** ” means the Quantity of the Fund(i) on Fixing Date(d)

“ **$\omega_{i,0}$** ” means the Quantity of the Fund(i) on the 14 December, 2005

“**Quantity**” means 1.00

II. DEFINITIONS

Where, unless the context otherwise requires, the following defined terms beginning by a capital letter shall have the meanings set forth below:

"Calculation Agent" means Exane SA;

"Delisting" means, in respect of any Fund(i), that the relevant Exchange announces that pursuant to the rules of such Exchange, the relevant Unit cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or take-over) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union);

"Exchange" means, in respect of any Fund(i), the relevant principal stock exchange or quotation system on which such Fund(i) is traded, or any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in any Fund(i) has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to such Fund(i) on such temporary substitute exchange or quotation system as on the original Exchange);

"Exchange Disruption" means any event that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (x) to effect transactions in, or obtain NAV for, the relevant Fund(i), or (y) to effect transactions in, or obtain market values for, futures or options contracts relating to such Fund(i);

"Fixing Date(d)" means in respect of the figure "d", with $1 \leq d \leq 4$, the relevant Fixing Date as defined in the table below or if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day:

(d)	Fixing Date
1	14 December 2007
2	14 December 2009
3	14 December 2011
4	16 December 2013

"Fund(i)" means in respect of the figure "i" put into brackets, with $1 \leq i \leq 4$, the relevant fund subject to adjustment from time to time in accordance with the adjustments provisions set out in provision III.(2) of the Appendix (Methods for making certain adjustments on undertakings for collective investment scheme (CIS)) as set out in the table below:

(i)	Fund	Bloomberg Code
1	DWS Russia Fund	DWSRUSS LX
2	Templeton Latin American Fund	TEMLABI LX
3	DWS India Fund	DBINDIA LX
4	Invesco Greater China Opportunities	INVPGCE LX

"Fund_(i,0)" means in respect of the figure "i" put into brackets, with $1 \leq i \leq 4$, the relevant NAV of the fund(i) as defined in the table below:

(i)	Fund	Fund _(i,0)
1	DWS Russia Fund	264.01 EUR
2	Templeton Latin American Fund	21.24 USD

3	DWS India Fund	1,019.28 EUR
4	Invesco Greater China Opportunities	12.47 EUR

“Insolvency” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceedings affecting the relevant Fund(i) (x) all the Units of such Fund(i) are required to be transferred to a trustee, liquidator or other similar official or (y) holders of the Units of the Fund(i) become legally prohibited from transferring them;

“Market Disruption Event” means in respect of the relevant Fund(i), the occurrence or existence of an Exchange Disruption, which the Calculation Agent determines is material, at any time during the one hour period that ends the relevant Valuation Time;

“Merger Date” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Calculation Agent;

“Merger Event” means, in respect of the relevant Unit any (i) reclassification or change of such Unit that results in a transfer of or an irrevocable commitment to transfer all of such Units outstanding, to another entity or person, (ii) consolidation, amalgamation, merger or binding unit exchange of the relevant Fund(i) with or into another entity or person (other than a consolidation, amalgamation, merger or binding unit exchange in which such Fund(i) is the continuing entity and which does not result in a reclassification or change of all such Units outstanding), (iii) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100% of the outstanding Units of the relevant Fund(i) that results in a transfer of or an irrevocable commitment to transfer all such Units (other than such Units owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding unit exchange of the Fund(i) or its subsidiaries with or into another entity in which such Fund(i) is the continuing entity and which does not result in a reclassification or change of all such Units outstanding but results in the outstanding Units (other than Units owned or controlled by such other entity) immediately prior to such event collectively representing less than 50% of the outstanding Units immediately following such event (a “Reverse Merger”), in each case if the Merger Date is on or before the last Fixing Date(d);

“NAV” means the net asset value of the relevant Fund(i) on which subscription and redemption orders would be executed;

“Notional” means EUR1,000 (one Specified Denomination);

“Potential Adjustment Event” means any of the following event in each case if effective on or before the last Fixing Date(d):

- (1) a subdivision, consolidation or reclassification of the Unit (unless resulting in a Merger Event Unit;
- (2) in respect of the relevant Fund(i), an event that results in any unitholder rights being distributed or becoming separated from unit of the relevant Fund(i) pursuant to a unitholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value, as determined by the Calculation Agent, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or
- (3) any other event that may have a diluting or concentrative effect on the theoretical value of the Unit.

"Related Exchange" means, in respect of any Fund(i), each relevant exchange or quotation system on which such Fund(i) is traded, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to such Fund(i) has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Fund(i) on such temporary substitute exchange or quotation system as on the original Related Exchange);

"Scheduled Closing Time" means in respect of each relevant Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such relevant Exchange or Related Exchange on such Scheduled Trading day, without regard to after hours or any other trading outside of the regular trading session hours;

"Scheduled Trading Day" means in respect of each relevant Fund(i), any day on which each relevant Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

"Substitute Fund" means a fund which is not the Fund(i) and which have the same characteristics than such Fund(i) in the opinion of the Calculation Agent (classification, fund objective, investment style or any other factor judged relevant by the Calculation Agent and for which the calculation method and periodicity of the NAV is found to be satisfactory by the Calculation Agent);

"Trading Day" means in respect of each relevant Fund(i), any day that is a trading day on the Exchange, other than a day on which the trading session is scheduled to close earlier than the normal closing of said Exchange in exceptional or temporary cases;

"Units" means in respect of the relevant Fund(i) the units of such Fund(i);

"Valuation Time" means in relation to each relevant Fund(i), the Scheduled Closing Time on the relevant Exchange on each relevant Fixing Date(d).

III. ADJUSTMENT APPLICABLE TO THE NOTES

(1) Principles

If certain events defined below affecting the value of any Fund(i) (an "Event") occur, the Issuer shall, subject to the agreement of the Calculation Agent, have the option to:

- (i) decide to pay an amount at the Maturity Date determined by the Calculation Agent, which represents the fair market value of the Notes at maturity and that has the effect of preserving for the holder of that Note the economic equivalent of the obligation of the Issuer to make payment of the Redemption Amount in respect of such Note; or
- (ii) to continue to execute its obligations in respect of the Notes, subject to the adjustments deemed necessary by the Calculation Agent using (at his choice) one of the following methods:
 - (a) using the method used by the Related Exchange (if applicable), or any other competent authority;

(b) using the methods described in paragraphs III.(2) hereinafter;

it being, however, understood that if the Calculation Agent determines that the adjustments decided by the competent authorities described in sub-paragraph (a) above and/or the adjustments made using the methods described in paragraphs III.(2) hereinafter, are technically difficult to implement or inappropriate, it must make all other adjustments that it deems necessary.

Outstanding Notes, for which the Effective Date of the Event is simultaneous with or prior to any Fixing Date(d), may be adjusted as described in the Conditions below.

(2) Methods for making certain adjustments on undertakings for collective investment scheme ("CIS")

If the foregoing Condition III.(1)(ii)(b) applies, the Calculation Agent must make the following adjustments to the relevant Fund(i) (so that these adjustment take effect as soon as possible after the Event) :

(i) Group or division of Units

In the case of a group or division of Units of any Fund(i), the new Quantity of Units ("Q1") will be calculated using the following formula:

$$Q1 = Q \times \frac{\text{number of Units after the Event}}{\text{number of Units before the the Event}}$$

where "Q" is equal to the Quantity of Units before adjustment;

"number of Units" means the number of Units of the relevant Fund(i).

(ii) Merger

In the case of the merger of any Fund(i) with another CIS, or absorption by another CIS (the "New CIS")(other than a merger in which the relevant CIS would be the surviving entity), the Issuer may, subject to the request and the agreement of the Calculation Agent, substitute as this instruments underlying the Notes the New OPC resulting from this merger or surviving the merger;

(iii) Demerger

In case any Fund(i) is split, the Issuer shall have the option, subject to the request and the agreement of the Calculation Agent, to substitute the Fund(i) with the composite of the New CIS resulting from the demerger as the elements underlying the Notes or substitute such Fund(i) with the Substitute.

(iv) Subscription or Redemption fees

If any Fund(i) applies Subscription or Redemption fees that are higher than the maximum Subscription fees ("**Maximum Subscription Fees**") and the maximum Redemption fees ("**Minimum Redemption Fees**") respectively, the Issuer may, subject to the request and the agreement of the Calculation Agent, substitute such Fund(i) with the Substitute,

Where Maximum Subscription Fees and Minimum Redemption Fees mean 0.

- (v) Withdrawal or suspension of the CIS approval by the regulatory authority

If the regulatory authority withdraws or suspends the approval given to any Fund(i), the Issuer may, subject to the request and the agreement of the Calculation Agent, substitute such Fund(i) with the Substitute.

- (vi) Suspension of subscriptions or redemptions

If a suspension of subscriptions or redemptions occurs and continues for more than 15 Business Days, the Issuer may, subject to the request and the agreement of the Calculation Agent, substitute such Fund(i) with the Substitute.

- (vii) Change in the management company

In the case of a change of the management company, the Issuer shall have the option, subject to the request and the agreement of the Calculation Agent, to continue to honour its obligations in respect of the Notes in accordance with the Conditions or to substitute such Fund(i) with the Substitute.

- (viii) Change in the management objectives of the CIS

In the case of a change in the management objectives of any Fund(i) which results in a significant increase in the level of risk, the Issuer shall have the option, subject to the request and the agreement of the Calculation Agent, to continue to honour its obligations in respect of the Notes in accordance with the Conditions or to substitute such Fund(i) with the Substitute.

- (ix) Other events

In the case of other events similar to the foregoing events which affect the value of the Units of any Fund(i), the Issuer shall have the option, subject to the request and the agreement of the Calculation Agent, to continue to honour its obligations in respect of the Notes in accordance with the Conditions, or to substitute such Fund(i) with the Substitute.

(3) Adjustment Notices

The Calculation Agent must notify Note Holders of any change made to the conditions of the Notes pursuant to this Condition as soon as possible, and any payment shall be made as soon as possible.

IV. MARKET DISRUPTION EVENT

(1) Market Disruption

A "**Market Disruption Event**" means the occurrence or the existence, during any Trading Day, of one of the following events that affect any Fund(i) (the "**Affected Underlying Asset**"), during the half hour preceding the relevant Valuation Time:

- (i) the suspension or interruption in the publication of the Net Asset Value for any reason whatsoever; or

- (ii) the suspension or interruption in the creation or elimination of Units (subscriptions or redemptions) for any reason whatsoever;
- (iii) the suspension or limitation on trading in options or forward contracts involving the Affected Underlying Asset on the Related Exchange;

if the Calculation Agent believes, in any of these cases, that such a suspension or limitation is material.

For the purposes of this definition (1) a limitation on the hours and number of trading days shall not constitute a Market Disruption Event if such limitation is the result of a normal or temporary change in the usual business hours of the relevant Exchange and is announced in advance; and (2) a significant limitation on trading resulting from price fluctuations that exceed the limits authorised by the competent market authority shall constitute a Market Disruption Event.

(2) Consequences of a Market Disruption Event

The relevant Fixing Date(d) of each Fund(i) that is not affected by a Market Disruption Event shall be the Fixing Date(d) initially designated.

The Fixing Date(d) for the Affected Underlying Asset shall be the first following Trading Day during which there is no Market Disruption Event related to the Affected Underlying Asset. If such a Market Disruption Event occurs on each of the five Trading Days immediately following the initial date which (without a Market Disruption Event) should have been the relevant Fixing Date(d), (1) the fifth Trading Day shall be deemed the Fixing Date(d) of the Affected Underlying Asset (notwithstanding the Market Disruption Event); and (2) the Calculation Agent shall determine the NAV for the Affected Underlying Asset, by using for each Unit affected, the fair market value that would have been reflected by the value of the Unit, in the absence of a Market Disruption Event, at the Valuation Time on such fifth Trading Day.

In determining the Redemption Amount, the Calculation Agent may take into consideration the market value of the various hedge financial instruments established by the Issuer in respect of the Notes, corrected for any losses or gains suffered or produced, as applicable, by the Issuer as a result of a Market Disruption Event.

(3) Notices

The Calculation Agent shall notify the Issuer, as soon as possible, of the existence or occurrence of a Market Disruption Event on a date which, without the occurrence or existence of a Market Disruption Event, would have been a Fixing Date(d).

The Issuer shall notify Note Holders as soon as possible of the occurrence of a Market Disruption Event.

V. RESPONSIBILITY

The calculations and determinations of the Calculation Agent shall be made in accordance with the Conditions (having regard in each case to the criteria stipulated herein and where relevant on the basis of information provided to or obtained by employees or officers of the Calculation Agent responsible for making the relevant calculation or determination) and shall, in the absence of bad faith or manifest error, be final, conclusive and binding on the Noteholders. Noteholders shall not be entitled to make any claim against the Calculation Agent or the Issuer in the case where public information related to the underlying contained any error, omission or other incorrect statement.