

FINAL TERMS

15 February 2006

KAUPTHING BANK HF.

**Issue of EUR 1,500,000.00 Variable Amount Notes due December 2009
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
2.	(i) Series Number:	40
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	Euro (EUR)
4.	Aggregate Nominal Amount:	
	(i) Series:	EUR 1,500,000.00
	(ii) Tranche:	EUR 1,500,000.00
5.	Issue Price:	104.00 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	EUR 1,000.00
7.	(i) Issue Date:	15 February 2006
	(ii) Interest Commencement Date:	Not Applicable
8.	Maturity Date:	15 December 2009
9.	Interest Basis:	Not Applicable
10.	Redemption/Payment Basis:	Commodity Linked Redemption (see Appendix)
11.	Change of Interest Basis or Redemption/ Payment Basis:	Not Applicable

- | | | |
|-----|---|----------------|
| 12. | Put/Call Options: | Not Applicable |
| 13. | (a) Status of the Notes: | Senior |
| | (b) Date Board approval for issuance of Notes obtained: | Not Applicable |
| 14. | Method of distribution: | Non-syndicated |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- | | | |
|-----|---|----------------|
| 15. | Fixed Rate Note Provisions | Not Applicable |
| 16. | Floating Rate Note Provisions | Not Applicable |
| 17. | Zero Coupon Note Provisions | Not Applicable |
| 18. | Index Linked Interest Note Provisions | Not Applicable |
| 19. | Dual Currency Interest Note Provisions | Not Applicable |
| 20. | Target Redemption Note Provisions: | Not Applicable |
| 21. | Range Accrual Note Provisions: | Not Applicable |

PROVISIONS RELATING TO REDEMPTION

- | | | |
|-----|--|-------------------------------|
| 22. | Issuer Call: | Not Applicable |
| 23. | Investor Put | Not Applicable |
| 24. | Target Redemption Note Provisions: | Not Applicable |
| 25. | Final Redemption Amount of each Note: | As set out in Appendix hereto |
| 26. | 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 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 has 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.

27. Capital Notes Provisions Not Applicable

GENERAL PROVISIONS APPLICABLE TO THE NOTES

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

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

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

31. 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

32. Details relating to Instalment Notes:

(i) Instalment Amount(s): Not Applicable

(ii) Instalment Date(s): Not Applicable

33. Redenomination applicable: Redenomination not applicable

34. Other final terms: Minimum trading number of EUR 50,000.00 and multiples of EUR 1,000.00 thereafter

DISTRIBUTION

35. (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

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

37. Total commission and concession: Not Applicable

38. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: TEFRA D

39. Additional selling restrictions:

Not Applicable

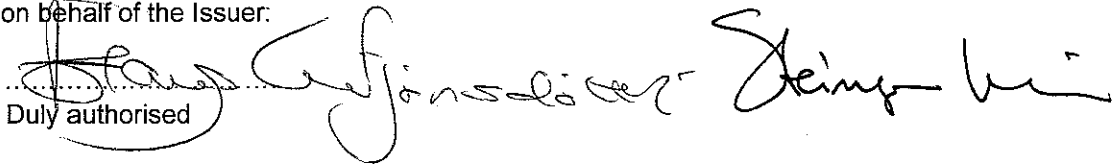
RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised

A handwritten signature in black ink, appearing to read "Hans-Joachim Weingarten". The signature is written over a dotted line. The word "Duly authorised" is printed below the signature.

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: Not Applicable
- (ii) Admission to trading: Not Applicable
- (iii) Estimate of total expenses related to admission to trading: Not Applicable

2. RATINGS

Ratings: Not Applicable

3. NOTIFICATION

Not Applicable

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

Not Applicable

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

- (i) Reasons for the Offer: See "Use of Proceeds"
- (ii) Estimated net proceeds: Not Applicable
- (iii) Estimated total expenses: Not Applicable

6. YIELD (*Fixed Rate Notes only*)

Indication of yield: Not Applicable

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: XS0243587127
- (ii) Common Code: 024358712
- (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 payment
- (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:

- (1) If RV_{final} is strictly greater than $RV_{initial}$:
$$\text{Nominal} \times [1 + 1.60 \times \text{Min} (50\%; RV_{final}/RV_{initial} - 1)]$$
- (2) If RV_{final} is equal to $RV_{initial}$:
$$\text{Nominal} \times 100\%$$
- (3) If RV_{final} is strictly lower than $RV_{initial}$:
$$\text{Nominal} \times [1 + 1 \times (RV_{final}/RV_{initial} - 1)]$$

Where:

- " RV_{final} " means the Reference Value on the close on the Valuation Date;
- " $RV_{initial}$ " means 688.00;
- "Reference Value" means the Closing Price of the Underlying multiplied by the Quantity;
- "Quantity" means 1.

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 (16 avenue Matignon – 75008 Paris). Whenever the Calculation Agent is required to act or to exercise judgment in any way, it will do so in good faith and in a commercially reasonable manner, and its determinations and calculations will be binding in the absence of manifest error.

"**Closing Price**" means in respect of the Underlying, its official traded price quoted by the Exchange at the Valuation Time on the relevant Exchange Business Day.

"**Early Closure**" means in respect of the Underlying, the closure on any Exchange Business Day of the Exchange prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Exchange on such Exchange Business Day and (ii) the submission deadline for orders to be entered into the Exchange system for execution at the Valuation Time on such Exchange Business Day.

"**Exchange**" means the Commodity Exchange on which the Underlying is traded.

"Exchange Business Day" means any Scheduled Trading Day on which the Exchange is open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

"Exchange Disruption" means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general to effect transactions in, or obtain market values for, the Underlying on the Exchange.

"Future Contract" means in respect of the Underlying, the contract for delivery date December 2009 (Bloomberg code: GCZ9 Commodity).

"Market Disruption Event" means in respect of the Underlying, the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time, or (iii) an Early Closure.

"Notional" means EUR 1,000.00 (one Specified Denomination).

"Scheduled Closing Time" means in respect of the Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such 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 the Underlying, any day on which the Exchange is scheduled to be open for trading for regular trading sessions.

"Trading Day" means in respect of the Underlying, 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.

"Trading Disruption" means in respect of the Underlying, any suspension of or limitation imposed on trading by the Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange.

"Underlying" means the Gold-Comex Future Contract for delivery date December 2009.

"Valuation Date" means 23 November 2009 or if such day is not an Exchange Business Day, the next following Exchange Business Day.

"Valuation Time" means, in relation to the Underlying, the close of trading on the Exchange.

III. ADJUSTMENT AND MARKET DISRUPTION

1. Adjustments to the Underlying

(a) Future Contract listed by a third party

If the Future Contract is not listed on the Exchange but is listed by a person or party (the **"Third Party"**) designated by the Exchange or any other component market authority, the Exchange shall be replaced by the Third Party.

The same provision shall apply in the case where the Third Party ceases to list the Future Contract but is replaced by another Third Party appointed under the same terms.

The name of the Third Party and the listing conditions for the Future Contract, so determined by the Third Party, will be notified to the Noteholders within the five Business Days following the date of appointment of the Third Party in accordance with provision IV below.

(b) Change in Future Contract conditions and replacement of the Future Contract

If the Stock Exchange or Third Party substantially changes the Future Contract conditions or if the Exchange or any other competent market authority replaces the Future Contract with a new future contract, this new Future Contract to be used as a new underlying asset for the Notes, the Issuer may replace the Future Contract by the Future Contract so changed or by the new substitute future contract (if applicable) multiplied, if necessary, by a factor so as to ensure continuity in the evolution of the Underlying Assets of the Notes. The changed Future Contract or the new future contract (as applicable) and, if necessary, the factor, will be notified to the Noteholders as soon as possible in accordance with provision IV below.

2. Market Disruption

(a) Consequences of a Market Disruption Event

If, in the opinion of the Calculation Agent, a Market Disruption Event (as defined below) has occurred and is continuing on the Valuation Date, then that Valuation Date shall be postponed to the next following Exchange Business Day on which there is no such Market Disruption Event, provided however that in no event shall the Valuation Date be postponed beyond the third Exchange Business Day following such Valuation Date. If the Market Disruption Event is continuing on such third Exchange Business Day then such third Exchange Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and the Calculation Agent shall determine the Final Redemption Amount by using the fair market value that would have been reflected by the value of the Underlying.

(b) Meaning of "Market Disruption Event"

"Market Disruption Event" means the events described in the ISDA 1993 Commodity Derivatives Definitions as published by International Swap and Derivatives Association.

IV. NOTICES

- (i) The Calculation Agent shall as soon as reasonably practicable notify the Issuer of the existence or occurrence of a Market Disruption Event on any day which but for such Market Disruption Event would have been the Valuation Date.
- (ii) Upon the occurrence of a Potential Adjustment Event, Merger Event, Nationalisation, Insolvency or Delisting, the Calculation Agent shall give notice as soon as practicable to the Issuer stating the occurrence of the Potential Adjustment Event, Merger Event, Nationalisation, Insolvency or Delisting, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.

Adjustments in accordance with the foregoing clauses (*see paragraph III.*) shall be calculated by the Calculation Agent and notified to the Noteholders in accordance with Condition 14 and shall be (in the absence of manifest error) binding on all parties concerned. However, Noteholders should be aware that there may be necessarily, some delay between the time at which any of the above events occur and the time at which it is reported to Noteholders.

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.