

Covered bond issue

X50249806935

FINAL TERMS

29 March 2006

KAUPTHING BANK HF.

Issue of ISK 29,068,676,100 Inflation Linked Annuity Covered Bonds
irrevocably and unconditionally guaranteed as to payments by
KAUPTHING MORTGAGES INSTITUTIONAL INVESTOR FUND
under the ISK 200,000,000,000
Covered Bond Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 29 March 2006 which will, upon approval by the ICEX, constitute 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 Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the Fund and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus. The 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.

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|-----|-----|---|--|
| 1. | (a) | Issuer: | Kaupthing Bank hf. |
| | (b) | Guarantor: | Kaupthing Bank Mortgages Institutional Investor Fund |
| 2. | (a) | Series Number: | 2 |
| | (b) | Tranche Number: | 1 |
| 3. | | Specified Currency or Currencies: | ISK |
| 4. | | Aggregate Nominal Amount: | |
| | (a) | Series: | 29,068,676,100 |
| | (b) | Tranche: | 29,068,676,100 |
| 5. | | Issue Price: | 89.14 per cent. of the Aggregate Nominal Amount |
| 6. | | Specified Denominations: | ISK 1 |
| 7. | (a) | Issue Date: | 30 March 2006 |
| | (b) | Interest Commencement Date: | 10 April 2006 |
| 8. | | Final Maturity Date: | 10 July 2048 |
| 9. | | Interest Basis: | Inflation Linked Interest |
| 10. | | Redemption/Payment Basis: | Annuity |
| 11. | | Change of Interest Basis or Redemption/Payment Basis: | Not Applicable |
| 12. | | Call Option: | Issuer Call |
| 13. | (a) | Status of the Covered Bonds: | Senior |
| | (b) | Status of the Covered Bond Guarantee: | Senior |

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- (c) Board approval for issuance of Covered Bonds and Covered Bond Guarantee obtained: 28 October 2005 and 10 March 2006, respectively

14. Method of distribution: Non-syndicated

PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS

15. Inflation Linked Annuity Covered Bonds Applicable
- (a) Rate(s) of Interest: 3.75 per cent. per annum payable quarterly in arrear
- (b) Interest Payment Date(s): The 10th day of January, April, July and ~~November~~ ^{October} in each year up to and including the Final Maturity Date, with the first Interest Payment Date being 10 July 2006.
- (c) Day Count Fraction: Actual/360
- (d) Business Day Convention Following
- (e) Formula for calculation of principal amount due as specified in Condition 7.1: An amount calculated by the Calculation Agent in accordance with the following formula:

$$A = \frac{r(1+r)^{k-1}}{(1+r)^n - 1} \times d$$

where:

A = The amount of each instalment of the relevant Covered Bonds;

$$r = \frac{c}{4};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 169; and

k = The number of payments that have already taken place + 1 (*k = 1 for the first payment, k = 2 for the second payment, etc*)

- (f) Calculation of Annuity Amount: The formula to calculate the Annuity Amount is as follows:

$$P = \frac{r}{1 - (1+r)^{-n}} \times IR \times d$$

where:

P = The combined payment of principal, interest and indexation amount of the relevant Covered Bonds;

$$r = \frac{c}{4};$$

c = The Rate of Interest applicable to the relevant

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- (g) Calculation Agent:
- (h) Initial Annuity Amount:
- (i) Index Ratio:

Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 169; and

IR = The Index Ratio as determined in accordance with subparagraph (i) below

Issuer 343,480,165

The value of the Index Ratio (IR) on the relevant Interest Payment Date shall be the value of the Reference Index (RI) applicable to the relevant Interest Payment Date divided by the value of the Base Index (BI) as calculated by the Calculation Agent

$$\text{being IR} = \frac{\text{RI}}{\text{BI}}$$

where:

Reference Index or RI means:

- (i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the CPI) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um vísitölu neysluverðs nr. 12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðið*);
- (ii) for each day in the relevant calendar month other than the first day:
 - (a) if the CPI for the calendar month immediately succeeding the month in which the relevant Interest Payment Date falls (the Succeeding Month CPI) has been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times \left(\frac{CPI_{t+1}}{CPI_t} \right)^{\frac{d}{30}}$$

- (b) if the Succeeding Month CPI has not been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times (1+i)^{\frac{d}{360}}$$

where:

RI = Reference Index;

CPI_t = CPI value for the first day of the relevant calendar month;

CPI_{t+1} = Succeeding Month CPI;

d = number of days since the first day of the month; and

i = annualised inflation forecast of the Central Bank of Iceland

and

Base Index means 252.3.

If at any time a new index is substituted for the CPI, as of the calendar month from and including that in which such substitution takes effect:

- (i) the Reference Index shall be deemed to refer to the new index; and
- (ii) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Covered Bond Provisions	Not Applicable
17.	Floating Rate Covered Bond Provisions	Not Applicable
18.	Zero Coupon Covered Bond Provisions	Not Applicable
19.	Variable Interest Covered Bond Provisions	Not Applicable
20.	Dual Currency Interest Covered Bond Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21.	Issuer Call:	Applicable
	(a) Optional Redemption Date(s):	Each Interest Payment Date
	(b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):	Condition 7.6(a) applies
	(c) If redeemable in part:	
	(i) Minimum Redemption Amount:	Not Applicable
	(ii) Maximum Redemption Amount:	Not Applicable
	(d) Notice period (if other than as set out in the Terms and Conditions):	As set out in the Terms and Conditions.
22.	Final Redemption Amount of each Covered Bond:	Not Applicable

23. Early Redemption Amount of each Covered Bond payable on redemption on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): As set out in Condition 7.5

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

24. Form of Covered Bonds: Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds only after an Exchange Event
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: Not Applicable
26. Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature): Yes
27. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: Not Applicable
28. Details relating to Instalment Covered Bonds:
- (a) Instalment Amount(s): Not Applicable
- (b) Instalment Date(s): Not Applicable
29. Redenomination applicable: Redenomination not applicable
30. Other final terms: Not Applicable

DISTRIBUTION

31. (a) If syndicated, names of Managers : Not Applicable
- (b) Date of Purchase Agreement: 29 March 2006
- (c) Stabilising Manager (if any): Not applicable
32. If non-syndicated, name of relevant Dealer: Kaupthing Bank hf.
33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: TEFRA D
34. Additional selling restrictions: Not Applicable

LISTING AND ADMISSION TO TRADING APPLICATION

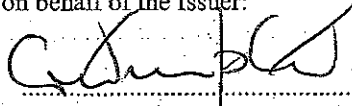
These Final Terms comprise the final terms required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the ISK 200,000,000,000 Covered Bond Programme of Kaupthing Bank hf.

RESPONSIBILITY

Each of the Issuer and the Fund accepts responsibility for the information contained in these Final Terms. The information contained in paragraph 6 of Part B of these Final Terms has been extracted from the website of statistics of Iceland www.hagstofa.is or www.statice.is. Each of the Issuer and the

Fund confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Iceland Statistics, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

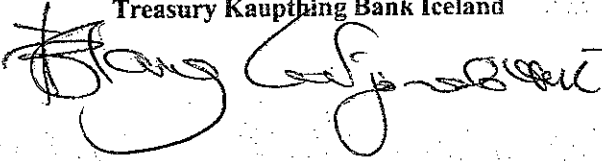
By: 

Duly authorised

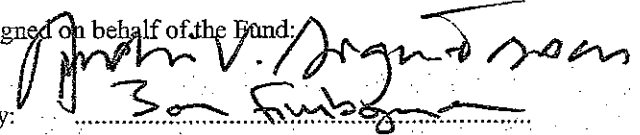
Guðmundur P. Guðmundsson

Managing Director

Treasury Kaupthing Bank Iceland



Signed on behalf of the Fund:

By: 

Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- (a) Listing: Icelandic Stock Exchange
- (b) Admission to trading: Application shall be made for the Covered Bonds to be admitted to trading with effect from the date of approval of the Prospectus by the ICEX.

2. RATINGS

- Ratings: The Covered Bonds to be issued have been rated:
Moody's: Aaa
- Obligations rated Aaa by Moody's are judged to be of the highest quality with minimal credit risk.
- A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Each rating should be evaluated independently of any other rating.

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

Save for any fees payable to the Dealer, so far as the Issuer and the Fund are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.

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

- (a) Reasons for the offer: As set out in *Use of Proceeds*.
- (b) Estimated net proceeds: ISK 25,910,787,900.
- (c) Estimated total expenses: ISK 867,500

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

Historic performance of the CPI and its influence on the value of the Covered Bonds

The general cash-flow of the Covered Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 15 of Part A of this Final Terms.

Based on data from Statistics Iceland, the year to year inflation, measured as changes in the CPI, has been positive for the last 30 years ranging from 1.3 per cent. in 1998 to 67.7 per cent. in 1982. The average value over the period is 20 per cent. with standard deviation of 21.4 per cent. The same statistics for the last 10 years is an average inflation rate of 3.6 per cent. and standard deviation of 2.5 per cent.

The development of the CPI since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006
January	202.4	221.5	224.7	230.1	239.2	249.7
February	202.8	220.9	224.3	229.4	239.7	249.5
March	204.0	221.8	226.7	230.7	241.5	252.3

April	206.5	221.9	227.0	232.0	242.0	
May	209.4	221.8	226.6	233.9	240.7	
June	212.6	222.8	226.8	235.7	242.4	
July	214.2	223.0	226.5	234.6	242.7	
August	214.9	221.8	226.3	234.6	243.2	
September	216.3	222.9	227.9	235.6	246.9	
October	217.7	224.1	229.0	237.4	248.4	
November	218.5	223.7	229.3	237.9	248.0	
December	219.5	223.9	230.0	239.0	248.9	

Source: Iceland Statistics

The Central Bank's main objective is price stability, defined as a 12-month rise in the CPI of 2.5 per cent. The aim is to keep the rate of inflation on average as close to the target as possible. If it deviates by more than 1.5 per cent. in either direction, the Central Bank is obliged to present the Icelandic Government with a report, which will be made public, explaining the reasons for the deviation from the target and the Central Bank's responses to the deviation.

The development of 12 month inflation (in percentage terms) since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006
January	3.5	9.4	1.4	2.4	4.0	4.4
February	4.1	8.9	1.5	2.3	4.5	4.1
March	3.9	8.7	2.2	1.8	4.7	
April	4.5	7.5	2.3	2.2	4.3	
May	5.5	5.9	2.2	3.2	2.9	
June	6.8	4.8	1.8	3.9	2.8	
July	7.0	4.1	1.6	3.6	3.5	
August	7.9	3.2	2.0	3.7	3.7	
September	8.4	3.1	2.2	3.4	4.8	
October	8.0	2.9	2.2	3.7	4.6	
November	8.1	2.4	2.5	3.8	4.2	
December	8.6	2.0	2.7	3.9	4.1	

Source: Iceland Statistics

If policy changes or if the Icelandic economy runs into long-term stagnation it is possible that the level of the CPI will go down over time resulting in individual future payments on the Covered Bonds being lower in nominal terms than the real value of the same payment on the Issue Date.

Information about the CPI can be obtained from the website of Statistics of Iceland being www.hagstofa.is or www.statice.is.

6. OPERATIONAL INFORMATION

- (a) ISIN Code: XS0249806935
- (b) Common Code: 024980693

- (c) Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification number(s): Not Applicable
- (d) Delivery: Delivery against payment
- (e) Names and addresses of additional Paying Agent(s) (if any): Not applicable

