

10 May 2006

**Kaupthing Bank hf.**  
**Issue of ISK 3,500,000,000 Non-cumulative Undated Capital Notes**  
**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 on the Luxembourg Stock Exchange website. Copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

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|-----|-----------------------------------|--|
| 1.  | Issuer:                           | Kaupthing Bank hf.   |
|     | (i) Series Number:                | 59   |
|     | (ii) Tranche Number:              | 1  |
| 3.  | Specified Currency or Currencies: | Icelandic Krona ("ISK")  |
| 4.  | Aggregate Nominal Amount:         |  |
|     | (i) Series:                       | ISK 3,500,000,000  |
|     | (ii) Tranche:                     | ISK 3,500,000,000  |
| 5.  | Issue Price:                      | 100 per cent. of the Aggregate Nominal Amount  |
| 6.  | Specified Denominations:          | ISK 5,000,000  |
| 7.  | (i) Issue Date:                   | 10 May 2006  |
|     | (ii) Interest Commencement Date:  | 10 May, 2006   |
| 8.  | Maturity Date:                    | Undated  |
| 9.  | Interest Basis:                   | 3 Month REIBOR + 1.40 per cent. Floating Rate<br>(further particulars specified below) |
| 10. | Redemption/Payment Basis:         | Redemption at par  |

11. Change of Interest Basis or Redemption/ Payment Basis: No
12. Put/Call Options: Issuer Call  
(further particulars specified below)
13. (a) Status of the Notes: Capital Notes  
The Capital Notes and any relative Receipts and Coupons are unsecured and unconditional obligations of the Issuer, subordinated as described in Conditions 2(c), 2(d) and 2(e).
- (b) Date Board approval for issuance of Notes obtained: 24 November, 2005
14. Method of distribution: Capital Notes

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. **Fixed Rate Note Provisions** Not Applicable
16. **Floating Rate Note Provisions** Applicable
- (i) Specified Period(s)/Specified Interest Payment Dates: Interest is payable quarterly in arrear, on 10 February, 10 May, 10 August and 10 November in each year commencing on 10 August 2006. In each Case subject to Business Day Convention specified below.
- (ii) Business Day Convention: Modified Following Business Day Convention
- (iii) Additional Business Centre(s): Reykjavik
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: Screen Rate Determination
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): Not Applicable
- (vi) Screen Rate Determination: Yes
- Reference Rate: 3 month REIBOR
- Interest Determination Date(s): The second day on which Reykjavik is open prior to the start of each Interest Period
- Relevant Screen Page: Reuters page REIBOR=
- (vii) ISDA Determination: Not Applicable

–	Floating Rate Option:	Not Applicable
–	Designated Maturity:	Not Applicable
–	Reset Date:	Not Applicable
(viii)	Margin(s):	+1.40 per cent. Per annum
(ix)	Minimum Rate of Interest:	Not Applicable
(x)	Maximum Rate of Interest:	Not Applicable
(xi)	Day Count Fraction:	Actual/360
(xii)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	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	Applicable
	(i) Optional Redemption Dates:	Interest Payment Date falling on 10 November 2016 and each Interest Payment Date thereafter. Any redemption of the Notes is subject to prior approval of the Financial Supervisory Authority of Iceland (Fjármálaeftirlitið).
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	ISK 5,000,000 per Note of ISK 5,000,000 Specified denomination
	(iii) If redeemable in part:	Not Applicable
	(a) Minimum Redemption Amount:	Not Applicable
	(b) Maximum Redemption Amount:	Not Applicable
23.	Investor Put	Not Applicable
24.	Target Redemption Note Provisions:	Not Applicable

25. Final Redemption Amount of each Note      Nominal Amount
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)):      Subject as provided in Condition 7(l), upon the occurrence of a Special Event (as defined in Condition 7(l)), the Issuer may, subject to the prior approval of the Financial Supervisory Authority of Iceland (Fjármálaeftirlitið), at its option, having given not less than 30 days' nor more than 60 days' notice to the holders of the Capital Notes in accordance with Condition 14, redeem all (but note some only) of the Capital Notes on any Special Event Redemption Date at an amount equal to the Special Event Redemption amount.
27. Capital Notes Provisions
- (i) Special Event Redemption Amount:      The Special Event Redemption Amount will be the original principal amount + accrued interest
- (ii) Special Event Redemption Date(s):      Upon the occurrence of a Capital or Tax Event, the Notes may be redeemed in whole, but not in part on any Interest Payment Date
- (iii) Investment Considerations:      In making an investment decision in respect of Capital Notes, potential investors should carefully consider the merits and risks of an investment in the Capital Notes and carefully review the Conditions and this Final Terms. In particular (i) the Capital Notes are undated and deeply subordinated; (ii) principal in respect of the Capital Notes may be converted into conditional capital contributions as described in Condition 2(d); (iii) conditional capital contributions may only be reconverted and reinstated as provided in Condition 2(e); (iv) the Issuer shall not pay accrued interest in certain circumstances as provided in Condition 5; and (v) the Capital Notes may be redeemed at the option of the Issuer, as specified in the applicable Final Terms subject to prior approval of the Financial Supervisory Authority of Iceland (Fjármálaeftirlitið).and provided that any conditional capital contributions have been reconverted and reinstated as provided in Condition 2(e), all as further described in Condition 7.

#### 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):  | Not Applicable                |
| 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:   | Not Applicable                |

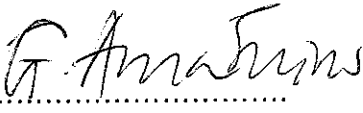
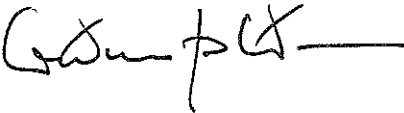
#### **DISTRIBUTION**

- |     |  |  |
|-----|--|--|
| 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:                          | Kaupthing Bank hf.Borgartun 19<br>105 Reykjavik<br>Iceland |
| 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. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By:    
.....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING

- |   |  |
|---|--|
| (i) Listing:  | Luxembourg   |
| (ii) Admission to trading:  | Application has been made for the Notes to be admitted to trading on 10 May 2006 with effect from 10 May 2006. |
| (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

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: Not Applicable
- (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** (*Floating Rate Notes only*)

Details of historic REIBOR rates can be obtained from the Central Bank of Iceland's website:  
<http://www.sedlabanki.is>

**8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING** (*Index-Linked Notes only*)

Not Applicable

**9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT** (*Dual Currency Notes only*)

Not Applicable

**10. OPERATIONAL INFORMATION**

- (i) ISIN Code: XS0253926710
- (ii) Common Code: 025392671
- (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