

FINAL TERMS

2 February 2007

Kaupthing Bank hf.
Issue of EUR 1,600,000 Non Interest Bearing CMS Linked Redemption Notes
due 2 February 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 31st August, 2006 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: | 18 |
| | (ii) Tranche Number: | 1 |
| 3. | Specified Currency or Currencies: | Euro ("EUR") |
| 4. | Aggregate Nominal Amount: | |
| | (i) Series: | EUR 1,600,000 |
| | (ii) Tranche: | EUR 1,600,000 |
| 5. | Issue Price: | 100.00 per cent. of the Aggregate Nominal Amount |
| 6. | Specified Denominations: | EUR 50,000 |
| 7. | (i) Issue Date: | 2 February 2007 |
| | (ii) Interest Commencement Date: | Not Applicable |
| 8. | Maturity Date: | 2 February 2014 |
| 9. | Interest Basis: | Not Applicable |

- | | | |
|-----|--|-----------------------|
| 10. | Redemption/Payment Basis: | CMS Linked Redemption |
| 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 | <p>Unless previously redeemed or purchased and cancelled by the Issuer, the Calculation Agent shall determine the Final Redemption Amount of the Notes as follows:</p> <p>If no Knock-Out Event has occurred, the Notes will be redeemed by payment of EUR 50,000 per Note of EUR 50,000 Specified Denomination on the Maturity Date.</p> <p>However, if the Calculation Agent determines that on a Knock-Out Valuation Date the Spread is equal to or greater than the Barrier (a “Knock-Out Event”) then the Notes shall be redeemed on the Knock-Out Redemption Date immediately</p> |

following such Knock-Out Event by payment of the corresponding Knock-Out Redemption Amount per Note of EUR 50,000 Specified Denomination as set out in the table below:

Knock-Out Redemption Date	Knock-Out Redemption Amount
2 February 2008	EUR 52,400
2 February 2009	EUR 54,800
2 February 2010	EUR 57,200
2 February 2011	EUR 59,600
2 February 2012	EUR 62,000
2 February 2013	EUR 64,400
2 February 2014	EUR 66,800

where:

“**Barrier**” means 0.95 per cent.

“**Calculation Agent**” means BNP PARIBAS.

All determinations in respect of the Notes shall be made by the Calculation Agent in its sole and absolute discretion acting in good faith and in a commercially reasonable manner and shall be binding on the Noteholders in the absence of manifest error.

“**Knock-Out Redemption Date**” means the date set out in the table above, subject to adjustment in accordance with the Modified Following Business Day Convention, but without adjustment to the Knock-Out Redemption Amount due.

“**Spread**” means Ten Year CMS minus Two Year CMS determined on the day that is five TARGET Business Days prior to the relevant Knock Out Redemption Date (each, a “**Knock-Out Valuation Date**”).

“**TARGET Business Day**” means a day on which the TARGET System is open.

“**Ten Year CMS**” means the ten year mid swap rate in EUR quoted on an annual 30/360 basis versus 6 month EURIBOR as appearing on Reuters page

'ISDAFIX2' as of 11.00 a.m., Frankfurt time.

"Two Year CMS" means the two year mid swap rate in EUR quoted on an annual 30/360 basis versus 6 month EURIBOR as appearing on Reuters page 'ISDAFIX2' as of 11.00 a.m., Frankfurt time.

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)): Condition 7(f) applies.
27. Capital Notes Provisions Not Applicable

GENERAL PROVISIONS APPLICABLE TO THE NOTES

28. (a) Form of Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event
- (b) New Global Note: No
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: Not Applicable

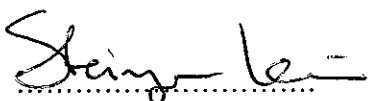
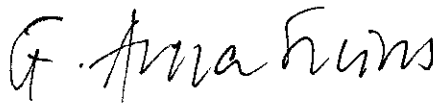
DISTRIBUTION

35. (i) If syndicated, names of Managers: Not Applicable
- (ii) Date of Subscription Agreement: Not Applicable
- (iii) Stabilising Manager (if any): Not Applicable
36. If non-syndicated, name of relevant Dealer: BNP PARIBAS
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

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

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	
Not Applicable	

6. YIELD (<i>Fixed Rate Notes only</i>)	
Not Applicable	

7. HISTORIC INTEREST RATES (*Floating Rate Notes only*)

Not Applicable

8. PERFORMANCE OF INDEX, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING INDEX (*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:	XS0281632074
(ii) Common Code:	028163207
(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
(vi) Intended to be held in a manner which would allow Eurosystem eligibility:	No