

Applicable Final Terms

25 September 2007

Kaupthing Bank hf.
Issue of EUR 3,000,000 Notes linked to a basket of bonds due 27 December 2010
under the €12,000,000,000
Euro Medium Term Note Programme

The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.

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 13 September, 2007 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.

No person has been authorised to give any information or make any representation not contained in or not consistent with these Final Terms, or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Dealer.

By investing in the Notes each investor represents that:

- (a) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to invest in the Notes and as to whether the investment in the Notes is appropriate or proper for it based upon its own judgement and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the Issuer or any Dealer as investment advice or as a recommendation to invest in the Notes, it being understood that information and explanations related to the terms and conditions of the Notes shall not be considered to be investment advice or a recommendation to invest in the Notes. No communication (written or oral) received from the Issuer or any Dealer shall be deemed to be an assurance or guarantee as to the expected results of the investment in the Notes.*
- (b) Assessment and Understanding. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms and*

conditions and the risks of the investment in the Notes. It is also capable of assuming, and assumes, the risks of the investment in the Notes.

(c) *Status of Parties. Neither of the Issuer nor any Dealer is acting as a fiduciary for or adviser to it in respect of the investment in the Notes.*

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| 1. | Issuer: | Kaupthing Bank hf. |
| 2. | (i) Series Number: | 1 |
| | (ii) Tranche Number: | 1 |
| 3. | Specified Currency or Currencies: | Euro ("EUR") |
| 4. | Aggregate Nominal Amount: | |
| | (i) Series: | EUR 3,000,000 |
| | (ii) Tranche: | EUR 3,000,000 |
| 5. | Issue Price: | 88.45 per cent. of the Aggregate Nominal Amount |
| 6. | (i) Specified Denominations: | EUR 1,000 |
| | (ii) Calculation Amount: | EUR 1,000 |
| 7. | (i) Issue Date: | 25 September 2007 |
| | (ii) Interest Commencement Date: | Not Applicable |
| 8. | Maturity Date: | 27 December 2010 |
| 9. | Interest Basis: | Not Applicable |
| 10. | Redemption/Payment Basis: | Equity linked Redemption Notes |
| 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

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| 15. | Fixed Rate Note Provisions | Not Applicable |
| 16. | Floating Rate Note Provisions | Not Applicable |

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| 17. | Zero Coupon Note Provisions | Not Applicable |
| 18. | Index Linked Interest Note Provisions | Not Applicable |
| 19. | Equity Linked Interest Note Provisions | Not Applicable |
| 20. | Commodity Linked Interest Note Provisions | Not Applicable |
| 21. | Additional Disruption Events (applicable to Equity Linked Interest Notes only): | Not Applicable |
| 22. | Dual Currency Interest Note Provisions | Not Applicable |
| 23. | Target Redemption Note Provisions: | Not Applicable |
| 24. | Range Accrual Note Provisions: | Not Applicable |

PROVISIONS RELATING TO REDEMPTION

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| 25. | Issuer Call: | Not Applicable |
| 26. | Investor Put | Not Applicable |
| 27. | Target Redemption Note Provisions: | Not Applicable |
| 28. | Final Redemption Amount: | See Appendix |
| 29. | Early Redemption Amount: | |

Early Redemption Amount payable on redemption for taxation reasons or on event of default or on an illegality (or, in the case of Equity Linked Notes, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer in accordance with Condition 9(b)(ii)(b) or, following an Additional Disruption Event (if applicable) or, in the case of Credit Linked Notes, following a Merger Event, and/or the method of calculating the same (*required if Early Redemption Amount different from that set out in Condition 7(f)*):

With respect to each Calculation Amount, such amount(s) determined by the Calculation Agent which shall represent the fair market value of such Calculation Amount on the date of redemption, including accrued interest (if any), adjusted to account fully for any losses, expenses and costs to the Issuer (or any of its affiliates) of unwinding any underlying or related hedging and funding arrangements, all as determined by the Calculation Agent in its sole and absolute discretion. For the purposes hereof:

- (i) the references to "together (if appropriate) with interest accrued to (but excluding) the date of redemption" shall be deemed to be deleted from each of Condition 7(b) and Condition 7(h); and
- (ii) the references to "together with accrued interest thereon to the date of repayment" shall be deemed to be deleted from Condition 14.

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| 30. | Capital Notes Provisions: | Not Applicable |
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| 31. | Equity Linked Redemption Notes: | Applicable |
| | (i) Whether the Notes relate to a basket of equity securities or a single equity security, and the identity of the relevant issuer(s) of the Underlying Equity/Equities: | Basket of Underlying Equities For details, see Appendix |
| | (ii) Whether redemption of the Notes will be by (a) Cash Settlement or (b) Physical Delivery or (c) Cash Settlement and/or Physical Delivery: | Cash Settlement |
| | (iii) Calculation Agent responsible for making calculations pursuant to Condition 9: | Commerzbank Aktiengesellschaft |
| | (iv) Exchange: | Not Applicable |
| | (v) Related Exchange(s): | Not Applicable |
| | (vi) Potential Adjustment Events: | Not Applicable |
| | (vii) De-listing, Merger Event, Nationalisation and Insolvency: | Not Applicable |
| | (viii) Tender Offer: | Not Applicable |
| | (ix) Redemption Amount: | See Appendix |
| | (x) Valuation Date: | Not Applicable |
| | (xi) Valuation Time: | Not Applicable |
| | (xii) Strike Price: | Not Applicable |
| | (xiii) Exchange Rate: | Not Applicable |
| | (xiv) Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition 9(b)): | Not Applicable |
| | (xv) Correction of Share Prices, Index Levels or Official Settlement Prices: | Not Applicable |
| | (xvi) Correction Cut-Off Date: | Not Applicable |
| | (xvii) Trade Date: | Not Applicable |
| | (xviii) Relevant Assets: | Not Applicable |

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| (xix) | Asset Amount: | Not Applicable |
| (xx) | Cut-Off Date: | Not Applicable |
| (xxi) | Delivery provisions for Asset Amount (including details of who is to make such delivery): | Not Applicable |
| (xxii) | Failure to deliver due to illiquidity: | Not Applicable |
| (xxiii) | Other terms or special conditions: | See Appendix |
| 32. | Additional Disruption Events: <i>(applicable to Equity Linked Redemption Notes only)</i> : | Not Applicable |
| 33. | Credit Linked Notes: | Not Applicable |
| 34. | Commodity Linked Redemption Notes: | Not Applicable |

GENERAL PROVISIONS APPLICABLE TO THE NOTES

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| 35. | (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. |
| 36. | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | TARGET, London |
| 37. | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | No. |
| 38. | 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 |
| 39. | Details relating to Instalment Notes: | |
| | (i) Instalment Amount(s): | Not Applicable |
| | (ii) Instalment Date(s): | Not Applicable |
| 40. | Redenomination applicable: | Redenomination not applicable |

41. Other final terms: See Appendix

DISTRIBUTION

42. (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
43. If non-syndicated, name and address of relevant Dealer: Commerzbank Aktiengesellschaft
Kaiserplatz
60261 Frankfurt am Main
44. Total commission and concession: Not Applicable
45. U.S. Selling Restrictions: TEFRA D
46. Non-exempt Offer: Not Applicable
47. Additional selling restrictions: Not Applicable

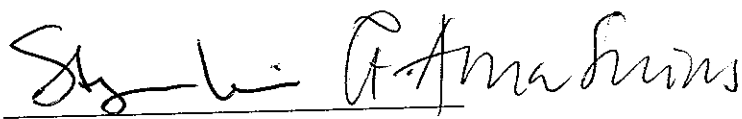
PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for the issue of the Notes described herein pursuant to the €12,000,000,000 Euro Medium Term Note Programme of Kaupthing Bank hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. Information on the Companies and the Bond issued by the respective Companies has been extracted from the internet page of comdirect AG: www.comdirect.de. 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 by comdirect AG, 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 AND ADMISSION TO TRADING** Not Applicable

2. **RATINGS**

Ratings: The Notes to be issued have not been rated:

3. **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.

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

(i) Reasons for the offer: The net proceeds from the issue of Notes will be applied by the Issuer for its general corporate purposes, which include making a profit.

(ii) Estimated net proceeds: EUR 2,653,500

(iii) Estimated total expenses: Not Applicable

5. **YIELD** (*Fixed Rate Notes only*)

Indication of yield: Not Applicable

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

Not Applicable

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

Not Applicable

8. **PERFORMANCE OF [THE EQUITY/BASKET OF EQUITIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE EQUITY/BASKET OF EQUITIES]]** (*Equity Linked Notes only*)

Information on the Companies and the respective Bonds can be found on the internet page of comdirect AG: www.comdirect.de.

9. **PERFORMANCE OF [THE COMMODITY/BASKET OF COMMODITIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE COMMODITY/BASKET OF COMMODITIES]]** (*Commodity Linked Notes only*)

Not Applicable

10. INFORMATION IN RELATION TO THE REFERENCE ENTITY, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING THE REFERENCE ENTITY] (*Credit Linked Notes only*)

Not Applicable

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

Not Applicable

12. OPERATIONAL INFORMATION

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|-------|---|--------------------------|
| (i) | ISIN Code: | XS0321417064 |
| (ii) | Common Code: | 032141706 |
| (iii) | Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, <i>société anonyme</i> 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. |

13. TERMS AND CONDITIONS OF THE OFFER Not Applicable

Appendix to the Final Terms dated 25 September 2007

I. Final Redemption of the Notes

The Notes Certificate shall be redeemed on the Maturity Date at an amount in the Issue Currency calculated according to the following formula (the "**Final Redemption Amount**"):

$$RA = \max(\text{EUR } 1,000 - \text{Adjustments}; 0)$$

where

RA = Final Redemption Amount per Note

$$\text{Adjustments} = \sum_{i=1}^n [a_i \times (c_i^e - c_i^a)] + \sum_{i=1}^n [a_i \times (R_i^e - R_i^a)] + AI$$

with "n" being the number of Bonds (i.e., 5)

and

a_i = Weighting of Bond (i) (i.e., 100% : 5 = 20%)

c_i^e = Expected interest payments of Bond (i) per Bond Denomination during the period from the Issue Date of the Notes until 13 December 2010 (both inclusive) (see table in paragraph II)

c_i^a = Interest of Bond (i) actually paid per Bond Denomination by the Company with respect to Bond (i) during the period from the Issue Date of the Notes until 13 December 2010 (both inclusive)

R_i^e = Expected redemption of Bond (i) (i.e., 100% of the Bond Denomination)

R_i^a = Redemption of Bond (i) actually paid per Bond Denomination during the period from the Issue Date of the Notes until 13 December 2010 (both inclusive)

AI = Compound interest because of lost cash flows as calculated by the Calculation Agent in its own reasonable discretion in the case that c_i^e and R_i^e are below c_i^a and R_i^a , respectively

II. Definitions

For the purposes of these Terms and Conditions of the Certificates, the following definitions shall apply:

"**Bond**" means any of the bonds issued by the following companies (each a "**Company**" with annual fixed interest payments, a redemption at par, a denomination (the "**Bond Denomination**") and an expiry as described in the following table:

| Company issuing the Bond | Fixed Interest Rate | Interest Payment Date/Expiry | Bond Denomination $= R_i^e$ | Expected interest payments per Bond Denomination $= C_i^e$ | ISIN of Bond |
|---|---------------------|------------------------------|--------------------------------|---|--------------|
| Deutsche Bahn Finance B.V., Amsterdam | 6.000% | 15 June 15 June 2010 | EUR 1,000.00 | EUR 180.00 | DE0001591089 |
| Compagnie de Financement Foncier, Paris | 5.625% | 25 June 25 June 2010 | EUR 1,000.00 | EUR 168.75 | FR0000497398 |
| Eurohypo AG, Frankfurt | 5.75% | 5 July 5 July 2010 | EUR 1,000.00 | EUR 172.50 | DE0003138037 |
| KfW, Frankfurt | 4.75% | 11 August 11 August 2010 | EUR 1,000.00 | EUR 142.50 | DE0002760808 |
| Citigroup, Inc., New York | 6.125% | 1 October 1 October 2010 | EUR 1,000.00 | EUR 245.00 | XS0118237188 |