

APPLICABLE FINAL TERMS

25 October 2007

Kaupthing Bank hf.
Issue of USD 400,000,000 Non-Cumulative Undated 9.00 per cent. Capital Notes
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, except as provided in sub-paragraph (ii) below, 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 of the Notes may only do so:

- (i) 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; or
- (ii) in those Public Offer Jurisdictions mentioned in Paragraph 35 of Part A below, provided such person is one of the persons mentioned in Paragraph 35 of Part A below and that such offer is made during the Offer Period specified for such purpose therein.

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.

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| 1. | Issuer: | Kaupthing Bank hf. |
| 2. | (i) Series Number: | 5 |
| | (ii) Tranche Number: | 1 |
| 3. | Specified Currency or Currencies: | United States Dollars (USD) |

4. Aggregate Nominal Amount:
- (i) Series: USD 400,000,000
- (ii) Tranche: USD 400,000,000
5. Issue Price: 100 per cent. of the Aggregate Nominal Amount
6. (i) Specified Denominations: USD 2,000
- (ii) Calculation Amount: USD 2,000
7. (i) Issue Date: 31 October 2007
- (ii) Interest Commencement Date: Issue Date
8. Maturity Date: Undated
9. Interest Basis: 9.00 per cent. Fixed Rate
- (further particulars specified below)
10. Redemption/Payment Basis: Redemption at par
- Undated, with Issuer Call as set out in items 12 and 25, subject to the prior approval of the FSA (provided that such approval can validly be given in accordance with the applicable rules, regulations and policy of the FSA) and to Condition 7(m)
- On or after the Issue Date, the Issuer intends to enter into a replacement capital covenant (RCC) for the benefit of one or more designated series of the Issuer's debt securities. It is anticipated that such RCC will provide that the Issuer will not redeem or repurchase any Notes unless it has, in the six months prior to such redemption or repurchase, received proceeds equal to a specified percentage of the aggregate redemption or repurchase price from new issuances of qualifying securities.*
11. Change of Interest Basis or Redemption/Payment Basis: Not Applicable
12. Put/Call Options: Issuer Call
- (further particulars specified below)
13. (i) Status of the Notes: Capital Notes
- (ii) Date of Board approval for issuance of Notes obtained: 26 July 2007
14. Method of distribution: Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions	Applicable
	(i) Rate(s) of Interest:	9.00 per cent. per annum payable quarterly in arrear
	(ii) Interest Payment Date(s):	31 January, 30 April, 31 July and 31 October in each year commencing on 31 January 2008
	(iii) • Fixed Coupon Amount(s): <i>(Applicable to Notes in definitive form.)</i>	USD 45 per Calculation Amount
	(iv) Broken Amount(s): <i>(Applicable to Notes in definitive form.)</i>	Not Applicable
	(v) Day Count Fraction:	30/360
	(vi) Determination Date(s):	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
16.	Floating Rate Note Provisions	Not Applicable
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

25.	Issuer Call:	Applicable
	(i) Optional Redemption Date(s):	Callable at par on 31 October 2012 or on any Interest

Payment Date thereafter subject to prior approval of the FSA (provided that such approval can validly be given in accordance with the applicable rules, regulations and policy of the FSA) and to Condition 7(m).

- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): USD 2,000 per Calculation Amount
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: Not Applicable
 - (b) Maximum Redemption Amount: Not Applicable
 - (iv) Notice period (if other than as set out in the Conditions): Condition 7(c) applies
26. Investor Put Not Applicable
27. Target Redemption Note Provisions: Not Applicable
28. Final Redemption Amount: USD 2,000 per Calculation Amount
29. Early Redemption Amount:
- Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (required if Early Redemption Amount different from that set out in Condition 7(f)): Condition 7(f) applies
30. Capital Notes Provisions: Applicable
- (i) Special Event Redemption Amount: USD 2,000 per Calculation Amount
 - (ii) Special Event Redemption Date(s): Any Interest Payment Date from (and including) 31 January 2008 to (but excluding) 31 October 2012 (subject to the prior approval of the FSA (provided that such approval can validly be given in accordance with the applicable rules, regulations and policy of the FSA) and to Condition 7(m)).
 - (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 these 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 FSA 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.

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| 31. | Equity Linked Redemption Notes: | Not Applicable |
| 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: | Not Applicable |
| 37. | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | Yes

If Definitive Notes are to be issued the Talon will mature on 31 January 2014 and each 25th Interest Payment Date thereafter |
| 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: Any redemption pursuant to Condition 7 prior to, but excluding, 31 October 2017, shall also be subject to the satisfaction of the Redemption Condition.

The **Redemption Condition** shall have been satisfied if the Issuer has proceeds available from an issue of Replacement Capital that has been issued for the purpose of funding the redemption in an amount at least equal to the redemption price payable on the relevant date fixed for redemption.

Replacement Capital means share capital or other securities issued by the Issuer or a Subsidiary which, as of the date of issue thereof, would be included in the Tier I Capital of the Issuer.

DISTRIBUTION

42. (i) If syndicated, names and addresses of Managers and underwriting commitments:

Citigroup Global Markets Limited
Citigroup Centre
Canary Wharf
London E14 5LB

Credit Suisse Securities (Europe) Limited
One Cabot Square
Canary Wharf
London E14 4QJ

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Underwriting Commitments:

Citigroup Global Markets Limited:	USD 100,000,000
Credit Suisse Securities (Europe) Limited:	USD 100,000,000
Deutsche Bank AG, London Branch:	USD 100,000,000
Merrill Lynch International:	USD 100,000,000

- (ii) Date of Subscription Agreement:

25 October 2007

- (iii) Stabilising Manager (if any):

Credit Suisse Securities (Europe) Limited

43. If non-syndicated, name and address of relevant Dealer: Not Applicable
44. Total commission and concession: 2 per cent. of the Aggregate Nominal Amount
45. U.S. Selling Restrictions: Reg S. Category 2; TEFRA D
46. Non-exempt Offer: An offer of the Notes may be made by the Managers and other parties authorised by the Managers (together with the Managers, the **Financial Intermediaries**) other than pursuant to Article 3(2) of the Prospectus Directive in Ireland, Luxembourg, Portugal, The Netherlands and the United Kingdom (**Public Offer Jurisdictions**) during the period from 25 October 2007 until 31 October 2007 (**Offer Period**). See further Paragraph 13 of Part B below.
47. Additional selling restrictions: **Hong Kong**
- Each Manager has represented and agreed that:
- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.
- Singapore**
- The Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore

(the Securities and Futures Act). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Notes, namely a person who is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act;

(ii) where no consideration is given for the transfer; or

(iii) by operation of law.

General

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes the Base Prospectus and will

obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer, sale or delivery by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and the Issuer shall not have any responsibility therefor.

None of the Issuer and the Managers will represent that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and public offer in the Public Offer Jurisdictions and admission to trading on the Luxembourg Stock Exchange's Regulated Market and listing on the Official List of the Luxembourg Stock Exchange 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.

Signed on behalf of the Issuer:

By: **Guðni Aðalsteinsson**
Frakvæmdastjóri fjárfestingar
Duly authorized
Chief Treasurer



PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING** Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Luxembourg Stock Exchange's Regulated Market and to be listed on the Official List of the Luxembourg Stock Exchange with effect from 31 October 2007.
2. **RATINGS**

Ratings: The Capital Notes to be issued have been rated:

Moody's: A2
Fitch: A-

An A2 rating means that the Capital Notes are considered upper-medium grade and are subject to low credit risk. An A- rating denotes expectations of low credit risk. The Issuer's capacity for payment of financial commitments is considered strong but may be more vulnerable to changes in circumstances or the economic conditions than is the case for higher ratings.
3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

Save for any fees payable to the Managers, 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: For the Issuer's general corporate purposes which include making a profit.
 - (ii) Estimated net proceeds: USD 392,000,000
 - (iii) Estimated total expenses: USD 385,000
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, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING**

THE EQUITY (*Equity Linked Notes only*)

Not Applicable

9. PERFORMANCE OF THE COMMODITY, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE COMMODITY (*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 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: | XS0326368379 |
| (ii) | Common Code: | 032636837 |
| (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

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| (i) | Offer Price: | Issue Price |
| (ii) | Conditions to which the offer is subject: | Offers of the Notes are conditional on their issue. |
| (iii) | Description of the application process: | Any application for the purchase of Notes shall be sent to the Managers. For their names and addresses, see item |

		42(i).
(iv)	Details of the minimum and/or maximum amount of application:	Not Applicable
(v)	Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:	Not Applicable
(vi)	Details of the method and time limits for paying up and delivering the Notes:	Investors will be notified by the Managers of their allocations of Notes and the settlement arrangements in respect thereof. The Notes will be issued on the Issue Date against payment to the Issuer of the net subscription moneys.
(vii)	Manner in and date on which results of the offer are to be made public:	Not Applicable
(viii)	Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	Not Applicable
(ix)	Categories of potential investors to which the Notes are offered and whether tranche(s) have been reserved for certain countries:	Offers may be made by the Managers in each of the Public Offer Jurisdictions to any person. In other EEA countries, offers will only be made pursuant to an exemption under the Prospectus Directive, as implemented in such countries.
(x)	Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:	Not Applicable. No dealings in the Notes on a regulated market for the purposes of the Investment Services Directive 93/22/EC may take place prior to the Issue Date.
(xi)	Amount of any expenses and taxes specifically charged to the subscriber or purchaser:	Not Applicable