

## FINAL TERMS

13 March 2008

### **KAUPTHING BANK HF.**

**Issue of ISK 15,500,000,000 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**

The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Covered Bonds 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 Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of the Covered Bonds 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 Covered Bonds in any other circumstances.

## 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 February 2008 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 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.

1.	(a) Issuer:	Kaupthing Bank hf.
	(b) Guarantor:	Kaupthing Mortgages Institutional Investor Fund
2.	(a) Series Number:	4
	(b) Tranche Number:	1
3.	Specified Currency or Currencies:	ISK
4.	Aggregate Nominal Amount:	
	(a) Series:	15,500,000,000
	(b) Tranche:	15,500,000,000
5.	Issue Price:	89,85 per cent. of the Aggregate Nominal Amount
6.	(a) Specified Denominations:	ISK 100,000
	(b) Calculation Amount:	ISK 100,000
7.	(a) Issue Date:	13 March 2008
	(b) Interest Commencement Date:	10 March 2008
8.	Final Maturity Date:	10 July 2045
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
	(c) [Date [Board] approval for issuance of Covered Bonds and Covered Bond Guarantee obtained:	26 July 2007 and 21 July 2008, 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:	4.0 per cent. per annum payable quarterly in arrear
	(b) Interest Payment Date(s):	The 10th day of January, April, July and October in

each year up to and including the Final Maturity Date, with the first Interest Payment being 10 April 2008

(c) Day Count Fraction:

30/360

(d) 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 = 150; 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*)

(e) 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 Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 150; and

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

(f) Calculation Agent:

Issuer

(g) Initial Annuity Amount:

ISK 199,948,083

(h) Index  
Ratio:

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:

$$\text{RI} = \text{CPI}_t + \frac{d-1}{30} \times (\text{CPI}_{t+1} - \text{CPI}_t)$$

where:

RI = Reference Index;

CPI<sub>t</sub> = CPI value for the first day of the relevant calendar month;

CPI<sub>t+1</sub> = Succeeding Month CPI;

d = The day number of the month;

**Base Index** means 282.3, being the value of the CPI on 1 March 2008.

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.	(a) 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
	(b) New Global Note:	No
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 and addresses of Managers and underwriting commitments: | Not Applicable                      |
|     | (b) Date of Subscription Agreement:  | 13 March 2008                       |
|     | (c) Stabilising Manager (if any):  | Not applicable                      |
| 32. | If non-syndicated, name of relevant Dealer:                                      | Kaupthing Bank hf.                  |
| 33. | Total commission and concession:   | Not applicable                      |
| 34. | U.S. Selling Restrictions:   | Reg. S Compliance Category: TEFRA D |
| 35. | Non-exempt Offer   | Not Applicable                      |
| 36. | Additional selling restrictions:   | Not Applicable                      |

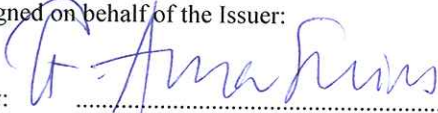
**PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue and admission to trading on the regulated market of the OMX Nordic Exchange Iceland of the 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 5 of Part B of these Final Terms has been extracted from the website of statistics of Iceland [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://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*

**Guðni Aðalsteinsson**  
 Framkvæmdastjóri/Fjárflyttingar  
 Chief Treasurer

Signed on behalf of the Fund:

By:   
 .....  
*Duly authorised*


## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of the OMX Nordic Exchange Iceland with effect from the Issue Date.

### 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 subject to revision, suspension or withdrawal at any time at the absolute discretion of the assigning rating organisation. The ratings assigned by Moody's to a Series of Covered Bonds address the expected loss posed to investors by the legal final maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

### 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" in the Prospectus. |
| (b) Estimated net proceeds:   | ISK 13,926,680,800.                                |
| (c) Estimated total expenses: | ISK 1,500,000.                                     |

### 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 over the last 30 years ranged from -0.04 per cent. in 1994 to 102.8 per cent. in 1982. The average value over the period is 19 per cent. with standard deviation of 21.8 per cent. The same statistic for the last 10 years is an average inflation rate of 4.2 per cent. and standard deviation of 2.2 per cent.

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

	2001	2002	2003	2004	2005	2006	2007	2008
<b>January</b>	202.4	221.5	224.7	230.1	239.2	249.7	266.9	282.3
<b>February</b>	202.8	220.9	224.3	229.4	239.7	249.5	268.0	268.2
<b>March</b>	204.0	221.8	226.7	230.7	241.5	252.3	267.1	
<b>April</b>	206.5	221.9	227.0	232.0	242.0	255.2	268.7	
<b>May</b>	209.4	221.8	226.6	233.9	240.7	258.9	271.0	
<b>June</b>	212.6	222.8	226.8	235.7	242.4	261.9	272.4	
<b>July</b>	214.2	223.0	226.5	234.6	242.7	263.1	273.0	
<b>August</b>	214.9	221.8	226.3	234.6	243.2	264.0	273.1	
<b>September</b>	216.3	222.9	227.9	235.6	246.9	265.6	276.7	
<b>October</b>	217.7	224.1	229.0	237.4	248.4	266.2	278.1	
<b>November</b>	218.5	223.7	229.3	237.9	248.0	266.1	279.9	
<b>December</b>	219.5	223.9	230.0	239.0	248.9	266.2	281.8	

Source: Statistics Iceland

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	2007	2008
<b>January</b>	3.5%	9.4%	1.4%	2.4%	4.0%	4.4%	6.9%	5.8%
<b>February</b>	4.1%	8.9%	1.5%	2.3%	4.5%	4.1%	7.4%	6.8%
<b>March</b>	3.9%	8.7%	2.2%	1.8%	4.7%	4.5%	5.9%	
<b>April</b>	4.5%	7.5%	2.3%	2.2%	4.3%	5.5%	5.3%	
<b>May</b>	5.5%	5.9%	2.2%	3.2%	2.9%	7.6%	4.7%	
<b>June</b>	6.8%	4.8%	1.8%	3.9%	2.8%	8.0%	4.0%	
<b>July</b>	7.0%	4.1%	1.6%	3.6%	3.5%	8.4%	3.8%	
<b>August</b>	7.9%	3.2%	2.0%	3.7%	3.7%	8.6%	3.4%	
<b>September</b>	8.4%	3.1%	2.2%	3.4%	4.8%	7.6%	4.0%	
<b>October</b>	8.0%	2.9%	2.2%	3.7%	4.6%	7.2%	4.5%	
<b>November</b>	8.1%	2.4%	2.5%	3.8%	4.2%	7.3%	5.2%	
<b>December</b>	8.6%	2.0%	2.7%	3.9%	4.1%	7.0%	5.9%	

Source: Statistics Iceland

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](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is).



**6. OPERATIONAL INFORMATION**

- |     |  |   |
|-----|--|---|
| (a) | ISIN Code:   | XS0349858984  |
| (b) | Common Code:   | 034985898   |
| (c) | Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, <i>société anonyme</i> and the relevant identification number(s): | Not Applicable  |
| (d) | Delivery:  | Delivery against payment  |
| (e) | Names and addresses of initial Paying Agent(s) (if any):   | Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB |
| (f) | Intended to be held in a manner which would allow Eurosystem eligibility:  | No  |