

SECURITIES NOTE

KAUPTHING BANK HF.
MARCH 2007

SECURITIES NOTE

CONTENTS

| | |
|--|---|
| 1. Risk Factors | 2 |
| 2. Person responsible | 3 |
| 3. Manager | 4 |
| 4. References and Glossary of Terms and Abbreviations | 4 |
| 5. Notice to Investors | 4 |
| 6. Information concerning the securities to be admitted to trading | 5 |
| 7. Rating of the Issuer | 7 |
| 8. Third Party Information | 7 |
| 9. Admission to trading and expenses relating thereto..... | 7 |

1. Risk Factors

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bills. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bills are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Bills but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Bills may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Risks Relating to the Bills

Set out below is a brief description of certain risks relating to the Bills generally:

Issuer's liability to make payments under the Bills

The Issuer is liable to make payments when due on the Bills. The obligations of the Issuer under the Bills are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations required to be preferred by law).

The Issuer has not entered into any restrictive covenants in connection with the issuance of the Bills regarding its ability to incur additional indebtedness ranking *pari passu* to the obligations under or in connection with the Bills.

No Prior Public Market

The Bills constitute a new issue of Bills. Prior to listing, there has been no public market for the Bills. Although application has been made to admit the Bills to trading on the regulated Market of the ICEX, there can be no assurance that an active public market for the Bills will develop and, if such a market were to develop, the Manager is under no obligation to maintain such a market. The liquidity and the market prices for the Bills can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities. Such fluctuations may significantly affect the liquidity and the market prices of the Bills, which may trade at a discount to the price at which

a purchaser purchased the Bills.

An investment in the Bills may not be suitable for all prospective investors

The Bills are not suitable investments for all investors. In particular, prospective investors should not purchase the Bills unless they have sufficient knowledge and experience to make meaningful evaluation of the credit, liquidity and market risks associated with the Bills.

Prospective investors should possess, either alone or together with an investment advisor, the expertise necessary to evaluate the information contained in this Securities Note in the context of its financial situation and tolerance for risk. Potential investors should carefully consider, among other things, the factors described in this section before purchasing the Bills.

Change of law

The terms and conditions of the Bills are based on Icelandic law in effect as at the date of this Securities Note. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Securities Note.

2. Person responsible

Kaupthing bank hf., in its capacity as the Issuer, Icelandic ID-No. 560882-0419, registered office at Borgartún 19, 105 Reykjavík, Iceland, hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík 2 March 2007

On behalf of the Issuer



Hreidar Már Sigurdsson

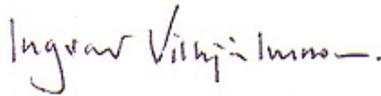
CEO

3. Manager

The Manager, Kaupthing Bank hf. – Capital Markets division, Icelandic ID-No. 560882-0419, registered office at Borgartun 19, 105 Reykjavik, Iceland has been the advisor to the Issuer in the preparation of this Securities Note and admission to trading.

Reykjavik, 2 March 2007

On behalf of the Manager



Ingvar Vilhjálmsson
Managing Director



Stefán Ákason
Head of Bond Trading

4. References and Glossary of Terms and Abbreviations

References to the "Issuer", "Kaupthing Bank" and "the Company" in this Securities Note shall be construed as referring to Kaupthing Bank hf., Icelandic ID-No. 560882-0419, unless otherwise clear from the context, and its subsidiaries and affiliates, unless otherwise clear from the context. Kaupþing banki hf. is the legal Icelandic name of the Issuer.

References to "ICEX" in this Securities Note shall be construed as referring to the Iceland Stock Exchange, i.e. to Kauphöll Íslands hf., Icelandic ID-No. 681298-2829, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on a regulated market" in this Securities Note shall be construed as referring to the admission to trading on the bond market of the Iceland Stock Exchange, unless otherwise clear from the context.

References to "ISD" in this Securities Note shall be construed as referring to the Icelandic Securities Depository, i.e. to Verðbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, Laugavegur 182, 105 Reykjavik, unless otherwise clear from the context.

References to the "Manager" in this Securities Note shall be construed as referring to Kaupthing Bank hf. – Capital Markets division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

References to the "Bills" in this Securities Note shall be construed as referring to the Bills of Exchange issue of ISK 120 billion which is described in this Securities Note, unless otherwise clear from the context.

5. Notice to Investors

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the Bills and carefully review the terms and conditions of the Bills described under issue and Bills characteristics.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Securities Note or any other information supplied in connection with the Bills and, if given or made, such information or representation

must not be relied upon as having been authorised by the Issuer or the Manager.

Neither this Securities Note nor any other information supplied in connection with the Bills (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer or the Manager that any recipient of this Securities Note or any other information supplied in connection with the Bills should purchase any Bills. Each investor contemplating purchasing any Bills should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Securities Note nor any other information supplied in connection with the Issuer constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase any Bills.

Neither the delivery of this Securities Note nor the sale or delivery of any Bills shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Bills is correct as of any time subsequent to the date indicated in the document containing the same. The Manager expressly does not undertake to review the financial condition or affairs of the Issuer during the life of the Bills or to advise any investor in the Bills of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Securities Note when deciding whether or not to purchase any Bills.

The Bills have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bills may not be offered, sold or delivered within the United States or to U.S. persons.

6. Information concerning the securities to be admitted to trading

Authorisation

On a board meeting held on 29 November 2006, the board of Kaupthing Bank hf. authorised the issue of twelve series of money market bills for the year 2007, each to the amount of ISK 10,000,000,000.– ten thousand million Icelandic krona per issue of up to one year for a maximum of ISK 120 billion. The Issuer has at the date of this Securities Note issued Bills in the amount of ISK 37,060,000,000.

Final terms

The Bills bear no interest and are not indexed. The Bills are registered electronically at the Icelandic Securities Depository and are registered there under the name of the relevant billholder or his/her nominee.

The Bills constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

On 21 August, 2006 seven series of Bills were issued and on 5 January, 2007 a further five series were issued. Each series has a different maturity date and ISIN Number. They are issued in Icelandic krona (ISK) and the minimum denomination is ISK 5,000,000 in all cases.

The characteristics of each series are further described in the following table:

| Ticker symbol | Maturity Date | Issue Date | Issued Amount 2 March 2007 | Yield | Denomination | ISIN Number |
|---------------|-----------------------|-----------------|-------------------------------|--------|------------------|--------------|
| KAUP 07 0115 | 15. January 2007 | 21 August 2006 | 10,000,000,000 | 15,80% | ISK 5,000,000 | IS0000013209 |
| KAUP 07 0215 | 15. February 2007 | 21 August 2006 | 10,000,000,000 | 15,93% | ISK 5,000,000 | IS0000013191 |
| KAUP 07 0315 | 15. March 2007 | 21 August 2006 | 9,285,000,000 | 15,50% | ISK 5,000,000 | IS0000013183 |
| KAUP 07 0416 | 16. April 2007 | 23 January 2007 | 5,255,000,000 | 15,55% | ISK 5,000,000 | IS0000013225 |
| KAUP 07 0515 | 15. May 2007 | 23 January 2007 | 895,000,000 | 15,55% | ISK 5,000,000 | IS0000013233 |
| KAUP 07 0615 | 15. June 2007 | 23 January 2007 | 590,000,000 | 15,47% | ISK 5,000,000 | IS0000013241 |
| KAUP 07 0716 | 16. July 2007 | 23 January 2007 | 295,000,000 | 15,27% | ISK 5,000,000 | IS0000013258 |
| KAUP 07 0815 | 15. August 2007 | 23 January 2007 | 110,000,000 | 15,07% | ISK 5,000,000 | IS0000013266 |
| KAUP 07 0914 | 14. September 2007 | 23 January 2007 | 125,000,000 | 14,92% | ISK 5,000,000 | IS0000013274 |
| KAUP 07 1015 | 15. October 2007 | 16 October 2006 | 305,000,000 | 14,83% | ISK 5,000,000 | IS0000013282 |
| KAUP 07 1115 | 15. November 2007 | 23 January 2007 | 100,000,000 | 14,75% | ISK 5,000,000 | IS0000013290 |
| KAUP 07 1214 | 14. December 2007 | 23 January 2007 | 100,000,000 | 14,67% | ISK 5,000,000 | IS0000013308 |

Nominal amount: ISK 120 billion
Interest rates: The Bills bear no interest.
Calculation agent: Kaupthing Bank hf.

Repayment The Bills will be repaid on the maturity dates specified in the table above. The Bills are not redeemable prior to maturity.

Method of payment: All amounts payable under the Bills will be paid to the relevant financial institution where the registered owner has his/her VS account.

Indication of yield: The yield will depend on market conditions at any given time. Information on the indication of the yield can be obtained from the Capital Markets division of the Issuer, Borgartun 19, 105 Reykjavik. The yield for each series shown in the table above is as quoted on March 01 2007, yields for KAUP 07 0115 and KAUP 07 0215 are last quoted yields as the issues have matured

Restrictions on transfer: There are no restrictions on transferring the Bills to other parties.

Event of Default, Acceleration and Enforcement

If default occurs the Issuer shall pay default interest at the rate determined by the Central Bank of Iceland, cf. paragraph 1, article 6 of Act no. 38/2001.

Prescription

All claims according to the Bills against the acceptor expire three years after maturity, cf. paragraph 1, article 70 of Act no. 93/1933 on Bills.

Taxation

All payments in respect of the Bills, by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any tax jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction.

Governing Law

The governing law is Icelandic law. The Issuer irrevocably agrees that any dispute shall be subject to the exclusive jurisdiction of the District Court of Reykjavík (Héraðsdómur Reykjavíkur).

Legal action regarding the Bills may be proceeded with in accordance with Chapter 17 of the Act on Civil Procedure No. 91/1991 (Lög um meðferð einkamála).

The issued bills are governed by Act no. 93/1933 on Bills as appropriate, cf. article 35 of Act No. 131/1997 on Electronic Registration of Title to Securities.

7. Rating of the Issuer

As of the date of this Prospectus, the Issuer has senior long-term debt ratings of 'Aaa' and a rating of P-1 for short term obligations from Moody's Investor Services, Inc. ("Moody's") and 'A' from Fitch Ratings, Ltd. ("Fitch") for long term obligations but 'F1' for short term obligations. The Bill themselves are not being rated by any rating agency.

8. Third Party Information

The Manager is a division within the Issuer and thus the Manager and the Issuer is one legal person.

9. Admission to trading and expenses relating thereto

Application was made to the Iceland Stock Exchange (the **ICEX**) as the competent authority in Iceland for the purpose of Directive 2003/71/EC (the **Prospectus Directive**), the Icelandic law no. 33/2003, as amended and the relevant regulations based on the law for approval of this Securities Note. ICEX has scrutinized and approved this Securities Note, which is only published in English. Application has also been made for the Bills to be admitted to trading on the regulated market of the ICEX, which is an EU regulated market within the meaning of Directive 2004/39/EC.

The Bills were admitted to trading on the Iceland Stock Exchange, on 9 October, 2006 (07 0115, 07 0215 & 07 0315) and 5 March, 2007(other series).

The expenses related the listing of the Bills is ISK 3,585,000 according to ICEX fee structure. Annual expenses because of this listing will be fixed fee of ISK 50,000 plus a variable fee of 0.001% of the market value of the Bills according to ICEX fee structure. The estimated cost at the ISD is ISK 120,000.