

Kaupthing Bank's results for the first quarter of 2008
Net earnings of ISK 18.7 billion (€184 million)

- ◆ Shareholders' net earnings of ISK 18.7 billion – ISK 20.3 billion in same period of 2007
- ◆ Annualised return on equity in Q1 of 23.7%
- ◆ Earnings per share of ISK 26.1 versus ISK 27.4 in Q1 2007
- ◆ Net interest income up by 31.2% from the same period in 2007
- ◆ Net fee and commission income down by 11.3% from the same period in 2007
- ◆ Net financial income totalled ISK 9.7 billion and decreased by 28.0% from the same period last year
- ◆ Operating expenses totalled ISK 21.6 billion in Q1 – an increase of 21.8% from Q1 2007, but down 17.0% from Q4 2007 measured in euros
- ◆ The cost-to-income ratio was 47.0%
- ◆ The 29.6% depreciation of the ISK in Q1 2008 has a significant effect on the Bank's results and all comparisons between periods
- ◆ Total assets of ISK 6,368.4 billion (€53.3 billion) at the end of March, decreasing by 8.7% in euros from the beginning of 2008, but increasing by 19.1% in ISK
- ◆ The CAD Ratio remains strong at 11.4% and the Tier 1 ratio was at 9.1% in the end of Q1
- ◆ Since 2005 Kaupthing has maintained a foreign currency mismatch in order to hedge its equity ratio against the depreciation of the ISK. The depreciation of the ISK in the first quarter of 2008 resulted in an increase of ISK 72.5 billion in shareholders' equity

Hreidar Már Sigurdsson, CEO

"These results are most satisfactory in view of the challenging conditions on the financial markets. The figures demonstrate Kaupthing's ability to respond quickly to changing market circumstances. Operating expenses dropped significantly between quarters and this trend will continue. Our balance sheet decreased by 9% in euros during the quarter in response to market conditions. The general quality of the Bank's assets is good, despite the increase in impairments between quarters. In the current market environment it is crucially important that we have been able to protect the Bank's robust liquidity, and this will continue to be the management's key priority. We are well prepared if the current market situation becomes protracted but we nevertheless consider our pipeline and prospects to be satisfactory."

Key figures

<i>ISK billions</i>	Q1 2008	Q4 2007	Change	Q1 2008	Q1 2008	Change
Operating income	45.9	30.1	52%	45.9	44.1	4%
Operating expenses	21.6	22.7	-5%	21.6	17.7	22%
Shareholders' net earnings	18.7	9.8	90%	18.7	20.3	-8%
Cost/income ratio	47.0%	75.2%		47.0%	40.2%	
Earnings pr. share, ISK	26.1	13.4	95%	26.1	27.4	-5%
Return on equity	23.7%	19.0%		23.7%	27.6%	

Income Statement

<i>ISK millions</i>	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Net interest income	21,332	23,739	20,259	19,849	16,265	14,806
Net fee and commission income	10,948	14,122	13,374	15,189	12,337	11,866
Net financial income	9,686	-12,429	2,634	10,772	13,456	12,003
Other income	3,934	4,699	3,553	5,996	2,002	2,241
Operating income	45,901	30,132	39,820	51,807	44,059	40,915
Salaries and related expenses	-12,093	-13,359	-10,921	-11,833	-10,534	-10,572
Other administrative expenses	-9,469	-9,299	-8,428	-7,184	-7,173	-8,274
Operating expenses	-21,562	-22,658	-19,348	-19,017	-17,707	-18,846
Impairment	-4,059	-1,959	-1,723	-1,075	-1,423	-1,637
Earnings before income tax	20,280	5,515	18,748	31,715	24,929	20,433
Income tax	-1,492	4,135	-3,962	-5,653	-4,236	-1,793
Net earnings	18,788	9,650	14,786	26,062	20,694	18,640
Shareholders of Kaupthing Bank	18,748	9,850	14,406	25,484	20,281	18,077
Minority interest	39	-200	380	578	413	564
Earnings per share, ISK	26.1	13.4	19.6	34.6	27.4	26.1

Balance Sheet

<i>ISK billions</i>	31/3/08	31/12/07		31/3/08	31/12/07
Cash balance with central banks	71	98	Due to credit institutions	461	339
Loans to credit institutions	618	588	Deposits	1,448	1,381
Loans to customers	3,981	3,304	Financial liabilities at FV	322	218
Bonds and debt instruments	518	367	Borrowings	3,168	2,616
Shares and equity instruments	197	161	Subordinated loans	342	267
Derivatives	385	135	Tax liabilities	20	22
Derivatives used for hedging	41	23	Other liabilities	189	147
Securities used for hedging	108	160	Minority interest	13	11
Investment in associates	106	84	Shareholders' equity	404	346
Intangible assets	82	67			
Investment property	36	28			
Property and equipment	38	33			
Tax assets	9	7			
Other assets	181	293			
Total Assets	6,368	5,347	Total Liabilities and Equity	6,368	5,347

Results by profit centres

Q1 2008

<i>ISK millions</i>	Capital Markets	Investment Banking	Treasury	Banking	Asset Management and Private Banking	Eliminations and cost centers	Total
Net interest income	-16	-683	9,867	16,027	421	-4,283	21,332
Net fee and commission income	4,264	2,203	-67	1,021	3,392	135	10,948
Net financial income	-8,834	1,445	4,772	44	205	12,054	9,686
Other income	57	111	299	1,664	128	1,676	3,934
Operating income	-4,529	3,076	14,871	18,756	4,145	9,582	45,901
Operating expenses	3,834	1,701	2,446	6,434	2,748	4,398	21,562
Impairment	0	0	0	4,065	0	-5	4,059
Total expenses	3,834	1,701	2,446	10,499	2,748	4,393	25,621
Earnings before cost allocation	-8,363	1,374	12,425	8,257	1,397	5,189	20,280
Allocated cost	591	199	354	1,174	589	-2,907	0
Earnings before income tax	-8,954	1,176	12,071	7,083	808	8,096	20,280

The rounding-up of figures may mean that tables in this earnings release may not tally.

Income Statement

The effect of the strengthening of the ISK on the Bank's accounts

Kaupthing Bank's functional currency is the Icelandic króna (ISK). The ISK depreciated by 29.6% in the first quarter of 2008. The sharp depreciation of the ISK has a significant effect on the Bank's results as it positively affects ISK amounts for income and expenses as well as assets and liabilities.

Earnings

Kaupthing Bank reported earnings before income tax of ISK 20,279 million for the first quarter of 2008, compared with ISK 24,929 million during the same period in 2007. Shareholders' net earnings for the first quarter amounted to ISK 18,748 million, compared with ISK 20,281 million in the same period in 2007. Earnings per share for the first quarter were ISK 26.1, compared with ISK 27.4 during the same period in 2007.

Income

Operating income for the first quarter of 2008 totalled ISK 45,901 million, up by 4.2% compared with the same period in 2007.

Net interest income for the first quarter amounted to ISK 21,332 million, increasing by 31.2% compared with the same period in 2007. Interest income fell by 10.1% from the fourth quarter mainly as a result of lower business volumes at the Bank in the challenging market conditions.

The net interest margin, or interest income less interest expenses as a percentage of average total interest-bearing assets, was 1.65% in the first quarter of 2008, compared with 1.74% in the same period of 2007. The table below shows net interest income by geographical location:

<i>ISK Millions</i>	Q1 2008	Q1 2007	Change	<i>ISK Millions</i>	Q1 2008	Q4 2007	Change
Iceland	6,062	4,651	30%	Iceland	6,062	8,157	-26%
Scandinavia	5,056	5,122	-1%	Scandinavia	5,056	5,475	-8%
UK	8,095	4,491	80%	UK	8,095	8,126	0%
Luxembourg	1,792	1,510	19%	Luxembourg	1,792	1,636	10%
Other	327	491	-33%	Other	327	345	-5%
Total	21,332	16,265	31%	Total	21,332	23,739	-10%

The net interest spread (calculated as the average rate on total interest-bearing assets less average cost of total interest-bearing liabilities) was 1.78% in the first quarter of 2008, which is the same rate as in first quarter of 2007.

Net fee and commission income during the first quarter of 2008 totalled ISK 10,948 million, a decrease of 11.3% compared with the first quarter of 2007. This contraction in fee and commission income is due to a decline in business volumes owing to the current downturn on the international financial markets which, amongst other things, is manifested in a decrease in net fee and commission in Investment Banking. The table below shows net fee and commission income by geographical location:

<i>ISK Millions</i>	Q1 2008	Q1 2007	Change	<i>ISK Millions</i>	Q1 2008	Q4 2007	Change
Iceland	5,026	4,960	1%	Iceland	5,026	6,131	-18%
Scandinavia	2,134	1,755	22%	Scandinavia	2,134	2,931	-27%
UK	2,376	3,909	-39%	UK	2,376	3,849	-38%
Luxembourg	1,096	1,528	-28%	Luxembourg	1,096	1,038	6%
Other	316	184	71%	Other	316	173	83%
Total	10,948	12,337	-11%	Total	10,948	14,122	-22%

Net financial income, which includes dividend income, net gain on financial assets and liabilities at fair value and net foreign exchange gain, totalled ISK 9,686 million for the first quarter of 2008, compared with ISK 13,456 million in the first quarter of 2007.

There was a net financial loss of ISK 9,824 million on the Bank's equities portfolio owing to the unfavourable conditions on the equity markets where the Bank was exposed. Net financial income from the Bank's positions in derivatives and foreign exchange totalled ISK 17,664 million and is mainly due to hedging of the Bank's capital ratios in excess of what constitutes investments in foreign subsidiaries. During the first quarter the Bank recognised a financial loss in total of ISK 6,780 million due to structured credit. The Bank also recognised a ISK 12,089 million loss due to fair value adjustment on the financing granted when NIBC divested its subprime portfolio to its shareholders.

Net financial income/loss is specified as follows by geographical location:

Q1 2008	Iceland	Scandinavia	UK	Luxembourg	Other	Total
Net gain from bonds and fixed income securities	1 263	- 916	- 69	286	0	563
Net gain from equity and variable income securities	421	-4,851	-5,364	- 39	9	-9,824
Net gain from FX and derivatives	18,432	1140	-1 623	-260	-26	17,664
Net gain from hedge accounting instruments	0	- 51	2	0	0	-49
Total	20,115	-4,677	-7,054	- 13	- 16	8,354
Dividend income	195	1,094	35	8	0	1,332
Net financial income total	20,311	-3,584	-7,019	- 5	- 16	9,687

Other income totalled ISK 3,934 million for the first quarter of 2008, an increase of 96.5% from the first quarter of 2007. This item includes net earnings from associated companies of ISK 2,001 million and income from Kaupthing Singer & Friedlander's operating lease business of ISK 1,189 million. Kaupthing plans to sell this operation later this year. Net earnings from associated companies have increased from the same period last year, largely as a result of the Bank's share in the earnings of Storebrand, which has been treated as an associated company in the Bank's accounts since 14 May 2007.

Expenses

Operating expenses for the first quarter totalled ISK 21,562 million, increasing by 21.8% compared with the first quarter of 2007. The increase between years is primarily due to the sharp rise in the number of employees, up by 16.7% in 2007. Expenses decreased by 4.8% from the fourth quarter of 2007, but expenses fell by 17.0% in euro terms. Kaupthing has placed a special emphasis on reducing costs and it forecasts that operating costs will continue to decrease during the next quarter. The cost-to-income ratio during the first quarter of 2008 was 47.0%, which is below the Bank's 50% target.

Salaries and related expenses during the first quarter totalled ISK 12,093 million, an increase of 14.8% compared with the first quarter of 2007. This increase between years is primarily due to a significant increase in the number of employees. The number of full-time equivalent positions at the Bank was 3,324 on 31 March 2008, compared with 3,334 at the beginning of the year and 2,847 on 31 March 2007, an increase of 476 or 16.7% between years.

In the first quarter of 2008 the Bank's salaries and related expenses decreased by 9.5% from the fourth quarter of 2007, which is attributable to measures to reduce costs at the Bank and the fact that salaries and related expenses are generally at their highest level in the fourth quarter.

Other operating expenses amounted to ISK 9,469 million for the first quarter of 2008, increasing by ISK 2,296 million compared with the first quarter of 2007, or by 32.0% and by 1.8% from the fourth quarter. The sharp depreciation of the ISK in the first quarter of 2008 explains the increase.

Impairment on loans amounted to ISK 4,059 million for the first quarter of 2008, compared with ISK 1,423 million for the same period in 2007 and ISK 1,952 million in the fourth quarter of 2007. Impairment is on the one hand related to collective provisions of ISK 2,307 million, chiefly in Iceland, and on the other hand to specific loans, totalling ISK 1,752 million. Of this total, impairment on loans to a fish farming company in Shetland amount to ISK 758 million.

Income tax expenses amounted to ISK 1,492 million for the first quarter of 2008, which corresponds to 7.4% of earnings before income tax, compared with ISK 4,236 million for the first quarter of 2007, or 17.0% of earnings before income tax.

Balance Sheet

Assets

The Bank's total assets on 31 March 2008 amounted to ISK 6,368.4 billion, increasing by ISK 1,021.0 billion or 19.1% during the year. The Bank's total assets decreased by 8.7% during the first quarter in euros.

Loans to customers increased from ISK 3,304.4 billion to ISK 3,980.7 billion, or by 20.5%, from the beginning of 2008 (a decrease of 7.7% in euros). Loans to customers have decreased sharply in most of the Bank's markets. 40% of loans to customers have a contractual maturity of less than 12 months. Housing loans to individuals in Iceland at the end of March represented 4.3% of the total loans to customers, or ISK 170.4 billion with the average loan to value (LTV) ratio of 57% at the end of the quarter. Loans to credit institutions increased from ISK 588.4 billion to ISK 617.5 billion, an increase of 4.9% but a decrease of 19.6% in euros.

The acquisition and leveraged finance portfolio ("ALF portfolio") grew from ISK 541.3 billion to ISK 680.2 billion, or by 25.7%, during the first quarter and represented 17% of total loans to customers at the end of March. However, the ALF portfolio decreased by 3.7% in euros during the quarter. The five largest loans in the ALF portfolio represent 20% of the total, compared with 25% at the end of 2007. The portfolio's average debt/EBITDA ratio was 4.7 at the end of the first quarter. The Bank is not exposed to any underwriting risk in connection with its ALF portfolio. An increasing part of ALF business is related to projects led or co-led by Kaupthing Bank. Of the total loans in the ALF portfolio 70% were provided in connection with projects led or co-led by Kaupthing Bank.

Other financial assets as of 31 March 2008 totalled ISK 1,248.1 billion, increasing by ISK 402.7 billion during the year, or 47.6%. Taking into account the depreciation of the ISK, financial assets increased by 13.2%. Bonds and other interest-bearing assets totalled ISK 517.6 billion on 31 March 2008 and increased by 40.9% during the year. Positions in shares and other variable income assets amounted to ISK 196.6 billion on 31 March 2008. Derivatives contracts totalled ISK 384.8 billion on 31 March and increased by ISK 249.9 billion during the year, primarily due to an increase in currency swaps, interest swaps and a higher volume of transactions involving contracts for differences (CFDs) in the UK. Furthermore the Bank holds shares as hedge against derivatives amounting to ISK 46.1 billion. The Bank is not exposed to market risk of ISK 8.3 billion due to minority interest in the Bank's subsidiary Norvestia in Finland.

Listed shares amounted to ISK 99.9 billion or 1.6% of the Bank's total assets as of 31 March 2008. Of this total, ISK 23.7 billion is in the form of shares listed on the OMX Nordic Exchange in Iceland, or 23.7%. Holdings in unlisted shares totalled ISK 80.3 billion, or 1.3% of the Bank's total assets as of 31 March 2008, compared with 1.6% at the beginning of the year. The Bank's five largest positions in unlisted shares represented approximately 55% of the value of unlisted shares.

It is Kaupthing Bank's policy that its holdings in listed and unlisted shares (shares and equity funds) should be less than 35% of the Bank's risk capital. As of 31 March the ratio was 29.3%. Of this, the ratio of listed shares was 15.6% and unlisted shares 13.7% of the risk capital.

Other assets totalled ISK 180.7 billion as of 31 March 2008 and increased by 38.3% during the year. This is mainly due to an increase in unsettled transactions.

Liabilities and equity

Liabilities to credit institutions and central banks totalled ISK 461.3 billion as of 31 March 2008 and increased by ISK 122.2 billion or 36.0% since the beginning of the year.

Deposits amounted to ISK 1,448.3 billion as of 31 March 2008, increasing by ISK 66.9 billion since the beginning of the year, or by 4.8%. Deposits decreased by 19.6% in euros. Deposits represented 22.7% of the Bank's total assets as of 31 March 2008. Deposits as a ratio of loans to customers equalled 36.4% at the end of March. See page 11 for a more detailed discussion of deposits.

Borrowings amounted to ISK 3,168.3 billion as of 31 March 2008, compared with ISK 2,615.0 billion at the beginning of the year, an increase of ISK 552.3 billion or 21.1%. Borrowings decreased by 7.2% in euros in the first quarter.

Shareholders' equity amounted to ISK 403.9 billion as of 31 March 2008, compared with ISK 345.6 billion at the beginning of the year, an increase of ISK 58.3 billion or 16.9%. Amongst the factors affecting shareholders' equity was the 29.6% depreciation of the ISK in the first quarter, which significantly increased the Bank's equity. The ISK 14.4 billion dividend (ISK 20 a share) to shareholders at the end of March on the other hand reduced shareholders' equity.

Since 2005 the Bank has not fully hedged the net investment in the Bank's foreign operations against the exchange rate of the ISK. The aforementioned 29.6% depreciation of the ISK in the first quarter resulted in an increase in equity reserves in accordance with IFRS.

The Bank's equity base was ISK 587.3 billion as of 31 March 2008. The CAD ratio was 11.4%, compared with 11.8% at the beginning of the year. Tier 1 capital was 9.1%, compared with 9.6% at the beginning of the year. It is the objective of the Bank's management that Tier 1 capital should be at least 8.0% and the CAD ratio at least 11.0%.

As of 31 March 2008, the Bank's issued share capital was ISK 7,404,530,530 nominal value, which was divided into 740,453,053 shares. The total number of shareholders as of 31 March 2008 was 31,283. The Bank's largest shareholders are Exista and related parties with 24.7% and Kjalar with 9.9%.

Operating results of Kaupthing Bank's business segments

Kaupthing Bank divides its operations into five business segments plus cost centres. The Bank's business segments (profit centres) are: Banking, Capital Markets, Treasury, Investment Banking, and Asset Management & Private Banking.

Four business segments made a profit before income tax during the first quarter of 2008, whereas one reported a loss. The highest profit before income tax during the quarter was reported by Treasury, or ISK 12,071 million. Banking reported earnings before income tax of ISK 7,083 million, Investment Banking ISK 1,176 million and Asset Management & Private Banking ISK 808 million. Capital Markets reported a loss of ISK 8,954 million. Net financial income from the Bank's positions in FX in excess of investments in subsidiaries for the purpose of hedging equity are booked under Eliminations and other cost centres. Fair value changes on financing granted when NIBC divested its sub-prime portfolio to its shareholders are also entered under this item.

From the first quarter of 2008 onwards the method of calculating the allocated costs of business units has been changed. The allocated costs for each quarter of 2007 have therefore been changed accordingly. The table below shows the operating results of the Bank's business segments for the first quarter.

<i>ISK millions - Q1 2008</i>	Banking	Capital Markets	Treasury	Investment Banking	Asset management and Private banking	Eliminations and other cost centers	Total
Net interest income	16,027	-16	9,867	-683	421	-4,283	21,332
Net fee and commission income	1,021	4,264	-67	2,203	3,392	135	10,948
Net financial income	44	-8,834	4,772	1,445	205	12,054	9,686
Other income	1,664	57	299	111	128	1,676	3,934
Operating income	18,756	-4,529	14,871	3,076	4,145	9,582	45,901
Operating expenses	6,434	3,834	2,446	1,701	2,748	4,398	21,562
Impairment	4,065	0	0	0	0	-5	4,059
Total expenses	10,499	3,834	2,446	1,701	2,748	4,393	25,621
Earnings before cost allocation	8,257	-8,363	12,425	1,374	1,397	5,189	20,280
Allocated cost	1,174	591	354	199	589	-2,907	0
Earnings before income tax	7,083	-8,954	12,071	1,176	808	8,096	20,280

Banking

Banking provides general banking services to individuals, chiefly in Iceland, but also in Norway and Sweden: it also provides services such as advice and assistance in financing to medium-sized and larger corporates, particularly in Denmark, the UK, Sweden and Iceland.

Banking made a profit before income tax of ISK 7,083 million for the first quarter of 2008, a decrease of 30.0% from the fourth quarter of 2007. Operating income totalled ISK 18,756 million and decreased by 5.1% from the fourth quarter of 2007. Net fee and commission income decreased by 49.9% from the fourth quarter, which was the highest ever quarterly total. The main reason for the decrease in net fee and commission income is a reduction in business volume in the division and the fact that income was unusually high in the fourth quarter of 2007. Total expenses amounted to ISK 10,499 million, increasing by 15.3% from the fourth quarter of 2007. The increase is particularly attributable to the rise in impairments, which amounted to ISK 4,065 million during the quarter, compared with ISK 2,012 million during the fourth quarter. Impairment is on the one hand related to collective provisions of ISK 2,307 million, chiefly in Iceland, and on the other hand to specific loans, totalling ISK 1,752 million. Of this total, impairment on loans to a fish farming company in Shetland amount to ISK 758 million.

<i>ISK millions</i>	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	16,027	15,897	15,653	15,691	13,423
Net fee and commission income	1,021	2,037	1,835	1,538	1,257
Net financial income	44	217	-40	122	94
Other income	1,664	1,616	1,747	1,620	1,555
Operating income	18,756	19,768	19,195	18,972	16,329
Operating expenses	-6,434	-7,092	-6,580	-6,636	-6,281
Impairment	-4,065	-2,012	-1,643	-1,082	-1,425
Total expenses	-10,499	-9,103	-8,223	-7,718	-7,705
Earnings before cost allocation	8,257	10,664	10,972	11,254	8,624
Allocated cost	-1,174	-544	-926	-442	-507
Earnings before income tax	7,083	10,121	10,046	10,812	8,117

Capital Markets

Capital Markets comprises two separate business units: Capital Markets and Proprietary Trading. Capital Markets handles securities brokerage for the Bank's clients. Proprietary Trading handles transactions for the Bank's own account in all major markets, as well as undertaking the Bank's market making for stocks and bonds.

Capital Markets made a loss before income tax of ISK 8,954 million for the first quarter of 2008, an outcome which reflects the negative performance of the international financial markets. Operating income was negative by ISK 4,529 million, compared with ISK 598 million in the fourth quarter of 2007. The division reported a net financial loss of ISK 8,834 million, increasing by ISK 1,914 million from the previous quarter. This net financial loss is mainly attributable to the Bank's Nordic and UK equities portfolio. Net fee and commission income totalled ISK 4,264 million, a decrease of 26.2% from the fourth quarter of 2007 which is largely a result of lower turnovers on the main equities markets in which the Bank is active. Net interest income was negative by ISK 16 million, which represents a turnaround from the fourth quarter of 2007. Net interest income in Capital Markets is primarily derived from bond holdings and derivatives in FX and Derivatives Trading, and the volume of these transactions decreased during the quarter. Operating expenses amounted to ISK 3,834 million and decreased by 12.0% between quarters.

<i>ISK millions</i>	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	-16	1,600	876	524	-564
Net fee and commission income	4,264	5,778	4,336	6,717	4,126
Net financial income	-8,834	-6,920	-452	6,663	9,778
Other income	57	140	-13	42	56
Operating income	-4,529	598	4,746	13,945	13,396
Operating expenses	-3,834	-4,356	-3,129	-3,278	-2,997
Impairment	0	0	0	1	0
Total expenses	-3,834	-4,356	-3,129	-3,277	-2,996
Earnings before cost allocation	-8,363	-3,758	1,617	10,668	10,400
Allocated cost	-591	-366	-625	-419	-578
Earnings before income tax	-8,954	-4,124	992	10,249	9,822

Treasury

Treasury is responsible for the Bank's funding and inter-bank trading, and FX and derivatives.

Treasury made a profit before income tax of ISK 12,071 million for the first quarter of 2008, which represents a complete turnaround in the division's performance. Operating income totalled ISK 14,871 million, compared with a negative income of ISK 3,980 million in the fourth quarter of 2007. Treasury's solid performance is particularly attributable to ISK 15,952 million net financial income from index-linked liabilities. Net financial loss due to structured credit was ISK 6,780 million. Net interest income increased by 24.2% in the first quarter of 2008 compared with fourth quarter of 2007. Total expenses amounted to ISK 2,446 million during the first quarter, an increase of 94.6% from the fourth quarter. The rise in expenses is partly explained by the cost of setting up Kaupthing's new online deposit bank, Kaupthing Edge. The cost of running Kaupthing Edge and higher business volumes within the division also raised expenses.

<i>ISK millions</i>	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	9,867	7,946	5,501	4,884	4,428
Net fee and commission income	-67	-225	-555	149	-75
Net financial income	4,772	-11,650	-6,953	1,251	-441
Other income	299	-51	31	44	67
Operating income	14,871	-3,980	-1,976	6,328	3,978
Operating expenses	-2,446	-1,290	-1,287	-1,786	-1,333
Impairment	0	33	-6	6	0
Total expenses	-2,446	-1,257	-1,293	-1,780	-1,333
Earnings before cost allocation	12,425	-5,237	-3,269	4,548	2,645
Allocated cost	-354	-106	-185	-141	-103
Earnings before income tax	12,071	-5,343	-3,454	4,407	2,541

Investment Banking

Investment Banking is responsible for assisting companies in stock offerings and advises on mergers and acquisitions.

Investment Banking made a profit before income tax of ISK 1,176 million for the first quarter of 2008. Operating income totalled ISK 3,076 million, compared with ISK 3,325 million in the fourth quarter of 2007. Net fee and commission income amounted to ISK 2,203 million for the quarter, a drop of 2.9% from the fourth quarter. Net financial income totalled ISK 1,445 million and increased slightly between quarters. The Bank recognised financial income ISK 5.357 million in relation to the listing of Skipti hf. on the OMX Nordic Exchange in Iceland in the first quarter, but several unlisted assets were written down, which reduced net financial income. Total expenses amounted to ISK 1,701 million, decreasing by 24.5% million compared with the fourth quarter. The downturn in the international financial markets has had an effect on the results of Investment Banking in the last two quarters.

<i>ISK millions</i>	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	-683	-327	-655	-950	-1,095
Net fee and commission income	2,203	2,268	4,196	3,767	3,483
Net financial income	1,445	1,362	7,711	1,671	3,980
Other income	111	22	170	-34	65
Operating income	3,076	3,325	11,422	4,454	6,433
Operating expenses	-1,701	-2,230	-1,750	-1,209	-788
Impairment	0	-24	0	0	0
Total expenses	-1,701	-2,255	-1,750	-1,209	-788
Earnings before cost allocation	1,374	1,070	9,672	3,244	5,645
Allocated cost	-199	-222	-336	-281	-351
Earnings before income tax	1,176	848	9,336	2,963	5,294

Asset Management & Private Banking

The activities of Asset Management & Private Banking are divided into four main areas: fund management, private banking, institutional asset management and services to institutional investors.

Asset Management & Private Banking made a profit before income tax of ISK 808 million for the first quarter of 2008. Operating income totalled ISK 4,145 million, a decrease of 6.8% compared with the fourth quarter of 2007. Net fee and commission income amounted to ISK 3,392 million, a decrease of 16.6% from the fourth quarter of 2007. It should be pointed out however that fee and commission income is generally highest in the fourth quarter due to performance related commissions. Total expenses amounted to ISK 2,748 million, an increase of 5.4% from the fourth quarter of 2007.

Assets under custody at the Bank totalled ISK 2,409 billion as of 31 March 2008, an increase of 5.8% during the year. Assets under management totalled ISK 1,648 billion as of 31 March 2008, increasing by 5.8% during the year (a decrease of 18,9% in euros). Negative returns on the financial markets also partly explain the decrease measured in euros.

<i>ISK millions</i>	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	421	263	389	208	324
Net fee and commission income	3,392	4,067	3,245	3,075	3,414
Net financial income	205	40	119	123	28
Other income	128	76	143	-135	81
Operating income	4,145	4,445	3,896	3,271	3,847
Operating expenses	-2,748	-2,608	-2,192	-1,874	-2,320
Impairment	0	0	0	0	0
Total expenses	-2,748	-2,608	-2,192	-1,874	-2,320
Earnings before cost allocation	1,397	1,837	1,704	1,397	1,527
Allocated cost	-589	-886	-707	-733	-752
Earnings before income tax	808	951	997	663	775

First quarter 2008 highlights

Kaupthing Bank and NIBC decide not to proceed with the planned acquisition of NIBC

Owing to the instability in the financial markets Kaupthing Bank and the owners of NIBC (a consortium led by JC Flowers & Co LLC) announced at the end of January that they had decided not to proceed with the announced acquisition of NIBC by Kaupthing Bank. Relevant regulatory submissions were withdrawn and the share purchase agreement was terminated.

Kaupthing postpones the change of the functional currency until January 2009

In accordance with IFRS, the Board of Directors of Kaupthing Bank decided last year to change the functional currency of the Bank to the euro from the beginning of 2008. The Board is still determined to change the functional currency to the euro to ensure that the Bank's accounts give at all times a true and fair view of the consolidated financial position of the Bank. The application process, however, took more time than expected and it was decided to postpone the change of the functional currency to the euro until 1 January 2009.

Share capital will be denominated in euros

It was agreed at Kaupthing Bank's AGM to authorise the Board of Directors to have the Bank's share capital denominated in euros instead of the ISK. The settlement of transactions with shares in currencies other than the ISK is expected to be possible before the end of 2008. The Board considers it sensible to change the Bank's functional currency at the same time as its share capital is listed in euros.

Kaupthing sells asset finance and exits commodity trade finance business in the UK

Kaupthing Singer & Friedlander, Kaupthing Bank's UK subsidiary, announced on 25 February it intended to exit its Asset Finance and Commodity Trade Finance businesses. These changes constituted the final phase of the restructuring process in the UK following Kaupthing's acquisition of Singer & Friedlander in 2005. Asset Finance (Corporate Asset Finance, Healthcare Asset Finance and Insurance Premium Finance) and Commodity Trade Finance are non-core to Kaupthing Singer & Friedlander and have been operating largely on a standalone basis. Exiting these businesses will have a positive impact on the cost base and will free up liquidity in excess of GBP 1 billion (EUR 1.3 billion) in 2008. The capital released will be reinvested to further grow the core UK business. After the divestment there is no longer any significant asset finance business within the Kaupthing Group.

Changes at management level

During the first quarter Kaupthing Bank appointed Tim Cockcroft as Global Head of Capital Markets. Mr Cockcroft is also the head of Capital Markets at Kaupthing Singer & Friedlander in the UK. Inger Lise Egeland was appointed as the new Managing Director of Kaupthing Norway. Ms Egeland was previously Managing Director of Banking in Norway. Jan Petter Sissener, Managing Director of Kaupthing Norway and Global Head of Equities, and Johnie W. Brøgger, one of two Managing Directors at Kaupthing Bank Luxembourg, both left the Bank at their own request during the quarter.

Funding and credit ratings

Continued focus on customer deposits

An integral part of the process of increasing the ratio of deposits in the Bank's balance sheet has been to establish an internet deposit bank. During the fourth quarter of 2007 the Bank launched Kaupthing Edge in two countries. The campaign continued in the first quarter and Kaupthing Edge has now been established in eight countries in Europe. By the end of March more than ISK 108.2 billion had been amassed in more than 70,000 Edge accounts, and nearly a quarter of this has come in the form of term deposits.

In total, deposits amounted to ISK 1,448.3 billion as of 31 March 2008, increasing by 4.8% from the end of 2007. Kaupthing was highly successful in raising deposits last year and in fact almost doubled such funds. Despite this slight increase in ISK terms in the first quarter deposits decreased by 19.6% in euros from end of 2007. This reduction is mainly due to tougher and more competitive market conditions.

Kaupthing intends to continue to introduce Kaupthing Edge to new markets as the Bank steps up its efforts to acquire more deposits from existing customers. Kaupthing Edge will propel the Bank towards its stated aim of funding 50% of loans to customers by deposits at the end of 2008.

Funding highlights

The public debt capital markets remained challenging for all participants in the first quarter. Until the end of 2008, the maturities of long-term debt of the Kaupthing Group are relatively low at ISK 274 billion, less than half the amount raised in long-term funding in each of the last two years. During the quarter, Kaupthing has continued to issue bonds in private placements and has concluded a bilateral loan. The pricing of the aforementioned funding was considerably below the Bank's CDS levels in the market. Kaupthing Bank has so far this year selectively bought back its outstanding debt obligations in cash and synthetic format and will continue to do so.

Secured Liquidity

Secured liquidity is the primary measure of liquidity at Kaupthing Bank. Secured liquidity consists of cash, repo-able bonds and committed alternative liquidity sources. All of these constituents of secured liquidity can be turned into cash within 15 days. The Bank's policy is always to have enough secured liquidity to repay all maturing obligations for at least 360 days and at the same time maintain a stable level of business without resorting to any access to the debt and capital markets. At the end of the first quarter of 2008, the secured liquidity of Kaupthing Group was ISK 1,140 billion, sufficient to cover all short-term and long-term obligations for more than 360 days.

Credit Ratings

Kaupthing enjoys good ratings from three agencies. Moody's rates the Bank A1/P-1. Whilst the long-term rating was reduced from Aa3 during the first quarter, this had been widely expected, and now Moody's has returned Kaupthing to a stable outlook. Ratings from Fitch stand at A/F1 although the Bank has recently been placed on Rating Watch Negative. Kaupthing also continues to be rated by R&I at A+.

Outlook

The main areas of focus for Kaupthing in 2008 will be to continue integrating activities across the Group and to consolidate the profitability of each operating unit and ensure that they meet the Bank's return on equity targets. Priority will also be given to increasing the proportion of deposits in the Bank's overall funding.

In light of the conditions on the market, growth in the Bank's loans and balance sheet is expected to slow down in 2008, compared to 2007. In the first quarter Kaupthing's balance sheet contracted by 8.7% in euros. The size of the balance sheet will be managed in accordance with the prevailing conditions on the international financial markets. Liquidity is strong and the Bank has secured liquidity for more than 360 days. This indicates the Bank's ability to cover all maturing obligations and without having to raise further funding.

Efforts to reduce costs have been redoubled and the effects of these measures are likely to be seen in the Bank's financial results over the next few quarters. Operating expenses were reduced by 17.0% in the first quarter compared with the fourth quarter of 2007, measured in euros. The number of employees is expected to continue to decrease over the next few quarters, partly due to the expected sale of the Bank's operating lease business.

The Board of Directors has decided to postpone the adoption of the euro as the Bank's functional currency until the beginning of 2009. The Bank also aims to have its share capital denominated in euros.

Management aims to raise the level of deposits as a percentage of total loans to more than 50% in 2008. The opening of the online deposit bank Kaupthing Edge is part of this initiative to increase deposits. Kaupthing launched this product in Finland and Sweden in the fourth quarter of 2007. In first quarter Kaupthing Edge opened in Norway, the UK, Belgium and Germany. In April Denmark and Luxembourg became the latest markets and the goal is to open in several more countries later in the year. The response from customers has been most promising.

The annualised return on equity for the first quarter of 2008 was 23.7%, whereas the Bank's declared ROE target is 15% per annum in the long term. The Bank expects to reach this target in 2008. One must bear in mind, however, that the operation of a bank such as Kaupthing is subject to uncertain factors, such as financial market developments and other factors beyond the Bank's control.

Four-year summary

Income statement

<i>ISK millions</i>	Q1 2008	2007	2006	2005	2004
Net interest income	21,332	80,113	52,362	32,710	18,259
Other operating income	24,569	85,705	114,854	69,488	31,687
Operating income	45,901	165,818	167,216	102,198	49,946
Operating expenses	-21,562	-78,731	-60,006	-35,524	-23,625
Impairment	-4,059	-6,180	-6,127	-4,389	-3,825
Income tax	-1,492	-9,716	-14,636	-11,228	-4,237
Net earnings	18,788	71,192	86,447	51,056	18,258
Net shareholders' earnings	18,748	70,021	85,302	49,260	17,707
Minority interest	39	1,171	1,145	1,796	552

Balance Sheet

<i>ISK millions</i>	31/3/2008	2007	2006	2005	2004
Assets					
Cash balance with central banks	70,857	97,959	106,961	34,877	6,290
Loans to credit institutions	617,545	588,441	485,334	195,594	174,310
Loans to customers	3,980,749	3,304,408	2,538,609	1,543,700	980,107
Bonds and debt instruments	517,630	367,350	318,264	390,575	202,934
Shares and equity instruments	196,584	160,797	159,020	114,355	86,122
Derivatives	384,766	134,856	65,454	21,047	13,085
Derivatives used for hedging	41,453	22,503	6,453	4,459	3,820
Securities used for hedging	107,680	159,949	115,938	82,098	0
Investment in associates	105,735	83,831	5,304	13,888	3,649
Intangible assets	82,091	66,774	68,301	54,943	35,098
Investment property	35,876	28,155	31,584	24,156	19,155
Property and equipment	37,784	32,714	30,466	22,433	6,092
Tax assets	8,940	6,899	5,834	5,004	1,092
Other assets	180,663	292,708	117,874	33,682	22,700
Total assets	6,368,355	5,347,345	4,055,396	2,540,811	1,554,453
Liabilities and equity					
Deposits	1,448,313	1,381,457	750,657	486,176	202,193
Subordinated loans	342,044	267,289	216,030	102,688	57,623
Other liabilities	4,161,077	3,342,169	2,753,816	1,749,436	1,135,728
Minority interest	13,063	10,823	11,382	8,329	9,539
Shareholders' equity	403,859	345,607	323,510	194,183	149,370
Total liabilities and equity	6,368,355	5,347,345	4,055,396	2,540,811	1,554,453

KEY RATIOS

Cost / income ratio	47.0%	47.5%	35.9%	34.8%	47.3%
Return on shareholders' equity	23.7%	23.5%	42.4%	34.0%	25.5%
Impairment / Loans and advances	0.4%	0.2%	0.2%	0.2%	0.4%
Total credit reserves	0.6%	0.6%	0.6%	0.7%	1.4%
Price / earnings	8.6	9.2	6.6	9.9	12.4
Earnings per share, ISK	26.1	95.2	127.1	75.2	35.6
Earnings per share diluted, ISK	25.7	93.3	123.4	73.9	35.1
Average no. of shares outstanding, million	717	736	671	655	497
Avg. no. of shares outstanding diluted, million	730	751	691	666	505
No. of shares at the end of the period, million	713	737	732	664	652
No. of shares at the end of the period diluted, million	726	751	752	675	660
Share price at the end of the period	803	880	841	746	442

The rounding-up of figures may mean that amounts in tables in this earnings release do not tally.

Auditors' review report

The Interim Consolidated Financial Statements have been reviewed by the Bank's auditors.

Presentation in Reykjavík

A presentation for shareholders and market participants will be held on Wednesday 30 April at 4:00 p.m. at the headquarters of Kaupthing Bank at Borgartún 19, Reykjavík. Hreidar Már Sigurdsson, CEO of Kaupthing Bank, will present the Bank's results and answer questions. It will be possible to follow events at the meeting in real-time on the Bank's website: www.kaupthing.com/ir or by calling (in the UK) +44 (0)203 043 24 36, (in the US) +1 866 458 40 87 or (in Sweden) +46 (0)8 505 598 53 to participate in the meeting and ask questions. Information will be available after the meeting on Kaupthing Bank's website, www.kaupthing.com, the OMX Nordic Exchange's website, www.omxgroup.com, and at www.huginonline.com.

Further information

For further information on the results please contact Ólöf Hildur Pálsdóttir Deputy head of Investor Relations, on +354 444 6569 (ir@kaupthing.net) and Frída Filipína Fatalla, Investor relation. Information on Kaupthing Bank is also available on the Bank's website www.kaupthing.com

Publication calendar

31 July 2008	Second quarter interim financial statement
30 October 2008	Third quarter interim financial statement
5 February 2009	Fourth quarter interim financial statement and 2008 annual accounts

Kaupthing Bank offers comprehensive commercial and investment banking services to individuals, companies and institutional investors. The Bank is a leading player in all the main areas of the Icelandic financial market, and in addition to Iceland, the Bank's key markets are Denmark and the United Kingdom. The Bank focuses on the growth and development of its international activities and aims to be one of the leading investment banks in northern Europe. As of 31 March 2008 the number of full-time equivalent positions was 3,324 at Kaupthing Bank and its subsidiaries.