Sigurdur Einarsson, Executive Chairman of Kaupthing Bank:

Address at the Bank’s Annual General Meeting 2007

Dear shareholders, honored guests!

In spite of considerable adversity, the year 2006 brought us our best earnings ever, with record organic growth and international investors getting a better understanding of the Bank’s risk profile. The outlook for this year is good and the Kaupthing Bank will continue its prudent growth policy without compromising the stated goal of high profitability.

Kaupthing Bank celebrates its 25th anniversary this year. We will celebrate by looking ahead and thinking beyond our present position as we are accustomed to do. Our performance has been quite satisfying, as we have gained the necessary financial strength to pursue our goals and fulfill our ambitions.

We have come a long way. The company was founded in 1982 by a group of young, dynamic individuals, with some new ideas at the dawn of financial liberalization in Iceland. Growth and opportunities came slow at first, and thirteen years ago Kaupthing was still the smallest financial firm in Iceland. In the mid 90s Kaupthing began to flourish in securities brokerage and asset management and through steady organic growth and a number of considered acquisition, it has grown into a full-fledged European investment and corporate bank with a bright future perspectives. That said, the roots of Kaupthing will always be in Iceland. The broadening and the internationalization of the shareholder base simply cannot alter the company's historical background.

Most people think that *Kaupthing* is a very Icelandic name. But the seemingly local background turns out to be more regional and even more continental than you could imagine.

That is where John Cleese comes into the picture. When we, in accordance with the present corporate strategy, changed the name of the operation in Iceland from KB Bank to Kaupthing Bank, our marketing people enlisted the help of John Cleese to bring our name change to people’s attention. He introduced himself to TV viewers as a very famous actor in Hollywood. It was actually great fun for the Icelandic public to see and hear Cleese struggling to pronounce the Bank's name: *Kappaflingi*, *Koopfling* or *Kyoopthang*, were some of his early efforts.

But in the end he got the hang of it—and so he should have—being British. The word is not so foreign for an Englishman as it seems at the first glance. The verb KAUPA is found in very similar forms in Middle English and Scottish, and of course in modern German and the Scandinavian languages, meaning a buy, a bargain, barter. The word *kaupa* is familiar in our times even in unrelated languages like Finnish, as in the name of the Finnish business paper *Kaupalehti*.

The word *thing* is also a northern European word, meaning an object, a gathering or a period of time. Even the Icelandic letter Þ (*thorn*) for the T-H, which is used in the Icelandic way of spelling Kaupthing, originally derives from the Anglo-Saxon alphabet, an ancient rune that Icelanders picked up in Britain some 1100 years ago.

So *Kaupthing* originally means a marketplace or a fair. The word is a northern European construction and what company name could possibly suit our present situation better as we define northern Europe as our primary market place? We feel that *Kaupthing* as a brand-name is becoming better known now than ever. New and prospective customers connect the name *Kaupthing* with a positive story of an effective business-model together with prompt and proactive services.

Thinking beyond our present situation and doing things a little bit differently has been our trademark. However, perfectly good and sound thinking, if misunderstood or misinterpreted, can lead to differences of opinion with the market. Then you have to weigh the odds between arguing your case and adjusting to the demands of market forces.

Last winter banks and credit research agencies, rating agencies and newspapers published dozens of reports and assessments of Icelandic banks and the Icelandic Economy. Some of them were highly critical and negative with respect to Kaupthing Bank and based their conclusions more on rumor than on fundamentals, as the Morgan Stanley analysis pointed out in the aftermath of this crisis. And a crisis is what this was. Risk premiums in the fixed income market soared and it took considerable time to normalize the banks' spreads of in these markets. Kaupthing Bank's shares were also hit hard when the financial markets lost nerve because of a predicted crash in the Icelandic economy.

Part of the criticism was complete and malicious nonsense such as the claim that Kaupthing was financially linked with certain parties, or that Arion Custody Shares constituted cross ownership between Arion and Kaupthing Bank. Others claims were damaging without really concerning us.

Many other items were analyzed from a rather negative point of view, such as our supposedly low deposit levels; the role of our private equity, our supposed reliance on wholesale funding and the quality of our assets and earnings. Cross ownership and even liquidity issues came into question.

There were even doomsday allegations about severe systemic risks that would eventually lead to the Bank defaulting and the subsequent collapse of the Icelandic króna. The Danske Bank analyst compared Iceland with Thailand and Turkey last year and predicted that the overheated economy would be heading for a recession in 2006 -2007. This prediction did not take into consideration the flexibility of the economy, which allows for adjustment without threatening future economic growth or the health of the banking system.

Even though Kaupthing Bank made it evident that the Bank had transformed its Icelandic risk into international risk, and had effectively decoupled itself from the Icelandic economy, suspicion became rampant. The situation for 10 days after the publication of the Merrill Lynch report on 7 March 2006 has been compared to a full-on bank run.

We acted forcefully in response to this criticism and rebutted it when necessary with some success. We have consequently improved our channels of information and increased our transparency considerably, thus being able to explain our business model and the composition of our assets.

However, some of the criticism had merit to it and the Bank has responded to it accordingly.

Liquidity concerns have been addressed by extending the liquidity profile and diversifying sources; mainly by entering new markets and building up the Bank's deposit base. By loan securitization, structured funding, committed back-up facilities and keeping highly liquid assets, we have been able to adjust our risk profile in a short period of time. This effort, carried out by our swift and able management team, is a measure of the underlying strength and soundness of our operation.

Market risk was reduced through sales of the Bank's stake in Exista and other companies, which yielded good profits for the Bank and its shareholders. We have never seen cross-ownership as a problem but since it disturbed sentiments in the market, we decided to unwind the cross ownership with Exista as I announced in my speech at the Annual Meeting last year.

The Exista problem, as some labeled it, was such a "burden" to Kaupthing Bank that it brought us €250 million in profit last year. I'm sure that many banks would love to solve problems like that one.

Organic growth of the loan-portfolio continued last year but nonetheless concentrations within the portfolio were reduced by sub-participation of third parties, or selling loans, leveraged loans in particular.

The Bank aims to further diversify its sources of liquidity and maintain a prudent risk profile. These efforts include a decision from the Board of Directors, effective as of September, that total market risk exposure shall be limited to 35% of Risk Capital—of which a maximum 15% may be in unlisted shares.

To support transparency even more and provide clarity and discipline over our private equity investment strategy, from now on unlisted investments made by the Bank will be held in a separate private equity fund, Kaupthing Capital Partners II, which will be managed by Kaupthing Principal Investments, our in house private equity team. Kaupthing is committing £200m to the Fund and has so far raised a further £300m from pension funds, investment companies and international high net worth clients in just four weeks, giving an overall fund size of £0.5 billion so far - well above our target of £300-400 million and making it one of the largest maiden funds ever raised.

This is strong testament to the strength of our brand and our track record in private equity investing. We plan to close the fund in the coming weeks. This is an important development for Kaupthing and will enable us to take part in larger and more numerous projects and lead to increased activity both for the Bank and Kaupthing Capital Partners II.

Let's face it: The turbulences last spring could have resulted in lasting damages to the Bank if the fundamentals of our operations hadn't been sound and strong.

This gives us even greater reason to celebrate the fact, that in spite of last spring’s severe difficulties, we have enjoyed close to a 30% growth in the Bank's balance sheet in euro-terms in 2006.

We have never returned as much profit and never been as successful in attracting new customers to the Bank.

Revenue growth is likely to be strong this year too.

This represents, dear shareholders, in the light of the strong headwinds we were up against last year, nothing less than a stunning success.

As I mentioned in my address at the Annual Meeting 2006, the management had plans to broaden the Bank’s funding sources and to further internationalize the shareholder base.

Let my just remind you, for the sake of amusement, that the Danske Bank analyst did not believe year ago that the Icelandic banks would be able to tap the global capital market again until the smoke had cleared in the economy. In spite of such forecasts, our Bank last year expanded its funding base outside Europe through issues in the US, Canada, Japan and Australia.

As for our shareholders, the international equity offering that took place in November 2006 was of a transforming character for our Bank. It was a resolute step towards the broadening and the internationalization of the shareholder base.

As a result of the offering and our overall achievements Kaupthing Bank has a purchasing power of €1.5 billion. We expect it to be utilized provided that the right opportunities materialize.

Another positive result of the offering is that Kaupthing has gained more high-quality coverage from international banks and brokerage houses. The recent analysis by amongst others Citigroup, Morgan Stanley and Fox, Pitt-Kelton have a completely different perception of Kaupthing Bank than prevailed in the often unfounded criticism we had to endure last spring. Here we are able to recognize ourselves. These analysts see us more or less as we are, and I urge shareholders and others who are interested in the Bank to study these new reports. We certainly hope that other international banks will start to cover the Kaupthing Bank’s share in 2007.

Kaupthing is now perceived as a well diversified northern European banking group, but not merely an Icelandic entity, having really three “home markets,” namely UK, Scandinavia and Iceland.

This new research makes it very clear that organic growth is a stronger force than acquisitions in Kaupthing Bank’s expansion and profit making. In fact, about two-thirds of the rapid revenue growth in the past five years has been achieved organically.

The reports also point out that Kaupthing Bank’s record is quite remarkable for successfully bringing in a return on acquisitions.

Trading in the Bank’s shares on the Stockholm Exchange has increased significantly after the November offering. We have every reason to expect to see the benefits from the diversification of our shareholders base and the increased liquidity off the Bank's shares.

We should not forget either Moody's change of our rating I hope it will prove to be beneficial for the well being of the Bank in the long run. It’s not for us to criticize the methods of Moody’s and we can only assume that all banks will be subject to the same evaluation.

As I have already pointed out we have resolutely altered the Bank's risk profile in order to provide for a better understanding of the strength of our operation in the eyes of international investors.

The OMX Nordic Exchange’s acquisition of the Iceland Stock Exchange will further enhance our visibility in the market and increase the liquidity of the shares in the Bank.

In my address at last year's Annual Meeting I spoke about our Blue Ocean Strategy, which consists in concerted efforts to create uncontested market space. I made the prediction that FIH in Denmark and Kaupthing Singer & Friedlander in London would soon enter a blue ocean period.

2006 was most certainly FIH’s year.

Kaupthing Bank purchased the FIH in 2004 for about DKK 7.1 billion, a price considered by many to be ridiculously high. In 2003 FIH had 174 employees and DKK 550 million in profit. Last year FIH employed 320 people and had close to DKK 1 billion in profit. No one finds this acquisition ridiculous anymore, but there are those in Denmark that haven’t received this new competition very well.

We have added Capital Market and Investment Banking to the traditional lending activities of FIH and both new and existing clients have welcomed Kaupthing Bank’s way of providing integrated financial services.

2007 will undoubtedly be the year of Kaupthing Singer & Friedlander.

The transformation of Singer & Friedlander has already generated great results. In reality Ármann Thorvaldsson and his management team are basically doing the same we have done elsewhere; that is, recreating a model of Kaupthing Bank inside Singer & Friedlander. We have started up a Capital Markets unit and reinforced the Treasury and incorporated the Investment Banking unit of Kaupthing Limited in London. More than 300 new employees were enlisted last year and all operations in London were unified under one roof at a splendid, new location in the West End. All these measures will enable Kaupthing Singer & Friedlander to continue serving the most successful of its clients. The demand for Kaupthing Bank’s services in Britain is considerable and the possibilities for lucrative growth seem encouraging.

Kaupthing Bank is better prepared to take on new challenges than ever before. We are well set to take an active role in the expected consolidation of the financial market. We have no intention to sit on our hands any longer but at the same time one should bear in mind that the pace of our organic growth is so intense that we could have full hands just supporting and sustaining it.

Nevertheless, our prudent growth policy has the unwavering support of the Bank’s shareholders. We have good capitalization combined with a swift and able management team, eager to implement our business model within new entities. We would like to strengthen our profile as a northern European investment and corporate bank, so we are first and foremost looking at opportunities to expand our activities in locations where we are currently active and in the neighboring countries.

I have already talked about the purchasing power of the Bank, at €1.5 billion. As the shareholders may have noticed, the Board of Directors has proposed that the decision be made to authorize a 20% equity increase. With regard to this, it’s important to stress that no decision has been made, nor are there any immediate plans for an acquisition. We simply want to be ready if an opportunity arises.

The European focus will remain our mainstay as we expect more good years to come in this part of the world, at least until 2010 as predicted by the International Monetary Fund.

But we have also said we would carefully consider opportunities outside Europe to replicate our successful business model.

I'm pleased to announce to the shareholders that Kaupthing Bank will shortly have a presence in the Middle East, the gulf region, and we are in discussions with regulatory authorities there with a view to establishing a focused operation in the region.

You will all be aware of this region's significance as a major source of the world's oil and gas needs.

But there are also many other exciting developments; a number of countries are opening their economies to foreign investors, the local capital markets are becoming increasingly significant, and both the public and private sector has been active in investing substantial financial surpluses overseas.

We will initially concentrate on investment banking and wealth management, and the operations will also provide a window to market our existing products and services to this dynamic region.

We will in the near future provide more details concerning our presence in the Middle East.

Allow me now to discuss international finance from an Icelandic point of view.

I spent a considerable part of my own time last year leading the work of a commission appointed by the Prime Minister of Iceland, assigned with the task of presenting ideas on how to increase international finance activities in Iceland. This work was both inspiring and fruitful.

Prime Minister Geir Haarde recently emphasized the positive economic influence of the reduction of company income tax some five years ago. In reality a lower tax rate has proven to be a successful investment, which has ended up greatly increasing tax revenues to the state. The prime minister also stressed the necessity for Iceland to be prepared to take new steps in tax reduction in order to stay attractive and competitive as a hub for international companies.

The government has already taken measures to implement some of the proposals of the commission on International Finance, and hopefully we will see continued resolution in this direction after the coming elections.

Resolute decisions aimed at creating conditions for international finance in Iceland could bring an economic influx of similar magnitude as the Europeanization of Icelandic business life has brought the economy over the last ten years. Iceland will gain new income streams to tax and a level of activity that could develop into an internationally attractive society. These income streams could be harnessed as a substantial industry, which does *not* use much energy or increase the greenhouse effects.

The financial sector has grown extensively, overtaking fishing as the biggest contributor to the Icelandic GNP. Mainly because of the value created in the service sector, the Icelandic Pension funds are stronger than any time before. Many investors, companies as well as individuals, have gained huge amounts of money from the growth of financial firms. The influence of this wealth creation can be seen in increased interest in seed companies and risk capital ventures, and in large donations to cultural or humanitarian causes.

Likewise, Icelandic society has gained hugely from the growth of financial firms in the form of taxes, and thousands of new and lucrative job opportunities. As the largest company in Iceland, Kaupthing Bank is also the largest taxpayer. Last year the Bank alone paid almost three times more taxes in Iceland than the entire fishing sector, an amount similar to the cost of operating the University of Iceland.

The general public in Iceland has good reason to be supportive of the internationalization of Icelandic businesses. During the period of Europeanization of the Icelandic economy, from 1994 to 2005, the purchasing power of disposable income has increased by 52% and wages of all income groups have increased considerably in real terms, more than double the OECD average.

At the same time the labour income share in Iceland has remained over 68% according to EUROSTAT and has been growing because raises in incomes have exceeded the growth in GDP. This happy development for Icelandic employees can be compared to the situation in the G 7 group, that is to say US, Japan, countries inside the European Monetary Union, UK and Canada. In these countries there has been a compression of the labour income share of national income down to a all time low of 53.7% in mid 2006 whilst the profits share of national income in the major countries of the industrial world have reached an all time high.

No wonder Icelandic firms find it easier to make money abroad than in Iceland.

All economists seem to be in agreement on the theory that the Icelandic economy is already driven by external effects of the service sector in general and the financial sector in particular. It is therefore imperative that governmental policies reflect the importance of this central driving force of the economy. As financial firms become more international, they will have to be able to argue the case for keeping their headquarters in Reykjavik to convince investors for whom the Icelandic roots of these companies hold little or no meaning.

Dear shareholders!

In my capacity as chairman of Kaupthing Bank I have learned much about banking in other countries. I can assure you that in no other country does the individual customer get better or more extensive services than here in Iceland.

As far as I can see the pricing of these services is also fully competitive in Iceland and the customers get more value for their money than elsewhere.

I'm not going to argue with those who maintain the untruth that we are overcharging our customers and robbing them with unnecessarily high interest rates on loans. I will only maintain that it was Kaupthing Bank that introduced low interest housing loans in 2004, and effectively changed the living condition of young people in Iceland. Since that time the Bank has constantly offered similar or lower interest than the state-owned Housing Financing Fund and is now introducing new attractive housing loans for young people with academic degrees.

Instead of further argument we will seek to clarify the facts and lay the foundation for a balanced debate.

Therefore, I have decided to include the results of the retail banking operation in Iceland in my speech here at our Annual General Meeting. Those who care for facts can then take into their considerations what kind of revenues Kaupthing Bank in Iceland is making from dealings with all individuals and all small firms in the country.

Kaupthing Bank as a whole made slightly over ISK 100 billion in profit last year before taxes. Of this amount, less than ISK 3 billion was generated from the retail banking operation in Iceland. That is to say, less than 3% of the profit can be traced back to dealings with 75,000 individuals and 15,000 micro firms in Iceland. These numbers should put the debate in Iceland in a more realistic perspective than has been the case.

There has been a lot of talk about currency issues lately. Allow me to clarify the Bank’s position on this matter.

The stated policy of the Bank is to be neutral with regard to currencies. Our aim is to defend the equity ratio of the Bank by all means. We don't want the equity ratio to be influenced by sudden and unexpected fluctuations of the Icelandic króna or any other currency of significance for the Bank. Our interest is to ensure stability in the valuation of our equity and to facilitate a better understanding of the Bank's books.

In order to implement this strategy we have obtained an exemption from the rules of currency balance of the Central Bank of Iceland. Accordingly we have exchanged the bulk of our equity from the Icelandic króna to other currencies. This condition will remain a vital interest for the Bank.

Dear shareholders, I’m coming to the conclusion of my speech here today.

Let me just tell your that one of the exciting moments of last year was whether Al Gore, the man who used to be the next president of the United States, would succeed in convincing the managers of Kaupthing Bank that solving the climate crisis was one of the highest priorities of our times. Al

Gore was the key speaker last autumn at our management conference and I can honestly say here that he got a long standing ovation after a more than 2-hour performance. I read this response as a sign that Kaupthing Bank's managers, usually not an easily convinced lot, agreed on the thesis of Al Gore that the market capitalism was a necessary ally and a key to solving the crisis posed by carbon emissions.

Humanity already possesses the fundamental scientific, technological, and industrial know-how to solve the carbon and climate problems for the next half century. We need policies and market solutions to do the job. Al Gore is right that by seizing the opportunity bound up in this climate crisis, we can unleash the creativity, innovation, and inspiration that are a part of our human heritage.

A crisis is a terrible thing to waste because there are opportunities in most crises.

At our Annual Meeting last year I said that the only looming crisis the Bank faced at that time, were the persistent misconceptions that were kept alive and thrown at us repeatedly. We faced this threat, board members, managers, employees and shareholders together, and with considerable effort we managed to avoid these nasty remarks about our Bank becoming a self-fulfilling prophecy.

We came out of this crisis together, stronger than ever before.

This is very important for our brand, for Kaupthing Bank, because as we like to say "a company's brand is like a man's reputation, you earn a good reputation by doing hard things well."

We did it our way and we did it well.

At last but not least, I would like to express my gratitude to my fellow Board members for their valuable contributions over the year. Especially to Finnur Ingólfsson who will not continue on as a board member. We wish him all the best and thank him for his work with Kaupthing Bank during these exciting and transformative years.

Finally, I would like to extend my thanks to our 32,000 shareholders who again showed their lasting faith in Kaupthing Bank in 2006.

Nothing satisfies a banker more than keeping the customers' and the shareholders' invaluable trust during turbulent times.

After all, when it comes down to it, banking is all about trust.

It's a good feeling to have your trust in making the Kaupthing Bank's business model, our winning formula, known internationally.

Thank you!