

| KAUPTHING BANK LUXEMBOURG S.A. | ANNUAL REPORT 2007 |



KAUPTHING BANK

Luxembourg

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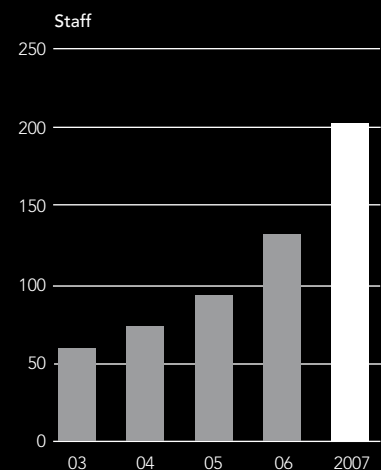
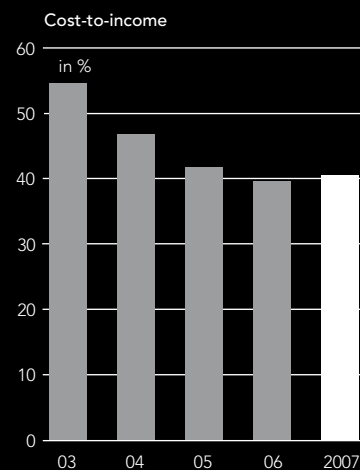
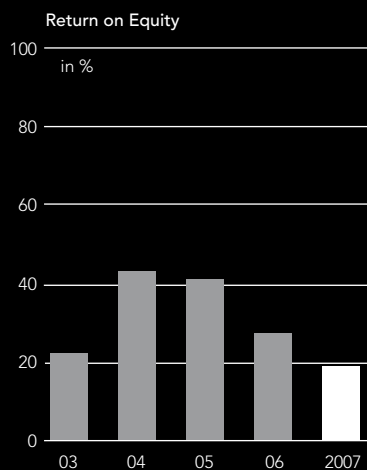
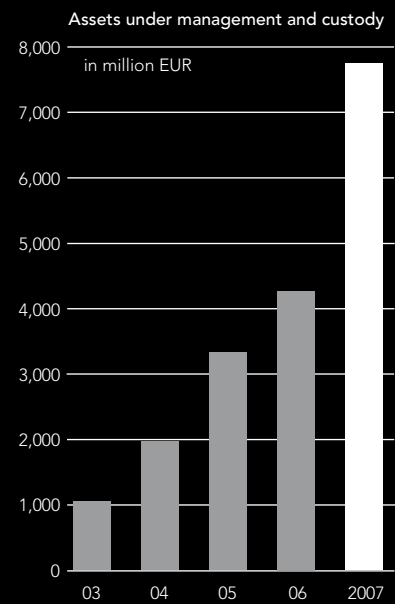
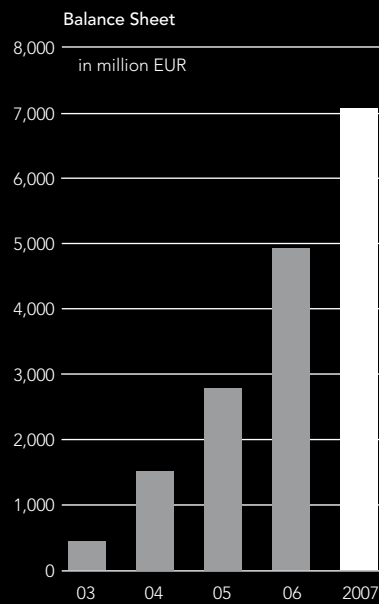
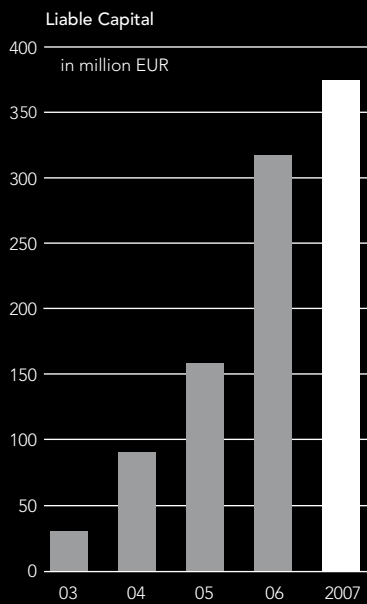
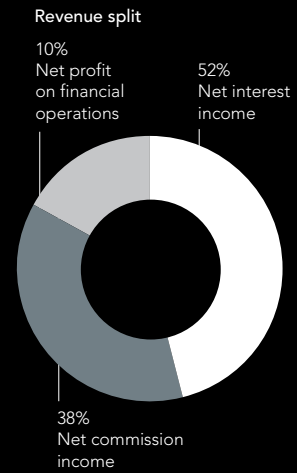
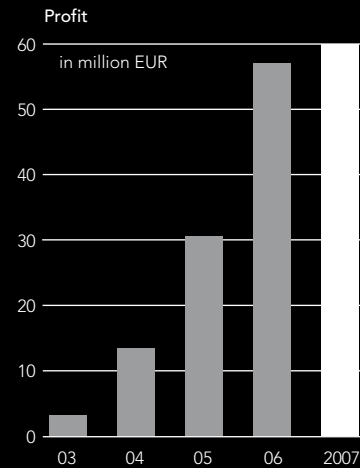
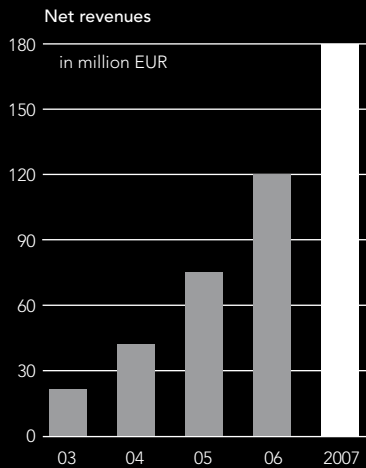
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KAUPTHING BANK

Luxembourg

FINANCIAL SUMMARY



PASSION FOR BUILDING BUSINESSES

Sigurður Einarsson, Executive Chairman

Our business model is robust and one of its key strengths is its flexibility. Kaupthing offers comprehensive wealth management, along with investment and corporate banking services to small, medium-sized companies and entrepreneurs in the Benelux area. Our focus is on providing our customers with a wide and ever-broadening range of services in a solution based platform.

Kaupthing Bank Luxembourg S.A. delivered a strong performance in 2007 despite the downturn in international markets. The bank's return on equity was 19 % and all core business units performed well during the year. During the year investment banking activities were started next to the already existing corporate banking activities. This will strengthen and diversify our business model while securing our position as a business builder in the Benelux region.



The newly obtained branch license in Switzerland, as well as the acquisition of Robeco Bank Belgium gives the bank an interesting platform for growth in these new markets. This development enhances the bank's value proposition as well as expanding the diversification of the client base.

Kaupthing Bank is one of the leading banks in the Luxembourg market, ranking 34 in terms of assets. It is also in the top quartile of banks in terms of profit. The bank has shown substantial growth over the years and its range of services has increased significantly over time.

Our business is all about people. In order to position ourselves as top-class service providers and prevent them from being commoditised, we have to hire and retain the best people. The bank remains true to its principle of rewarding talent and offering our employees opportunities to grow and develop their skills.

In conclusion, I would like to extend my thanks and gratitude to my co-workers and all our employees for their continuous and remarkable dedication during turbulent times.

Sigurður Einarsson

MANAGEMENT REPORT 2007

Magnús Guðmundsson, Managing Director of Kaupthing Bank, Luxembourg

Kaupthing Bank Luxembourg S.A. enjoyed good results in 2007. The Bank performed well in all core business areas and made a return on equity of 19 %, despite the downturn in international capital markets in the second half of 2007. In October the Bank made a "Sale and Purchase" agreement to buy Robeco Bank Belgium from Robeco Direct N.V. The acquisition represents an excellent strategic fit for the Bank by allowing it to become immediately operational in Belgium. Robeco Bank Belgium, now renamed Kaupthing Bank Luxembourg S.A., Belgian Branch, has 30 employees and is based in Brussels and Antwerp and offers Private Banking, Asset Management as well as deposit offering.



Kaupthing Bank Luxembourg S.A. received end of November 2007 a branch license for its Swiss asset management company, now renamed Kaupthing Bank Luxembourg S.A., Geneva Branch, allowing full development of its activities for 2008 in Private Banking, Asset Management and deposit offering.

As a sign of the Bank's strong belief in the local market and its long-term commitment to its client base and the Luxembourg market place, the Bank acquired its own premises at 35a avenue J.-F. Kennedy in one of the city's most prestigious locations. The Building is owned by Kaytwo S.à r.l., a company wholly owned by the Bank.

The balance sheet expanded by 42 % in 2007 to approximately EUR 7 billion, where the biggest contributor was lending and taking from Banks and doubling of deposits from clients which stood at EUR 2 billion at the end of 2007. These changes are visible in our liquidity ratio which at year end stood at 43 %. Lending to customers increased by 20 % to EUR 3,9 billion. Net revenues grew by 46 % to EUR 174,9 million, whereas profits amounted to EUR 60 million. Cost/income ratio remained at a low level of 41 % and capital adequacy ratio stood at 15,3 %, well above the minimum capital requirement.

The Private Banking Department increased its activities in all areas. French and Dutch teams were established during the year and new account managers were hired for nearly all other teams.

Total client assets grew by 95 % from EUR 4 billion to EUR 7,8 billion at the end of the year despite the fall of the equity markets following the sub-prime crisis. Existing clients of the Bank transferred substantial amounts in non-discretionary assets during the year, explaining the main increase in client assets. The Asset Management team increased its scope of activities and focused on product development.

This was to support the establishment of the new teams that are approaching the French, Dutch and Belgium markets. The Asset Management team will also work closely with the newly established branches of the Bank in Brussels and in Geneva.

Loans to clients increased by 19,5 % or EUR 640 million to EUR 3,9 billion, development primarily attributed by our growing Private Banking customers, which counted for two thirds of the increase. The remaining part is loans originated by the Corporate Banking department. The Banks lending activities has been well-managed without any material credit losses. The credit risk management activities are under the responsibility of Credit Department and as such segregated entirely from front office activities.

The main activity of the newly established Marketing Department was to increase the brand awareness of Kaupthing Bank within Luxembourg. That was achieved by, among other, sponsoring several public events during the year, such as the Gala Tour de France and an International Chess tournament held in Luxembourg in August.

In 2007 the Bank split its Financial Markets Department in two units in line with the organization of the Group: Treasury which handles Money Market and Foreign Exchange, and Capital Markets which takes care of security sales towards the Private Banking Department, Institutional clients and proprietary trading. Both Departments contributed well to the results of the Bank.

Regarding the Bank's exposure to risks, we kindly refer you to the notes 6.3 and 6.4 of the annual accounts as at December 2007.

The Treasury division has made good efforts to broaden the current product offering by developing a structured products desk. The main goal was to provide Account and Asset Managers with customized solutions allowing the investor to choose between various underlying parameters (Equities, Currencies, Commodities, Interest rates).

In 2007, the Bank enhanced its existing service range by adding Investment Banking to the activities of the Institutional and Corporate Banking Department, which has subsequently been renamed into Corporate & Investment Banking.

The Department strengthened the Bank's lending business, especially within Asset Finance, and through a couple of Investment Banking transactions in the local market, including two public-to-private takeovers, a listing of a UK-REIT on the Luxembourg Stock Exchange and a private placement for a German renewable energy company. The Bank's advisory role in the Mandatory Takeover Offer of the Luxembourg-based real estate company ImmoCroissance S.A. has not only attracted a lot of positive attention in the local market, but also made a significant contribution to the department's profit and loss account. Another important transaction coordinated by Corporate & Investment Banking in 2007 was the acquisition of Robeco Bank Belgium.

As another part of its development, the Bank decided during the fourth quarter to stop the development of the 3rd party distribution of the Group funds. The Bank will however continue to focus on developing the administration of Investment Funds for the Group.

Last autumn Johnie Brøgger, my co-CEO for more than 8 years decided to retire after a successful banking career of 32 years. His last day with the Bank was on the 31st of January 2008. On behalf of the board of directors and the employees of the Bank I wish him continued success for the years to come and thank him for his valuable contribution and commitment to the Bank's growth and profitability.

The Bank has no direct or indirect exposure towards sub prime credit or structured credit obligations (such as CDOs, SIVs and CLOs) in its loan or Bond portfolio.

I believe the Bank has never been manned with as many good professionals as it is now, a strength that will enable the Bank to reach its goal.

No significant events have occurred during the period from 31 December 2007 to date.

Luxembourg, the 18th February, 2008

A handwritten signature in dark ink, appearing to read 'Magnús Guðmundsson', is written over a light blue rectangular background. The signature is fluid and cursive.

Magnús Guðmundsson
Managing Director



AUDITOR'S REPORT

To the Board of Directors of
KAUPTHING BANK LUXEMBOURG S.A.
35a, avenue J.-F. Kennedy
L-1855 Luxembourg

Report on the annual accounts

Following our appointment by the Board of Directors dated February 7, 2007, we have audited the accompanying annual accounts of KAUPTHING BANK LUXEMBOURG S.A., which comprise the balance sheet as at December 31, 2007 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of KAUPTHING BANK LUXEMBOURG S.A. as of December 31, 2007, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

Luxembourg, February 18th, 2008

KPMG Audit S.à r.l.
Réviseurs d'Entreprises



E. Dollé



BALANCE SHEET AS AT DECEMBER 31, 2007

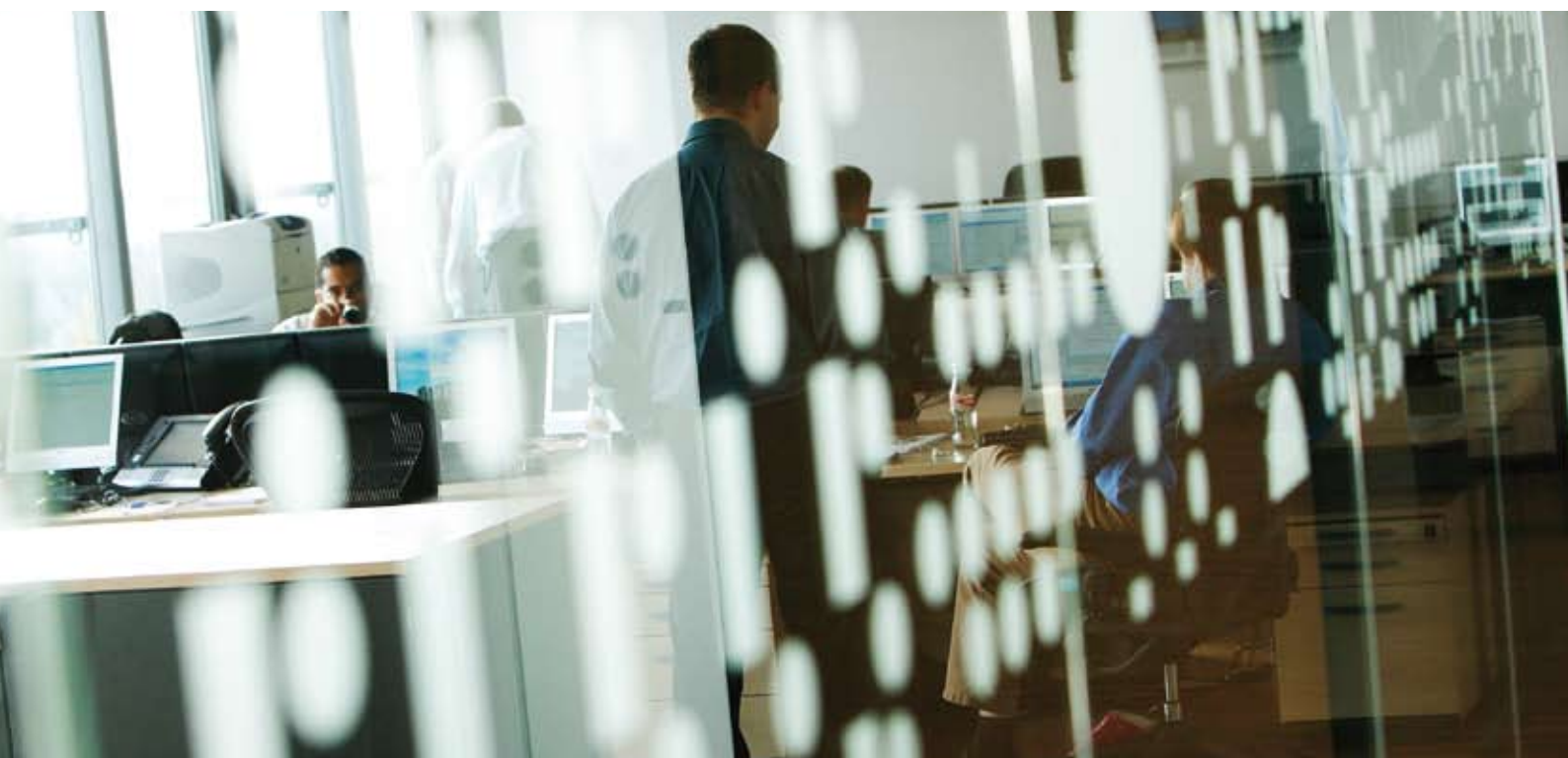
ASSETS	Notes	2007	2006
<i>(expressed in Euro)</i>			
Cash, balances with central banks and post office banks	6.1	23,520,245	448,164
Loans and advances to credit institutions	3.1, 6.1, 6.3		
repayable on demand		586,195,527	173,781,096
other loans and advances		2,097,981,171	1,127,280,250
		2,684,176,698	1,301,061,346
Loans and advances to customers	3.2, 6.1, 6.3	3,919,769,498	3,279,804,793
Debt securities and other fixed-income securities	3.3, 6.1, 6.3		
issued by public bodies		16,514	150,370
issued by other borrowers		174,321,720	229,591,084
		174,338,234	229,741,454
Shares and other variable-yield securities	3.4, 6.1, 6.3	91,946,654	46,346,015
Shares in affiliated undertakings	3.5, 3.7	23,041,940	7,247,726
Intangible assets	3.6, 3.7	1,675,002	1,133,038
Tangible assets	3.7	6,470,338	4,839,365
Other assets	3.8	3,390,375	1,653,673
Prepayments and accrued income		101,348,735	52,309,867
TOTAL ASSETS		7,029,677,719	4,924,585,441

The accompanying notes form part of these annual accounts.

BALANCE SHEET AS AT DECEMBER 31, 2007

LIABILITIES	Notes	2007	2006
<i>(expressed in Euro)</i>			
Amounts owed to credit institutions	4.1, 6.1		
repayable on demand		107,964,527	82,803,640
with agreed maturity dates or periods of notice		4,392,398,582	3,334,630,079
		4,500,363,109	3,417,433,719
Amounts owed to customers			
other debts	4.2, 6.1		
repayable on demand		998,118,049	638,606,573
with agreed maturity dates or periods of notice		1,020,972,802	483,222,535
		2,019,090,851	1,121,829,108
Other liabilities	4.3	1,582,164	895,572
Accruals and deferred income		96,042,579	41,277,896
Provisions			
provisions for taxation		25,980,074	21,074,644
other provisions		16,955,646	12,752,296
		42,935,720	33,826,940
Subscribed capital	4.4	200,000,000	200,000,000
Reserves	4.5	12,697,518	5,859,588
Profit brought forward		96,624,688	46,461,027
Profit for the financial year		60,341,090	57,001,591
TOTAL LIABILITIES		7,029,677,719	4,924,585,441
OFF BALANCE SHEET ITEMS			
Contingent liabilities	5.1, 6.1, 6.3	271,762,581	367,014,320
of which: guarantees and assets pledged as collateral security		271,762,581	367,014,320
Fiduciary operations		4,564,050	8,453,915

The accompanying notes form part of these annual accounts.



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
(expressed in Euro)			
Interest receivable and similar income	7.1	383,678,415	197,900,909
of which: arising from debt securities and other fixed-income securities		11,380,334	6,827,066
Interest payable and similar charges		(293,557,632)	(142,467,773)
Net interest income		90,120,783	55,433,136
Income from securities			
Income from shares and other variable-yield securities		460,495	583,261
Commission receivable	7.1	87,390,674	59,147,201
Commission payable		(20,255,427)	(15,094,024)
Net commission income		67,135,247	44,053,177
Net profit on financial operations	7.1	16,746,735	19,381,131
Other operating income		435,058	12,253
Total operating income		174,898,318	119,462,958
General administrative expenses			
Staff costs		(43,313,338)	(30,095,449)
of which:			
- wages and salaries		(35,289,841)	(25,558,937)
- social security costs		(2,224,392)	(1,375,283)
of which: social security costs relating to pensions		(1,133,080)	(822,299)
Other administrative expenses		(23,236,304)	(16,630,837)
		(66,549,642)	(46,726,286)
Value adjustments in respect of tangible and intangible assets		(2,927,221)	(2,262,221)
Other operating charges	7.2	(2,066,212)	(400,000)
Net value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments		(19,500,000)	(394,796)
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	3.5	(140,363)	-
Profit on ordinary activities before tax		83,714,880	69,679,655
Tax on profit on ordinary activities		(23,315,510)	(11,641,272)
Profit on ordinary activities after tax		60,399,370	58,038,383
Other taxes not shown under the preceding items		(58,280)	(1,036,792)
Profit for the financial year		60,341,090	57,001,591

The accompanying notes form part of these annual accounts.

NOTES TO THE ANNUAL ACCOUNTS AS AT DECEMBER 31, 2007

1 General

Kaupthing Luxembourg S.A. ("the Company") was incorporated in the Grand-Duchy of Luxembourg on April 2, 1998 as a limited liability company ("Société Anonyme"). The Ministry of Finance granted the Company a banking licence on December 24, 1999. The Company subsequently changed its articles of incorporation on January 18, 2000 and its name to KAUPTHING BANK LUXEMBOURG S.A. (the "Bank").

The Bank is thus permitted to carry out all banking activities. Its principal activities are private banking, loans to customers, interbank deposits, fund administration and holding company domiciliation.

Since December 28, 2007 the Bank has a branch in Belgium located at, Avenue Louise 81, B-1050, Brussels and Meir 24, B-2000, Antwerpen, Belgium. The Bank also received, on November 22, 2007 the authorisation from the Swiss Banking authorities to open a branch in Switzerland.

The Bank, which is a subsidiary of Kaupthing Bank hf., is included in the consolidated accounts of that company ("the parent company"). The consolidated accounts may be obtained from the registered office of the parent company at Borgatúni 19, 105 Reykjavik, Iceland.

On the basis of the criteria set out by the Luxembourg law, the Bank is exempted from establishing consolidated accounts and a consolidated management report.

2 Summary of significant accounting policies

The Bank's accounting policies are in accordance with regulations in force in the Grand-Duchy of Luxembourg and, in particular, the modified law of June 17, 1992, relating to the annual accounts of credit institutions.

2.1 Fixed assets

2.1.1 Intangible assets

Intangible assets are included at purchase price less accumulated amortisation.

Intangible assets consist of software amortised over 4 years on a linear basis. Since January 1, 2006, formation expenses and costs in relation to capital increases are directly expensed when incurred.

2.1.2 Tangible assets

Tangible assets are included at purchase price less accumulated depreciation. Tangible assets are depreciated over their expected useful life.

The rates and methods of depreciation are as follows:

	Rates	Method
Office equipment, fixtures and fittings	25 %	linear
Company cars	25 %	linear

Fixtures and fittings costing less than EUR 867 or whose expected useful life does not exceed one year are charged directly to profit and loss account for the year.

2.1.3 Shares in affiliated undertakings

Holdings are recorded at purchase price. If the valuation is lower than the purchase price, value adjustments are booked to account for the unrealised loss.

2.2 Current assets

2.2.1 Debt securities and other fixed-income securities

Holdings are recorded at purchase price.

Value adjustments are made for securities in the structural portfolio for which the valuation is lower than the purchase price. The valuation is the market value on the balance sheet date or the estimated realisable value or the quotation which best represents the inherent value of the securities held.

2.2.2 Shares and other variable-yield securities

Holdings are recorded at purchase price. If the valuation is lower than the purchase price, value adjustments are booked to account for the unrealised loss.

Holdings hedged by derivative financial instruments are maintained at purchase price.

2.2.3 Loans and advances

Loans and advances are disclosed at their nominal value. Accrued interest not received is recorded under the heading "Prepayments and accrued income" on the asset side of the balance sheet.

2.2.4 Value adjustments in respect of current assets

The policy of the Bank is to establish specific provisions to cover the risk of loss and of the non-recovery of debtors. Value adjustments are deducted from the relevant current assets.

2.2.5 Provision for assets at risk

A tax free lump sum provision is accounted for based on the Bank's assets at risk. These assets are determined in accordance with the regulatory provisions governing the computation of the capital adequacy ratio. The lump sum provision is apportioned between the relevant assets at risk in accordance with the provisions of the Luxembourg Monetary Institute circular letter dated December 16, 1997. The portion related to the assets at risk is deducted from these assets.

2.3 Purchase price of fungible assets

The Bank values fungible assets by the weighted average price method.

2.4 Valuation of foreign currency balances and transactions

2.4.1 Foreign currency translation

The share capital of the Bank is expressed in Euro ("EUR") and the accounting records are maintained in that currency. Shares in affiliated undertakings included in fixed assets as well as intangible and tangible assets are converted at the historic rate. All other assets and liabilities denominated in a currency other than EUR are converted into EUR at the rate of exchange ruling at the balance sheet date. Income and charges in foreign currencies are converted into EUR at the rate of exchange ruling on the date of the transaction. Foreign currency differences arising from these valuation principles are taken to profit and loss account.

2.4.2 Valuation of transactions not subject to currency risk

Swap transactions not linked to balance sheet items

The spot result realised in cash terms is offset by the result arising from the revaluation of the forward leg. The premium/discount is spread prorata temporis.

Over-the-counter closed forward transactions

Future profits that are certain to arise are deducted from future losses that are certain to arise in the same currency. A provision is created for any excess losses; any excess profits are deferred.

Over-the-counter closed options

Options sold hedged by options bought so that no open position exists are considered to be neutral in relation to currency fluctuations.

Financial futures

Margin calls on financial futures traded on a recognised market are booked daily.

Gains and losses on trading positions are directly booked in the profit and loss account.

2.4.3 Valuation of transactions subject to currency risk

Over-the-counter speculative forward transactions

Provision is made for unrealised losses on forward transactions, which do not represent the hedging of a spot position. Unrealised gains are not accounted for.

3 Detailed disclosures relating to asset headings

3.1 Loans and advances to credit institutions

Loans and advances to affiliated undertakings amount to EUR 1,931,149,490 (2006: EUR 950,254,859).

3.2 Loans and advances to customers

Loans and advances to affiliated undertakings amount to EUR 2,574,019 (2006: EUR 4,178,628).

3.3 Debt securities and other fixed-income securities

This heading includes debt securities, whether quoted on a recognised market or not, issued by public bodies, credit institutions or other issuers and which are not included under another balance sheet heading.

Quoted and non-quoted securities are analysed as follows:

	2007 EUR	2006 EUR
Securities quoted on a recognised market	140,616,366	209,658,198
Securities not quoted on a recognised market	33,721,868	20,083,256
	<u>174,338,234</u>	<u>229,741,454</u>

All the debt securities and other fixed-income securities held are included in the structural portfolio.

3.4 Shares and other variable-yield securities

This heading includes shares, holdings in investment funds and other variable-yield securities whether quoted on a recognised market or not which are not included in fixed asset investments.

Quoted and non-quoted shares and other variable-yield securities are analysed as follows:

	2007 EUR	2006 EUR
Securities quoted on a recognised market (*)	91,913,901	45,480,079
Securities not quoted on a recognised market	32,753	865,936
	<u>91,946,654</u>	<u>46,346,015</u>

(*) of which shares and other variable-yield securities held for hedging purposes:
EUR 73,631,394 (2006: EUR 23,198,502).

3.5 Shares in affiliated undertakings

As at December 31, 2007, the Bank holds at least 20 % of the capital of the following non-quoted undertakings:

	% held	Net book value	Capital and reserves December 31, 2007 (*) EUR	Result for the year 2007 (*) EUR
Kaupthing Life & Pension S.A. 35a, avenue J.-F. Kennedy L-1855 Luxembourg	100 %	7,107,363	6,041,369	(626,200)
Kaytwo S.à r.l. 35a, avenue J.-F. Kennedy L-1855 Luxembourg	100 %	15,934,577	7,442,070	(1,238,415)
Kaupthing Asset Management S.A. 1, rue de Rive CH-1204 Genève	100 %	-	(1,076,326)	(981,653)
		23,041,940		

(*) Unaudited figures.

At December 31, 2007, a value adjustment of EUR 140,363 (2006: EUR 0) and a provision of EUR 1,076,326 (2006: EUR 0) have been accounted for in relation to Kaupthing Asset Management S.A. to reflect the net equity at December 31, 2007. This entity will be merged with the Bank on January 1, 2008.

3.6 Intangible assets

This heading consists of software.

Formation expenses have been fully amortised in 2006.

3.7 Movements on fixed assets

FIXED ASSETS (in EUR)	Gross value at the beginning of the financial year	Additions	Reductions	Gross value at the end of the financial year	Cumulative value adjustments	Net book value at the balance sheet date
1. Shares in affiliated undertakings	7,247,726	15,934,577	-	23,182,303	(140,363)	23,041,940
2. Intangible assets	3,122,841	2,110,570	-	5,233,411	(3,558,409)	1,675,002
Software	3,122,841	2,110,570	-	5,233,411	(3,558,409)	1,675,002
3. Tangible assets	9,120,949	4,518,255	(241,856)	13,397,348	(6,927,010)	6,470,338
of which:						
a) Office equipment						
fixtures and fittings	8,178,221	2,911,356	(90,218)	10,999,359	(6,161,714)	4,837,645
b) Company cars	942,728	1,606,899	(151,638)	2,397,989	(765,296)	1,632,693
TOTAL	19,491,516	22,563,402	(241,856)	41,813,062	(10,625,782)	31,187,280

3.8 Other assets

Other assets as at December 31, 2007 relate mainly to VAT receivable of EUR 2,557,987, payments made in advance of EUR 381,130 and fees receivable of EUR 357,198.

3.9 Assets denominated in foreign currencies

Assets denominated in currencies other than EUR have a total value of EUR 3,558,464,863 as at December 31, 2007 (2006: EUR 2,712,998,947). The gap between non EUR denominated assets and non EUR denominated liabilities is covered by off-balance sheet instruments.

4 Detailed disclosures relating to liability headings

4.1 Amounts owed to credit institutions

Amounts owed to affiliated undertakings amount to EUR 2,658,965,777 (2006: EUR 2,356,648,664).

4.2 Amounts owed to customers

Amounts owed to affiliated undertakings amount to EUR 6,359,904 (2006: EUR 3,417,765).

4.3 Other liabilities

This heading consists of the following:

	2007 EUR	2006 EUR
Short-term payables	458,487	443,645
Preferential creditors	1,123,677	451,927
	<u>1,582,164</u>	<u>895,572</u>

4.4 Subscribed capital

The subscribed and fully paid share capital of the Bank is EUR 200,000,000 made up of 2,000,000 shares with a nominal value of EUR 100 each.

4.5 Reserves

Reserves are summarised as follows:

	2007 EUR	2006 EUR
Legal reserve	5,466,137	2,616,057
Net worth tax reserve	7,231,381	3,243,531
	<u>12,697,518</u>	<u>5,859,588</u>

In accordance with article 72 of the Luxembourg company law, an amount of 5 % of net profits should be allocated to a non distributable legal reserve, until this reserve reaches 10 % of the subscribed capital. As a result, the 2007 Annual General Meeting of the Bank should allocate an amount of EUR 3,017,055 to the legal reserve, in respect of the 2007 financial year.

In 2007 and in accordance with paragraph 8a of the net worth tax law, the Bank has deducted from its tax basis for net worth tax, the net worth tax incurred during the financial year, amounting to EUR 882,595. Such a deduction is subject to allocating an amount equal to five times the net worth tax deducted, amounting to a total of EUR 4,412,975, to a reserve, by a resolution of the 2008 Annual General Meeting of Shareholders.

4.6 Liabilities denominated in foreign currencies

Liabilities denominated in currencies other than EUR have a total value of EUR 2,739,707,464 as at December 31, 2007 (2006: EUR 2,121,912,163). The gap between non EUR denominated assets and non EUR denominated liabilities is covered by off-balance sheet instruments.

5 Information relating to off-balance sheet items

5.1 Contingent liabilities

Contingent liabilities consist of guarantees and other direct substitutes for loans.

As at December 31, 2007, there are no contingent liabilities to affiliated undertakings (2006: EUR 279,428,023).

5.2 Commitments

The Bank is member of the "Association pour la Garantie des Dépôts, Luxembourg" ("A.G.D.L."). The A.G.D.L. has for its exclusive object the establishment of a system of mutual guarantee of deposits placed with members by private individuals and by small companies without distinction of nationality or residence. No provision has been made in respect of specific liabilities arising under this scheme.

5.3 Open forward agreements at the balance sheet date

5.3.1 Transactions linked to exchange rates

The Bank is engaged in forward foreign exchange transactions (swaps, outright) in the normal course of its banking business. A significant portion of these transactions has been contracted to hedge the effects of fluctuations in exchange rates.

5.3.2 Transactions linked to interest rates

A significant portion of these transactions has been contracted to hedge the effects of fluctuations in interest rates.

5.3.3 Transactions linked to other market rates

A significant portion of these transactions has been contracted to hedge the effects of fluctuations in market prices.

5.4 Management and representative services supplied by the Bank

The Bank's services to third parties consist of:

- Management and advice on asset management;
- Safekeeping and administration of marketable securities;
- Fund administration;
- Holding company domiciliation;
- Credit activities;
- Investment banking.

6 Information relating to financial instruments

6.1 Disclosures relating to primary financial instruments in relation to non trading activities

The following tables provide an analysis of the carrying amount of primary financial assets and financial liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

As at December 31, 2007, primary financial assets and liabilities are analysed as follows (in EUR):

Financial assets	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Cash, balances with central banks and post office banks	23,520,245	-	-	-	23,520,245
Loans and advances to credit institutions	2,611,800,229	58,656,345	13,720,124	-	2,684,176,698
Loans and advances to customers	3,245,047,152	332,918,868	158,270,998	183,532,480	3,919,769,498
Debt securities and other fixed-income securities	14,755,128	10,000,338	84,262,943	65,319,825	174,338,234
Shares and other variable-yield securities (*)	-	-	91,946,654	-	91,946,654
TOTAL	5,895,122,754	401,575,551	348,200,719	248,852,305	6,893,751,329

(*) of which EUR 73,631,394 are held for hedging purposes.

Financial liabilities	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Amounts owed to credit institutions	3,807,581,072	332,167,097	340,000,000	20,614,940	4,500,363,109
Amounts owed to customers	1,993,849,469	24,816,964	424,418	-	2,019,090,851
Contingent liabilities	271,762,581	-	-	-	271,762,581
TOTAL	6,073,193,122	356,984,061	340,424,418	20,614,940	6,791,216,541

6.1 Disclosures relating to primary financial instruments in relation to non trading activities (continued)

As at December 31, 2006, primary financial assets and liabilities are analysed as follows (in EUR):

Financial assets	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Cash, balances with central banks and post office banks	448,164	-	-	-	448,164
Loans and advances to credit institutions	1,230,812,522	50,162,369	20,086,455	-	1,301,061,346
Loans and advances to customers	2,864,455,220	247,718,945	61,457,614	106,173,014	3,279,804,793
Debt securities and other fixed-income securities	4,413,394	55,509,723	93,751,161	76,067,176	229,741,454
Shares and other variable-yield securities (*)	-	-	46,346,015	-	46,346,015
TOTAL	4,100,129,300	353,391,037	221,641,245	182,240,190	4,857,401,772

(*) of which EUR 23,198,502 are held for hedging purposes.

Financial liabilities	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Amounts owed to credit institutions	2,911,817,922	93,147,459	389,809,400	22,658,938	3,417,433,719
Amounts owed to customers	1,066,650,124	55,178,984	-	-	1,121,829,108
Contingent liabilities	367,014,320	-	-	-	367,014,320
TOTAL	4,345,482,366	148,326,443	389,809,400	22,658,938	4,906,277,147

6.2 Disclosures relating to derivative financial instruments

The following tables provide an analysis of the derivative financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

As at December 31, 2007, over the counter derivative financial assets and liabilities are analysed as follows (in EUR):

Financial assets (notional amounts)	Less than three months	Between three months and one year	Between one year and five years	Total	Positive fair value
Instruments linked to exchange rates					
- forward currency transactions	266,140,804	-	50,313,718	316,454,522	19,564,415
- currency swap contracts	1,131,139,471	581,439	112,822,434	1,244,543,344	23,610,179
- currency option contracts	30,113,989	1,235,935	-	31,349,924	185,871
Instruments linked to interest rates	-	10,703,491	19,903,491	30,606,982	3,490,067
Instruments linked to other market rates	997,880,182	-	-	997,880,182	325,861,948
TOTAL	2,425,274,446	12,520,865	183,039,643	2,620,834,954	372,712,480

Financial liabilities (notional amounts)	Less than three months	Between three months and one year	Between one year and five years	Total	Negative fair value
Instruments linked to exchange rates					
- forward currency transactions	249,703,363	600,000	48,607,100	298,910,463	19,491,113
- currency swap contracts	553,376,321	-	95,281,911	648,658,232	4,666,711
- currency option contracts	30,113,989	1,235,935	-	31,349,924	185,871
Instruments linked to interest rates	-	-	77,550,229	77,550,229	2,977,780
Instruments linked to other market rates	922,982,817	-	-	922,982,817	324,126,316
TOTAL	1,756,176,490	1,835,935	221,439,240	1,979,451,665	351,447,791

As at December 31, 2007, the net fair value of derivative financial assets and liabilities is a gain of EUR 21,264,689 (2006: loss of EUR 4,319,266).

6.2 Disclosures relating to derivative financial instruments (continued)

As at December 31, 2006, over the counter derivative financial assets and liabilities are analysed as follows (in EUR):

Financial assets (notional amounts)	Less than three months	Between three months and one year	Between one year and five years	Total	Positive fair value
Instruments linked to exchange rates					
- forward currency transactions	89,989,621	33,427,194	-	123,416,815	18,620,032
- currency swap contracts	620,687,935	214,075,817	-	834,763,752	4,099,927
- currency option contracts	474,698	-	-	474,698	2,394
Instruments linked to interest rates	49,979,938	87,057,835	35,424,515	172,462,288	5,246,103
Instruments linked to other market rates	935,102,679	9,748,343	-	944,851,022	171,310
TOTAL	1,696,234,87	344,309,189	35,424,515	2,075,968,575	28,139,766

Financial liabilities (notional amounts)	Less than three months	Between three months and one year	Between one year and five years	Total	Negative fair value
Instruments linked to exchange rates					
- forward currency transactions	104,129,357	32,336,241	-	136,465,598	18,438,452
- currency swap contracts	573,550,369	172,199,080	-	745,749,449	8,765,941
- currency option contracts	474,698	-	-	474,698	2,394
Instruments linked to interest rates	89,022,491	107,526,413	28,608,505	225,157,409	5,252,245
TOTAL	767,176,915	312,061,734	28,608,505	1,107,847,154	32,459,032

6.3 Disclosures relating to credit risk

The Bank is exposed to credit risk mainly through its lending, investing and hedging activities and in cases where the Bank acts as an intermediary on behalf of customers and issues guarantees.

The Bank is also exposed to off balance sheet credit risk through guarantees issued and instruments linked to exchange, interest and other market rates (forward transactions, swap and option contracts).

The credit exposure regarding off-balance sheet instruments linked to exchange, interest and other market rates, are calculated according to the Basel II Standard-Approach Comprehensive Method. Any risk mitigation method applied follows the same methodology.

The credit risk exposure as at December 31, 2007 can be analysed as follows (in EUR):

	Gross risk exposure
Loans and advances to credit institutions	2,684,176,698
Loans and advances to customers	3,919,769,498
Debt securities and other fixed-income securities	174,338,234
Shares and other variable-yield securities	91,946,654
Contingent liabilities	271,762,581
Derivatives	
Instruments linked to exchange rates	51,872,125
Instruments linked to interest rates	540,786
Instruments linked to other market rates	111,918,582
	<u>7,306,325,158</u>

The credit risk exposure as at December 31, 2006 can be analysed as follows (in EUR):

	Gross risk exposure
Loans and advances to credit institutions	1,301,061,346
Loans and advances to customers	3,279,804,793
Debt securities and other fixed-income securities	229,741,454
Shares and other variable-yield securities	46,346,015
Contingent liabilities	367,014,320
Derivatives	
Instruments linked to exchange rates	36,754,135
Instruments linked to interest rates	1,988,098
Instruments linked to other market rates	56,691,062
	<u>5,319,401,223</u>

6.3 Disclosures relating to credit risk (continued)

Loans and advances to customers are usually secured by cash, listed investments and third party guarantees.

At December 31, 2007 guarantees received from affiliated undertakings amount to EUR 458,500,000 (2006: EUR 494,000,000) to secure loans and advances to customers.

Credit risk concentrations on total on and off balance sheet are analysed as follows:

	2007 EUR	2006 EUR
Corporates	3,243,788,334	2,732,456,654
Credit institutions	3,193,102,012	1,951,639,066
Individuals	869,418,298	635,155,104
Public sector	16,514	150,399
	<u>7,306,325,158</u>	<u>5,319,401,223</u>

Credit institutions, corporates and individuals are mainly from Zone A countries.

6.4 Information on the management of other risks

Liquidity Risk

A cash management system enables the Bank to achieve a daily automatic "vostro-nostro" reconciliation of its main correspondent accounts.

The Bank is able to identify possible cash flow errors, to determine adjusted opening balances and generate an accurate cash flow projection to better channel short-term liquidity needs. The Managing Directors receive a daily report on the overall liquidity situation of the Bank.

Interest Rate Risk

The Bank monitors its interest rate risk by analyzing the different maturity gaps in the balance sheet.

The calculation is performed using periods from one day to twelve months. The model enables the Bank to supervise the non-synchronized interest rate positions, the impact of gaps on the net interest income, the re-evaluation of the gap compared to the actual interest rate curve, and finally the consequences on the risk limits. A value at risk calculation estimates the profit and loss impact if interest rates go up or down by 1 %.

Guidelines have been approved by the Board of Directors, setting out the principles for measurement of/and limitations on mismatches identified.

6.4 Information on the management of other risks (continued)

Exchange Rate Risk

The Bank's main exposure to foreign exchange risk arises from USD, ISK, ISV, CHF, DKK, GBP and JPY.

A foreign exchange position system provides an overall view of the currency risk and related profit or loss impact as soon as the dealer has closed a deal with either a private client or a financial institution.

Management controls the exchange rate risk through the daily liquidity report received from the Financial Markets department.

Market Risk

The Bank is subject to market risk through its portfolio of debt securities and shares and other variable yield securities. Derivative instruments are used for hedging purposes.

Back to back transactions initiated by customers of the Bank do not expose the Bank to market risk.

The Bank has put in place procedures in order to monitor market risk. Guidelines are reviewed and approved by the Board of Directors on a yearly basis.

7 Information on the profit and loss account

7.1 Geographical analysis income

Interest receivable and similar income, commission receivable and net profit on financial operations mainly originate from Western and Northern Europe.

7.2 Other operating charges

Other operating charges as at December 31, 2007 relate mainly to a provision made on shares in affiliated undertakings (refer to note 3.5) for EUR 1,076,326 and a correction of a previous year tax provision of EUR 987,525.

8 Other information

8.1 Personnel

The average number of persons employed during the financial year was as follows:

	2007	2006
Management	2	2
Other executives	13	7
Employees	188	126
	203	135

8.2 Administrative, managerial and supervisory bodies

Remuneration paid to the various bodies of the Bank during the financial year was as follows:

	2007 EUR	2006 EUR
Administrative board	121,000	111,000
Management and executives	7,182,025	4,846,102
	7,303,025	4,957,102

The amount of loans and advances granted to members of the Board of Directors and commitment entered into on their behalf by way of guarantees of any kind amounted to EUR 6,904,251 at December 31, 2007 (2006: EUR 7,576,948).

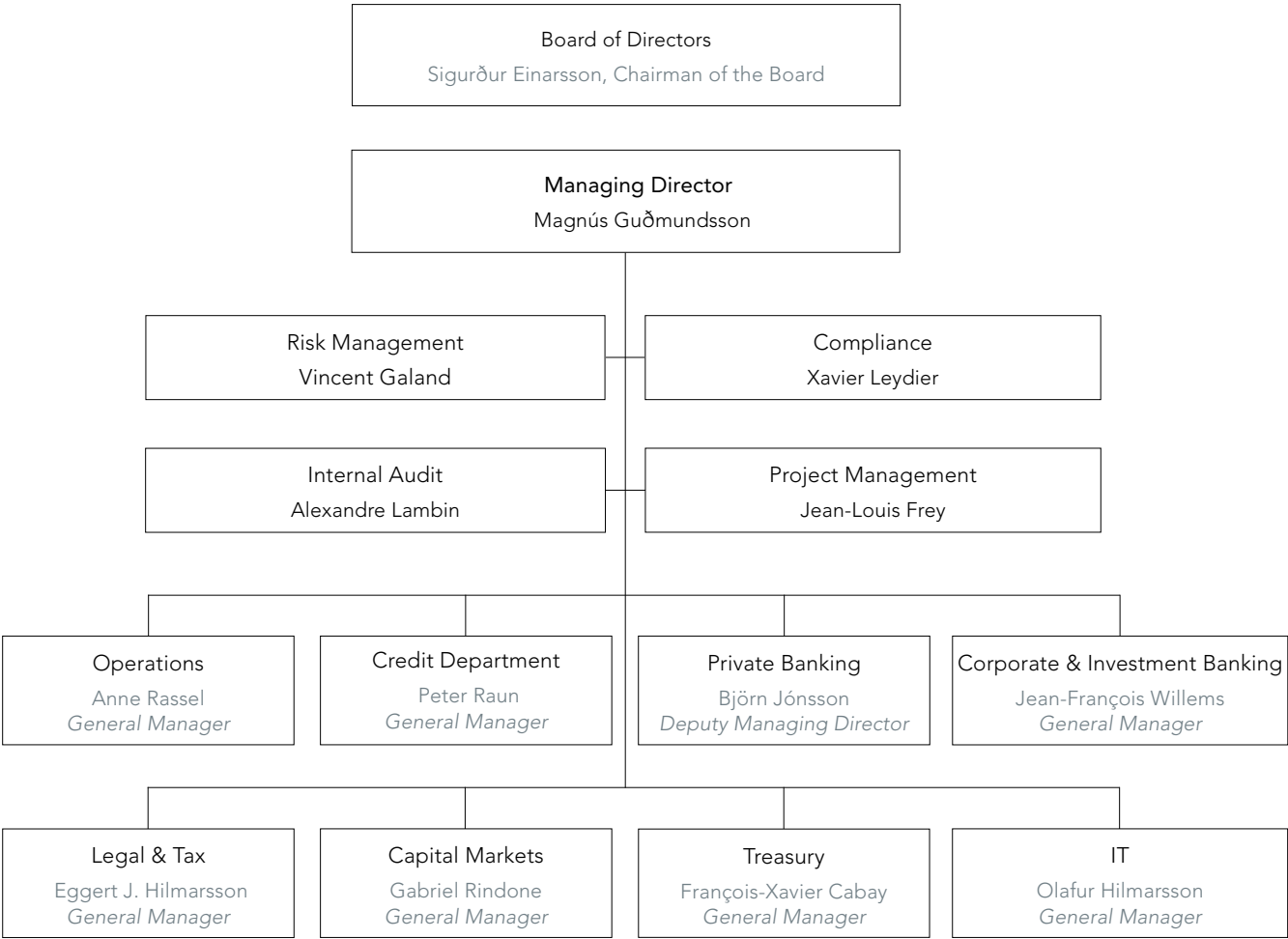
8.3 Fees billed by KPMG Audit S.à r.l., Luxembourg and other member firms

Fees billed (excluding VAT) to the Bank by KPMG Audit S.à r.l., Luxembourg and other member firms of the KPMG network during the year are as follows:

	2007 EUR	2006 EUR
Audit fees	271,400	250,709
Audit-related fees	22,000	15,400
Tax fees	206,150	128,468
All other fees	10,000	28,343
	509,550	422,920

Such fees are presented under other administrative expenses in the profit and loss account.

ORGANISATION







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