THE WEALTH OF THE NATION

UPDATE FOR 2007

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Presented by
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SUMMARY

1. **Net wealth increased by €126bn or 19% to €804bn; one of the fastest growth rates in the OECD.**

   Gross assets of Irish households stood at €965 billion at the end of 2006, an increase of €153 billion or 19%, while household debt increased by €27 billion or 20% to stand at €161 billion.

   The asset base (excluding residential property) of the top 1% of the population increased by €14bn to €100bn, an increase of 16%.

2. **Irish per capita wealth still ranks second among leading OECD countries. Net wealth per head in the Irish economy increased from €148,000 in 2004, to €168,000 in 2005 and to €196,000 last year.**

   This sustained rate of growth places Ireland in the vanguard of OECD countries in terms of wealth creation. What makes this even more remarkable is the fact that most countries saw strong gains in wealth over the intervening period.

3. **The household balance sheet is still in very good health with the asset base dwarfing household liabilities.**

   Despite the continued high level of debt accumulation, the household balance sheet remains very robust with assets outnumbering liabilities by a multiple of six.

4. **Despite some modest revisions, our original forecasts are still very much on track. We continue to expect strong growth in wealth over the remainder of this decade, with a shift into financial assets taking place.**

   We expect net assets to increase to €928 billion by 2010 and to €1,166 billion by 2015. While the level of household debt is expected to increase over the forecast period, the expected growth in net assets will continue to underpin the robust nature of household finances.

5. **The key driver of wealth creation in 2006 was residential property. Consequently, households still remain overweight in property but this masks the strong growth in financial assets.**

   The asset allocation of Irish households last year was broadly unchanged from that of the previous year, with property (residential and commercial) still the dominant asset class, accounting for 72% of all assets. Equities accounted for 15% of total assets, bonds 3% and cash 10%.

6. **We estimate that the number of millionaires increased by 10% to 33,000.**

   This is based on the underlying growth in the economy and the level of wealth creation that occurred during 2006.

WEALTH OF THE NATION

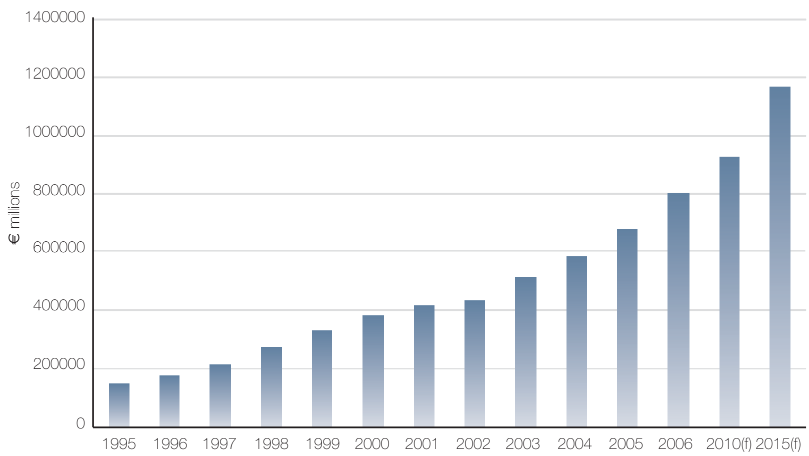
Introduction

Last year was another year of very strong economic growth in Ireland, with real GDP growing by 6%. This, combined with a strong performance by domestic and international asset markets, resulted in a significant increase in Irish household wealth.

We estimate that the net wealth (i.e. household assets minus household debt) of domestic households increased by 19% or €126 billion in 2006 to stand at €804 billion. Irish household wealth per capita increased from €168,000 in 2005 to €196,000 at the end of last year. Based on the 2005 number, Ireland still ranks second in terms of wealth per capita in a survey of eight leading OECD countries.

In terms of the top 1% of the population, we estimate that their asset base (defined as gross assets minus residential property) increased from €86 billion in 2005 to €100 billion in 2006. The accumulation of assets has been very significant over the last decade or more, and we expect the strong gains to continue over the next 10 years. Our original forecasts for the wealth of domestic households still remain very much on track, and we expect net assets to increase to €928 billion by 2010 and to €1,166 billion by 2015.

Figure 1: Net wealth of Irish households – 2006 another banner year



Source: Bank of Ireland Private Banking Limited

UNSURPRISINGLY, THE VAST BULK OF THIS WEALTH WAS DRIVEN BY THE DOMESTIC RESIDENTIAL MARKET, ALTHOUGH OTHER ASSETS ALSO SAW SIGNIFICANT INCREASES. DESPITE THE CONTINUED HIGH LEVEL OF DEBT ACCUMULATION, THE HOUSEHOLD BALANCE SHEET REMAINS VERY ROBUST WITH ASSETS OUTNUMBERING LIABILITIES BY A MULTIPLE OF SIX.

2006 – A stellar year for wealth creation

Last year was a stellar year for wealth creation in Ireland with the net wealth of Irish households standing at €804 billion, a 19% increase on the 2005 number. Gross assets of Irish households stood at €965 billion at the end of 2006, an increase of €153 billion or 19%, while household debt increased by €27 billion or 20% to stand at €161 billion.

Unsurprisingly, the vast bulk of this wealth was driven by the domestic residential market, although other assets also saw increases. Despite the continued high level of debt accumulation, the household balance sheet remains very robust with assets outnumbering liabilities by a multiple of six.

Components of the household balance sheet

All of the components of the household balance sheet saw strong growth in 2006, with the change in the value of residential property dominating all others given its large weight in the asset base. The increases in the various components based on our estimates are listed below:

- Residential property increased by 20% or €113 billion to €671 billion
- Deposits increased by 15% or €12 billion to €92 billion
- Pension funds increased by 11% or €7 billion to €71 billion
- Business equity increased by 16% or €7 billion to €50 billion
- Investment funds increased by 18% or €5 billion to €33 billion
- Direct equity increased by 26% or €5 billion to €24 billion
- Commercial property increased by 20% or €4 billion to €24 billion
- Household debt increased by 20% or €27 billion to €161 billion

Residential property – strong volume and value increases

With a record number of houses built and a strong rise in house prices it was inevitable that the value of the housing stock would increase significantly. At €671 billion, residential property stands at 743% of personal disposable income, and clearly dwarfs all other assets within the household balance sheet. The value of residential property increased by €113 billion or 20% on the 2005 number. The dominance of residential property within household portfolios is a natural consequence of the high levels of home ownership in Ireland and the decade-long house price boom.

Deposits – a key component of household balance sheets

Deposits continued to grow quite strongly in 2006, underpinned by strong income growth and a rising interest rate environment. At €92 billion, this was an increase of €12 billion or 15% in the year. As a percentage of personal disposable income, deposits stood at 102% at the end of last year. The fact that the anticipated outflow of SSIA money did not materialise to the extent expected last year has also helped to underpin these numbers. However, it can be expected that some unwinding of the SSIA effect will impact the rate of household savings this year. Given the tightening of monetary policy by the ECB over the last year, with the refi rate rising to 4%, deposits are now beginning to look like a reasonably attractive asset for conservative investors. This should be another factor that will underpin the deposit base in Ireland.

Buoyant asset markets underpin financial investments

Pension funds, investment funds and direct equity all saw very strong gains last year, helped by very solid inflows combined with healthy returns from the underlying asset markets. The average managed fund in Ireland produced a return of 13%. Some of the underlying equity markets produced even stronger returns, with the ISEQ increasing by nearly 31% and the Dow Jones Eurostoxx increasing by nearly 24%.

However, other markets fared less well in euro terms, with the S&P500 increasing by only 4% and the Euroarea government bond market falling in value. The asset split for the average managed fund in 2006 was 78% invested in equities and 12% invested in bonds with the remainder invested in property and cash. This asset split benefited from the strength of global equity markets and helped ensure that the financial asset component of household balance sheets saw strong gains.

The pension fund assets of Irish households increased by 11% or €7 billion to stand at €71 billion at the end of 2006. Investment funds increased by 18% or €5 billion to stand at €33 billion. As there are no published data with respect to direct equity investments we have to estimate this number. Our estimate is that direct equities increased by €5 billion or 26% in 2006, to stand at €24 billion.

Commercial property continued to perform strongly in 2006

Our estimated increase in the value of commercial property is based partly on the Investment Property Databank (IPD) return number of 27.2%. This number relates to largely prime commercial property and is based on IPD's 333 properties in its database. These 333 commercial properties are in effect only a sample of the entire market, albeit a very high quality sample. As it is unlikely that all segments of the Irish commercial market rose by this magnitude we have used a more conservative estimate. In total, we estimate that the commercial property holdings in household balance sheets increased by €4 billion or 20% last year to stand at €24 billion.

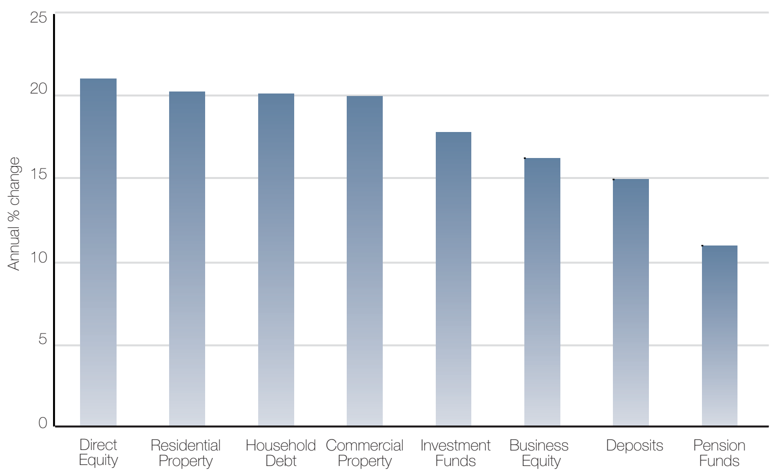
Business equity – underpinned by a strong economy

Given the strong underlying performance of the economy and the robust performance of the ISEQ, we have estimated that the value of business equity in household portfolios increased by 16%. Therefore, we estimate business equity increased to €50 billion at the end of 2006. It should be reiterated that direct equity, commercial property and business equity are purely based on our estimates and are subject to large margins of errors.

Household debt – another year of robust growth

On the liability side of the balance sheet, household debt also increased strongly in 2006, underpinned by strong demand from the buy-to-let investor market. Household debt increased by €27 billion or 20%, to stand at €161 billion at the end of last year. Given the fact that real interest rates remained very undemanding in an Irish context, it is little wonder that credit growth remained robust last year.

Figure 2: Growth in the main components of the household balance sheet in 2006



Source: Bank of Ireland Private Banking Limited

WHILE THE LEVEL OF HOUSEHOLD DEBT IS EXPECTED TO INCREASE OVER THE FORECAST PERIOD, THE GROWTH IN NET ASSETS STILL UNDERPINS THE ROBUST NATURE OF HOUSEHOLD FINANCES.

The composition of Irish household balance sheets

The composition of the Irish household balance sheet is summarised in Table 1, and from an overall perspective the balance sheet looks very robust. The broad thrust of our original forecasts is still intact, with our 2010 forecast for net assets being revised up to €928 billion from €864 billion, with the 2015 forecast remaining broadly unchanged.

The only significant adjustments of note affecting the 2010 forecasts are the changes to residential property and household debt. The strength of the housing market in 2006 has resulted in an upward revision for our 2010 residential property forecast (from €684 billion to €774 billion, a 13% increase). We are using a more comprehensive measure for household debt which has resulted in an upward revision to the historical time series and forecasts.

Table 1: Irish household assets and net worth (high-growth scenario)

€ billions	*2005*	*2006*	*2010(f)*	*2015(f)*
Residential property	*558*	*671*	*774*	*891*
Deposits	*80*	*92*	*118*	*177*
Pension funds	*64*	*71*	*95*	*160*
Business equity	*43*	*50*	*64*	*96*
Investment funds	*28*	*33*	*57*	*106*
Direct equity	*19*	*24*	*30*	*56*
Commercial property	*20*	*24*	*30*	*40*
Gross assets	812	965	1168	1526
Household debt	134	161	240	360
Net assets	678	804	928	1166

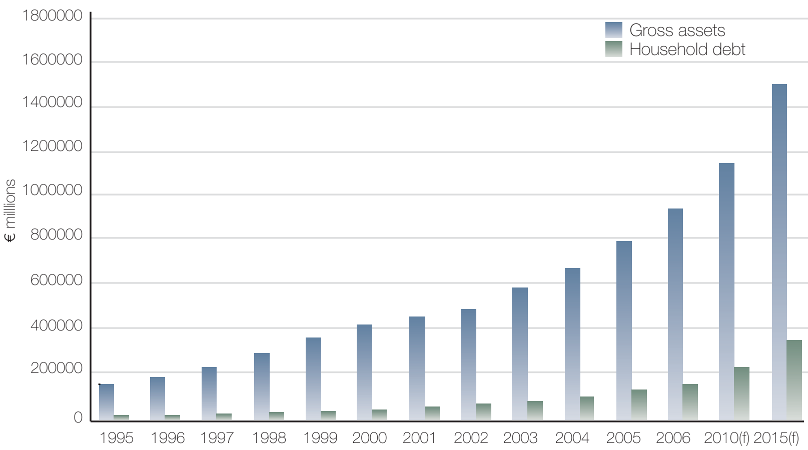
Source: The Central Bank of Ireland, IAIM, IAPF, CSO, ESRI and BoI Private Banking Limited

In general, however, the balance sheet is robust and is forecast for significant growth over the next five and 10 years. We expect net assets to increase to €928 billion by 2010 and to €1,166 billion by 2015. While the level of household debt is expected to increase over the forecast period, the growth in net assets still underpins the robust nature of household finances.

The source of much angst

Household debt in Ireland grew strongly in 2006, with €27 billion more loans added to the balance sheet, an increase of 20%. At €161 billion, household debt increased to 178% of personal disposable income at the end of 2006, up from 160% of household disposable income in 2005[1]. Of course, this increase in debt should be placed into context given the fact that the household asset base increased by €153 billion. If we exclude the increase in the value of residential property, the growth in the remaining assets was €40 billion.

Figure 3: Household assets continue to dominate household debts



Source: Bank of Ireland Private Banking Limited

Significantly, as Figure 3 clearly highlights, the amount of household assets dominates household liabilities. At the end of last year, gross assets stood at €965 billion while household debt stood at €161 billion. This is not to understate the level of debt that households are carrying, rather that the overall level of assets clearly supports this level of debt. While we expect that the level of debt as a percentage of personal disposable income will outpace the level of gross assets as a percentage of personal disposable income over the next 10 years, the structure of the balance sheet will remain very healthy. Based on our forecasts, assets on household balance sheets will be five times the amount of debt, versus six times at the end of 2006.

1 The historical time series for household debt has been significantly revised upwards, as we are now using a more comprehensive measure, and explicitly include estimates for credit unions, hire purchase arrangements and other items in order to more closely correlate with the published numbers of the CSO. Also, the disposable income numbers have been revised up due to the release of further data.

The asset allocation of Irish households in 2006 – still overweight property

The asset allocation of Irish households last year was broadly unchanged from that of the previous year, with property (residential and commercial) still the dominant asset class, accounting for 72% of all assets. Equities accounted for 15% of total assets, bonds 3% and cash 10%. We define equities as direct equities, privately held business equity and indirect holdings of equities in pension funds and investments funds[2].

Ideally, it would be preferable if Irish households were not so overweight in property. This exposes domestic balance sheets to the volatility in house prices particularly as residential property accounts for 97% of all property assets. Residential property will always be a dominant holding for household balance sheets, even in countries with a low home ownership rate such as Germany. However, one of the key assumptions underlying our forecasts is that the dominance of property will wane in Irish household portfolios, with equities/financial assets benefiting.

Table 2 The asset allocation of Irish households

%	2005	2006	2010(f)	2015(f)
Property	71	72	69	61
Equities	16	15	17	22
Bonds	3	3	4	5
Cash	10	10	10	12

Source: Bank of Ireland Private Banking Limited

The continued strength of the Irish property market last year ensured that its weighting within portfolios remained dominant. However, we have seen a significant pick-up in flows into equity related investments over the past two years which we believe to be the start of the reallocation process. This reallocation process will be a slow burn; we expect only a modest shift away from property by 2010, with its weight declining to 69% and to 61% by 2015. The main beneficiary will be the broad category defined as equities, which we expect will increase to 17% by 2010 and to 22% by 2015. Nevertheless, even after these allocation shifts, Ireland will still be well above international norms in terms of its weight in property.

The Irish household balance sheet is in good shape even allowing for the significant accumulation of debt. Household assets still outweigh household debt by a massive margin and this characteristic is unlikely to alter to any meaningful extent over the coming years. We do expect some shift from property into other assets over the next five to 10 years which would see Irish household balance sheets move towards international norms.

2 We make the broad assumption that the asset split in pensions and mutual funds in Ireland is 70% equities and 30% bonds. Invariably this asset allocation will change over time, but as an average over time, we feel that it is a reasonable approximation.

IRELAND STILL RANKS SECOND OF EIGHT LEADING OECD COUNTRIES

Net wealth per head in the Irish economy increased from €148,000 in 2004, to €168,000 in 2005 and to €196,000 last year. In terms of wealth creation, this sustained rate of growth places Ireland in the vanguard of OECD countries. Irish households maintained their ranking of second place among the survey of eight leading OECD countries in terms of per capita net wealth. Net wealth is simply gross household assets minus household debt. Net financial assets are financial assets that are the total of all other assets excluding residential property less household debt.

Figure 4: Ireland still ranked second of eight leading OECD countries

Source: Bank of Ireland Private Banking Limited

Figure 4 is based on 2005 data as comparable 2006 data for all of the eight OECD countries are still not available. The high level of net wealth per capita in Ireland is largely underpinned by the value of the domestic housing stock. In contrast, Irish net financial wealth per capita ranks much lower among these OECD countries. The stock of financial assets held by Irish households is low compared with the level of financial wealth held by the US, UK, Japanese and Canadian households but is in line with the levels held by German and French households.

A number of reasons explain the relatively low level of financial wealth held by Irish households and include the first generational nature of the wealth in Ireland and also the boom in house prices that has occurred over the past 10 to 15 years. The strong returns from residential property attracted a significant amount of capital and savings that would otherwise have been invested in financial assets.

It is still a key assumption in our long-term projections that Irish households will increase their allocation to financial assets over the coming decade. We are of the view that the level of financial wealth held by Irish households should be closer to UK, and to a lesser extent, US levels. The structure of Ireland's economy and pension system is more aligned with the typical Anglo-Saxon economies and this should result in an increased appetite for financial assets.

It should be noted that the growth in financial assets[3] in Ireland has been very strong, increasing by 16% or €40 billion in 2006 to stand at €294 billion. At €294 billion this stands at 325% of personal disposable income, up from 304% at the end of 2005. These ratios compare reasonably favourably with many of the OECD countries but still lag behind the US and the UK where the ratio of financial assets to disposable income stand at 445% and 429% respectively (end 2005 numbers). We believe that Irish households' financial asset holdings have the potential to converge towards the levels held by US and UK households. This implies that there is considerable additional scope for growth in financial assets, in particular equity-related investments.

THE STRONG RETURNS FROM RESIDENTIAL PROPERTY ATTRACTED A SIGNIFICANT AMOUNT OF CAPITAL AND SAVINGS THAT WOULD OTHERWISE HAVE BEEN INVESTED IN FINANCIAL ASSETS.

3 We have altered our definition of financial assets compared with our original publication and it now includes business equity and commercial property. This is more aligned to national accounting definitions.

THE CONCENTRATION OF WEALTH IN IRELAND

The top 1% of the population

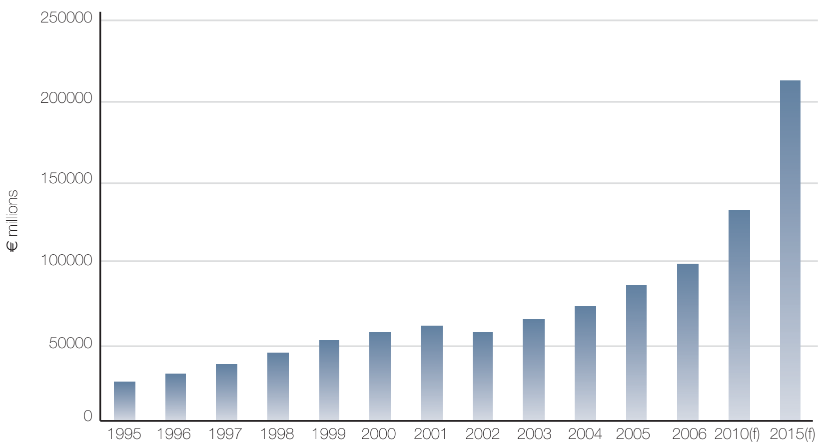
We estimate that the top 1% of the population holds 20% of the wealth, the top 2% holds 30% and the top 5% holds 40%. However, if we exclude the value of housing wealth and focus primarily on financial wealth, the concentration of wealth increases. In this instance, 1% of the population accounts for around 34% of the wealth.

The focus on the asset base excluding residential property of the top 1% of the population is because residential property is only a small component of their overall assets. In contrast to the population at large, residential property is the dominant asset in household portfolios and plays an important part in various financial decisions. Furthermore, residential property is more evenly distributed than other assets and international evidence clearly indicates that financial assets are much more concentrated in the hands of the wealthier segments of the society.

Based on the above assumptions, the asset base (excluding residential property) of the top 1% of the population increased from €86 billion in 2005 to €100 billion last year, an increase of 16%.

The growth rate since 1995 has been even more impressive, with these assets growing from just under €25 billion, an annual average growth rate of 13.7%.

Figure 5: Gross assets (excluding residential property) of the top 1% of the population



Source: Bank of Ireland Private Banking Limited

We expect these assets to grow to €133 billion by 2010 and to €216 billion by 2015. These forecasts are slight upward revisions on last year's forecasts. Given the strong performance in 2006, we are confident that the 2010 forecast will be achieved as it represents an annual growth rate of only around 9%. Assuming that there are no significant financial market corrections in the intervening years, this rate of growth should be easily achieved.

3,000 more millionaires in the country

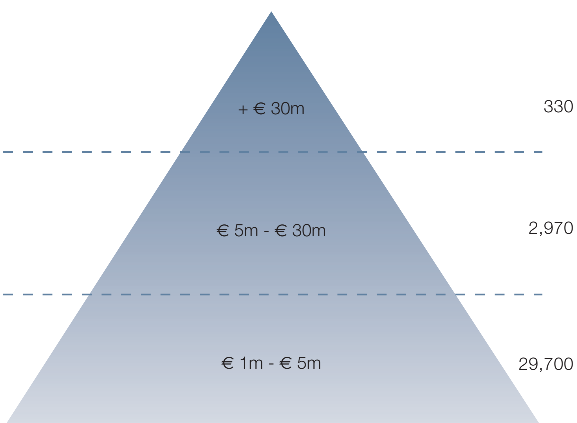
We estimate that Ireland saw the creation of 3,000 new millionaires last year, based on the strength of the underlying economy and the growth in the asset base. This is an increase of 10% on the 2005 number. These estimates are based on peer group analysis and are thus very approximate estimates. Our central premise is that wealth concentration levels are similar to those in the UK and other Anglo-Saxon economies. Using these countries as relevant benchmarks we estimate the correlation between the growth of wealth and the growth of the number of millionaires in those countries and apply these parameters to an Irish context. Based on this analysis we estimate that there are now 33,000 millionaires in Ireland divided into the following net worth cohorts:

€1m to €5m	29,700
€5m to €30m	2,970
+€30m	330

WE ESTIMATE THAT THE TOP 1% OF THE POPULATION HOLDS 20% OF THE WEALTH, THE TOP 2% HOLDS 30% AND THE TOP 5% HOLDS 40%.

3,000 new millionaires in 2006

Irish Wealth Pyramid



Top 1% holds 20% of wealth

...but 34% if residential property is included.

€100 billion in 2006.

Source: Bank of Ireland Private Banking Limited

CONCLUSIONS

The continued strength of the economy has underpinned the growth in personal disposable income and personal savings. Aided by strong gains in most of the major asset classes, Irish households experienced another great year of growth in wealth.

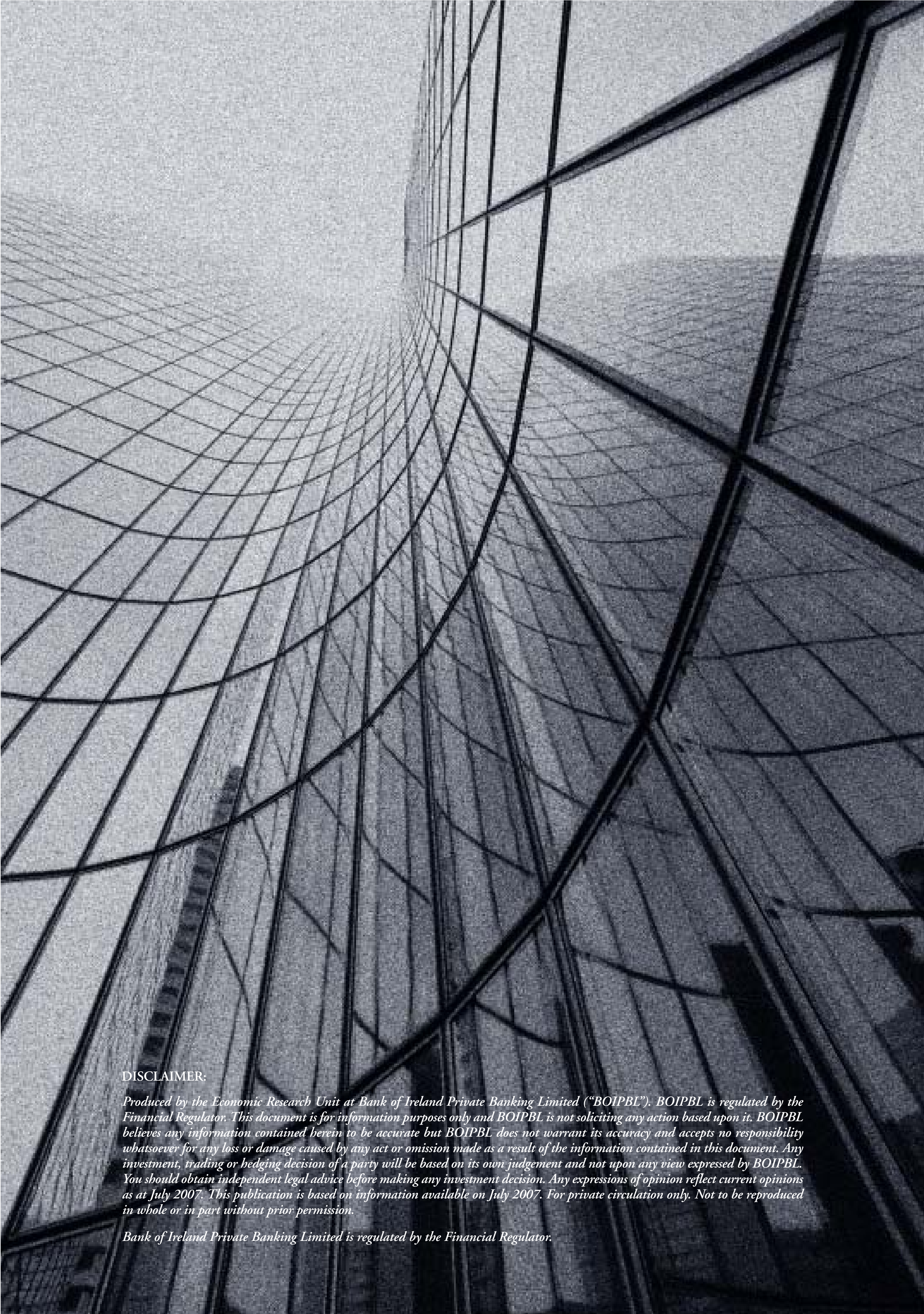
We estimate that the net wealth of Irish households increased by €126 billion (or 19%) to €804 billion at the end of 2006. Gross assets stood at €965 billion, an increase of €153 billion or 19%, while household debt increased by €27 billion or 20% to stand at €161 billion. The broad thrust of our original forecasts is still intact, with our 2010 forecast for net assets being revised up to €928 billion from €864 billion, with the 2015 forecast remaining broadly unchanged.

Net wealth per head in the Irish economy increased from €148,000 in 2004, to €168,000 in 2005 and to €196,000 last year. This sustained rate of growth places Ireland in the vanguard of OECD countries in terms of wealth creation. Irish households maintained their ranking of second place among the survey of eight leading OECD countries in terms of per capita net wealth

The asset allocation of Irish households last year was broadly unchanged from that of the previous year, with property (residential and commercial) still the dominant asset class, accounting for 72% of all assets. Equities accounted for 15% of total assets, bonds 3% and cash 10%. This reliance on property continues to be a concern and exposes Irish households to any unfavourable movements in property prices. In turn, this would have a disproportionate effect on the health of the balance sheets. We still believe that the weight of property in household balance sheets will decline over the coming decade, but it will remain, a dominant asset class.

The asset base (excluding residential property) of the top 1% of the population increased from €86 billion in 2005 to €100 billion last year, an increase of 16%. The growth rate since 1995 has been even more impressive, with these assets growing from just under €25 billion, an annual average growth rate of 13.7%. We estimate that Ireland saw the creation of 3,000 new millionaires last year (an increase of 10%) based on the strength of the underlying economy and the growth in the asset base.

The wealth in Ireland is first-generational in nature and this has important implications for how it is managed and invested. We believe that as the wealth matures the asset allocation of Irish households will increasingly shift towards financial assets, and in particular to more liquid financial assets. Anecdotal evidence would suggest that this shift is under way, but it will take a number of years before it is reflected in the overall balance sheet of Irish households.



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