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Central Bank of Ireland

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Outcome of INBS Inquiry: Central Bank Market Commentary

An Inquiry concerning Irish Nationwide Building
Society, Michael Fingleton, William Garfield
McCollum, Tom McMenamin, John S. Purcell and
Michael P. Walsh

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Sanctions imposed on John Stanley Purcell for participation in contraventions by Irish Nationwide Building Society (INBS)

The Central Bank has sanctioned John Stanley Purcell for his role in breaches by INBS of financial services law between 2004 and 2008.

Mr Purcell has been disqualified for four years from being concerned in the management of any regulated financial service provider, directed to pay a €130,000 penalty and reprimanded for his conduct.

The Central Bank will apply to the High Court to confirm the Inquiry Decision, as required by law, and it will not take effect unless confirmed.

The Inquiry Decision is an important milestone as it is the first decision of an inquiry concluded under the Central Bank Act 1942. The Central Bank wishes to thank the Inquiry Members for their dedicated work throughout the course of this Inquiry.

Background to Inquiry

In 2010, the Central Bank (known at the time as the Financial Regulator) began an investigation into INBS's commercial lending in Ireland, Belfast and London between 2004 and 2008. The Central Bank had raised concerns with INBS over several years about governance and risk management in its commercial lending.

The Central Bank determined that it was in the public interest to investigate whether INBS had breached financial services law and whether members of its management team were involved. The five-year investigation culminated in the production of a 3,500 page investigation report.

This led to the establishment in 2015 of a statutory inquiry by the Central Bank to independently inquire into INBS and five people involved in its management. The Central Bank appointed three inquiry members to conduct the Inquiry: Marian Shanley (solicitor); Ciara McGoldrick (barrister); and Geoffrey McEnery (banker).

The purpose of the Inquiry was to determine whether INBS had committed the suspected prescribed contraventions (SPCs) and whether the five individuals had participated in the commission of the SPCs by INBS.

The SPCs concerned failures by INBS to establish or, when established, comply with its own internal policies and procedures for commercial lending and credit risk management. There were seven overarching SPCs, each of which was underpinned by two legislative provisions and a condition on INBS's authorisation, giving rise to a total of 21 individual SPCs. (See Appendix 1 for detail of legislative and regulatory provisions related to the Inquiry.)

Mr Purcell and Mr Fingleton brought court proceedings to stop the Inquiry, including a challenge to the constitutionality of the legislation which gave the Central Bank the power to hold this, or any other, inquiry. These cases ran between 2015 and 2018 and were successfully defended by the Central Bank. The High Court ultimately confirmed the Central Bank's power to hold inquiries, recognising the public interest in the effective regulation of the financial sector and the need to inquire into what went wrong in INBS and who was responsible.

The Inquiry held a number of procedural hearings in advance of the Inquiry going to substantive hearings. Substantive Inquiry hearings into Mr Purcell and certain other persons concerned in the management of INBS commenced in public in December 2017 and ran for 105 days between 2017 and 2021.

During the Inquiry, the Central Bank imposed sanctions through settlements with INBS (2015) and three of the individuals, Michael Walsh (2019), Tom McMenamin (2019) and William Garfield McCollum (2021). In 2019, the Inquiry was permanently stayed against Michael Fingleton on medical grounds. This concluded the Inquiry in relation to INBS and these persons. Further details are at Appendix 2.

The Inquiry delivered its Findings in April 2024 and it held a sanctions hearing in October 2024. The Inquiry has delivered its Written Decision which is being published today.

As a result of the Inquiry Decision and settlements reached during the Inquiry, both INBS and four senior role holders in INBS have been sanctioned and held accountable, with fines imposed totalling €5,373,000 and disqualifications ranging from three to 18 years.

The Inquiry Decision

The Inquiry Decision found that between 2004 and 2008, Mr Purcell, as a Board Member of INBS, participated in breaches of financial services law by INBS relating to its commercial lending. It found that INBS, a major financial institution at the time, was run in a seriously deficient manner in relation to its commercial lending, credit risk and associated corporate governance. The breaches by INBS were of a serious and systemic nature, and related to commercial lending which made up the majority of INBS's loan portfolio.

The Inquiry considered that significant sanctions were warranted in view of the seriousness of the improper banking practices involved. These practices breached fundamental principles of good banking governance, continued for over four years and had the potential to pose serious risks to financial markets and consumers. In imposing the sanction of disqualification, the Inquiry noted that one of the principal aims of such a sanction is to protect the public and that it also serves as a deterrent to others who might engage in similar conduct.

It is worth noting that the makeup of INBS's loan portfolio left it exposed during the global financial crisis (see **Appendix 3**). Between 2008 and 2010, INBS suffered financial losses in excess of €6bn, primarily arising from the impairment of its commercial loan book. This in turn resulted in the collapse of INBS. The cost to the Irish taxpayer for INBS was €5.4bn.

While the Inquiry found the breaches did not directly cause the collapse of INBS, they were sufficiently serious and systemic that they contributed to an increased risk of loss being suffered. The Inquiry also noted that if the deficiencies had been remediated, this would have increased controls over money being lent and increased INBS's ability to recover those monies.

The Importance of the Central Bank's Investigation and Inquiry into INBS

Effective systems and controls in financial services firms, supported by a positive culture, are essential because of the central role the financial sector plays in the modern economy. They also underpin the sustainability of the financial services firms themselves. Senior role holders such as Mr Purcell have significant positions of responsibility and accountability. There is a clear onus on such role holders to take responsibility for and drive good governance and positive culture from within.

Instead, in this case, as illustrated by the Inquiry Decision, there was a pattern of systemic failures by INBS to implement or adhere to key policies. This led to poor risk management, ineffective governance, deficient banking practices, and an overall culture of high-risk lending.

Mr Purcell's conduct was a significant departure from the standard required of an individual in the trusted position of Board member. The Inquiry Decision shows the very serious impact failures at Board level can have and provides valuable lessons to senior role holders in the financial services industry.

We are now operating in an improved regulatory environment to that which was in place when Mr Purcell was a member of the Board of Directors of INBS. Since the investigation commenced in 2010, legislative enhancements have given the Central Bank more intrusive supervisory, investigative and sanctioning powers, improved our

ability to pursue individuals directly, and have put in place clear standards and requirements for individual accountability within firms. Lessons from this Inquiry have informed enhancements to the Central Bank's regulatory framework. The Inquiry has also shaped improvements in how the Central Bank itself conducts such cases. As the Inquiry proceeded, the Central Bank continuously reflected on what it could do better; developing improvements to both its internal investigative and inquiry processes.

The procedures developed by the Inquiry provided the foundation for the procedures adopted in subsequent inquiries and informed the development by the Central Bank of the 2023 Administrative Sanctions Procedure Guidelines.

Experience from the Inquiry also positively influenced the Central Bank's investment in technology, in-house investigative, legal and data management capabilities, and its own premises for holding inquiry hearings. These capabilities contribute to the smoother running of Central Bank investigations and inquiries, which now require far less external assistance.

Inquiries are a key statutory mechanism by which the Central Bank can assess suspected breaches, make relevant determinations and impose sanctions. The Central Bank's ability to bring inquiries to conclusion is critical to the effectiveness of its enforcement regime, which supports our supervisory functions and is a key component of our approach to financial regulation. Since 2006, the Central Bank has achieved 159 enforcement outcomes, imposing fines of over €407m and 18 disqualifications of individuals. The funds recovered through fines is returned to the Exchequer. It is critical to securing such settlements that firms and individuals understand the Central Bank will use the full extent of its powers to pursue cases to their conclusion and to hold relevant individuals to account.

This investigation and Inquiry have had an enduring and positive effect on the Irish regulatory environment. These legislative, procedural and operational enhancements to the Administrative Sanctions Procedure enable the Central Bank to deliver on its mission of ensuring that the financial system operates in the best interests of consumers and the wider economy.

Inquiry Findings in relation to INBS

The Inquiry looked at all aspects of INBS's commercial lending between 2004 and 2008 from inception of a loan to its conclusion. In those years, the commercial loan book in INBS grew from €3.59bn to €8.18bn so that, by the end of 2008, the commercial loan book represented 78% of the total loan book of INBS. The Inquiry found that there were systemic regulatory breaches at every stage of the INBS commercial lending process. In summary:

- Large sums of money were repeatedly being paid out by INBS without the proper paperwork from borrowers, without adequate security and without appropriate Credit Committee or Board approval and oversight.
- INBS's Credit Committee failed to do its job of credit risk management.
- In breach of credit risk management policy, annual credit risk stress tests for commercial lending were not provided to the INBS Board.
- INBS had no formal credit risk policy in relation to profit share lending (i.e. financing projects in exchange for a percentage of the project's profits), despite the exponential growth in profit share lending by INBS.

Profit share lending eventually represented 65% of INBS's commercial loan book by value by June 2008 and the Inquiry noted that the scale of the increase in this type of lending between 2004 and 2008 made it impossible for any board to properly consider individual loans. It cited examples of numerous large loans being approved at a single Board meeting e.g. 38 loans, involving more than €500m, were approved at the October 2006 Board meeting and one month later, 39 loans, involving more than €500m, were approved at the November 2006 Board meeting. The Inquiry found that:

“[t]he build-up of Profit Share Loans with very high LTVs and capital and interest moratoria and no personal guarantees seriously exposed INBS to a property market downturn.”

Ultimately, INBS's policies and procedures did not keep pace with its changing risk profile, reflecting serious issues in relation to credit risk

management. This was accompanied by significant deficiencies in lending processes.

Mr Purcell's participation in the breaches

The sanctions imposed on Mr Purcell are for his failures as a member of INBS's Board of Directors. The Inquiry was of the view that he did not meet the standard required of a board member in relation to obligations of governance, commercial risk management, supervision and oversight. It stated:

"Mr Purcell did not ensure that, having regard to governance and control, appropriate policies were in place for the commercial lending conducted by INBS with profit share lending being a dominant feature of this commercial lending, or that those policies that were in place were adhered to. His failure to reach this required standard continued for the duration of the Review Period but became more serious as the extent of profit share lending grew both in terms of volume and value".

The Inquiry also noted:

"[a]s a member of the Board, Mr Purcell's role was to recognise the risks inherent in the business of INBS, anticipate adverse circumstances arising and, through the establishment of robust and prudent credit policy parameters, seek to limit those risks. Neither Mr Purcell nor the Board did this to any acceptable level."

Because of his attendance at Board meetings, and as secretary of the Audit Committee and his being the point of contact with the Financial Regulator, Mr Purcell was aware of the concerns that had been raised by internal and external audit functions and by the Financial Regulator. These concerns were about persistent and repeated failures by INBS to follow its own policies and procedures. The Inquiry considered the high degree of reliance and trust placed on board members in a "principles-based" regulatory framework, as it was at the time, and found that the Board's responsibility in such a regulatory environment was significant and required a more "hands-on" approach than that displayed by the Board.

The Board was responsible for ensuring that commercial lending in INBS was conducted in a prudent and responsible manner and was appropriately monitored and controlled. Mr Purcell shared in that responsibility.

Costs incurred by the Central Bank

Detail of the costs incurred by the Central Bank in connection with the investigation and Inquiry is at **Appendix 4**.

Appendix 1: Legal and Regulatory Framework

1. The Irish Financial Services Regulatory Authority (also known as the Financial Regulator) was the regulator responsible for the supervision of INBS between 2004 and 2008. With effect from 1 October 2010, the Irish Financial Services Regulatory Authority was replaced by a single fully integrated structure with a unitary board within the Central Bank.
2. This Inquiry was conducted pursuant to Part IIIC of the Central Bank Act 1942 which sets out the statutory framework for the Central Bank's Administrative Sanctions Procedure (ASP). The ASP is the Central Bank's key administrative enforcement process under which it takes action against regulated firms and individuals that breach regulatory requirements (known as prescribed contraventions) and/or individuals who participate in those breaches.
3. The legislative provisions that underpinned the suspected prescribed contraventions under consideration by the Inquiry were:
 - a. Regulation 16(1) of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 (S.I. No. 395 of 1992), which required every credit institution to manage its business in accordance with sound administrative and accounting principles and to put in place and maintain internal control and reporting arrangements and procedures to ensure that the business was so managed. The 1992 Regulations were revoked by Regulation 161 of the European Union (Capital Requirements) Regulations 2014 (S.I. No. 158/ 2014) with effect from 31 March 2014. However, Regulation 162 of these Regulations specifically provides that the revocation does not affect any enforcement action brought by the Central Bank.
 - b. Section 76(1)(b) of the Building Societies Act 1989, which requires every building society to establish and maintain systems of control of its business and records and systems of inspection and report thereon.

- c. Part 1 of the Financial Regulator’s Regulatory Document on Impairment Provisions for Credit Exposures published in October 2005, which sets out specific obligations for credit institutions and their board of directors/senior management in the context of credit risk policies and procedures. These obligations were imposed on 10 July 2006, pursuant to Section 17 of the 1989 Act, as a condition on INBS’s authorisation.
4. The Central Bank (Individual Accountability Framework) Act 2023 introduced a number of amendments to Part IIIC of the Central Bank Act 1942, and to Part VIIA in respect of appeals. The Notice of Inquiry issued on 9 July 2015; as such, the Inquiry proceeded as an ongoing inquiry subject to transitional provisions of the Central Bank (Individual Accountability Framework) Act 2023. This means the amendments brought in by the Central Bank (Individual Accountability Framework) Act 2023 (in respect of High Court confirmation of Inquiry Decisions and appeals to the Irish Financial Services Appeals Tribunal) apply to this Inquiry.
5. Under Section 33AW of the 1942 Act, an inquiry decision (including sanctions imposed) of the Central Bank is subject to confirmation by the High Court and will not take effect unless confirmed.

Further information on inquiries, including previous inquiries to date, is available at: <https://www.centralbank.ie/news-media/legal-notice/inquiries>.

Appendix 2: INBS and other persons concerned in its management

1. In July 2015, the Central Bank concluded its enforcement action against INBS by way of settlement, details of which can be found [here](#). INBS did not have any assets so it was deemed not to be in the public interest to pursue the collection of the maximum applicable fine of €5,000,000.
2. The Central Bank concluded its enforcement actions against the other persons concerned in the management of INBS that were subject to the Inquiry, by settlement as follows:
 - a. [Michael Walsh \(January 2018\)](#)
 - b. [Tom McMenamin \(December 2018\)](#)
 - c. [William Garfield McCollum \(December 2019\)](#)
3. In December 2019, the Inquiry made a decision to permanently stay the Inquiry in its totality against Mr Michael Fingleton, another of the persons concerned in the management of INBS who was subject to the Inquiry. The decision of the Inquiry is [here](#).

Appendix 3: Background to the Regulatory Context

1. The global financial crisis of 2008 was the backdrop for the collapse of INBS. The financial crisis had a significant impact on Ireland, exposing weaknesses in Irish banks that had been building during most of the previous decade. The causes of this crisis have been well-documented (for example in the “Honohan” Report: [The Irish Banking Crisis Regulatory and Financial Stability Policy 2003-2008](#)) and included failings by those in regulated firms to maintain sound banking practices and also included deficiencies in financial regulation.
2. In the immediate aftermath of the financial crisis, the Central Bank implemented a framework of assertive risk-based supervision underpinned by the credible threat of enforcement. This replaced the principles-based approach to supervision previously in place.
3. The Central Bank’s regulatory toolkit is made up of three interlocking components: regulation, ongoing supervision and enforcement. The Central Bank’s enforcement strategy is aimed at promoting principled and ethical behaviour in regulated entities and those that work in such entities.

Further information on the Central Bank’s approach to regulation is available at <https://www.centralbank.ie/regulation/how-we-regulate>.

Appendix 4: Costs incurred by the Central Bank

External costs

The external costs to date in connection with the Inquiry are €24m, an average annual spend of €1.6m over the course of the 15-year investigation and Inquiry. While the costs are significant it was, and remains, of public importance to examine what happened in INBS and who was responsible. Given the investigation and Inquiry were the largest and most complex ever carried out by the Central Bank, the costs reflect the external support and advisors which were required at the time to pursue the evidence through to a full inquiry. The costs also reflect the external support that was required to operate this model of independent decision-making.

Some additional costs will be incurred over the coming months as the Central Bank is required to apply to the High Court for confirmation of the Inquiry Decision.

A table of the external costs is set out below, followed by an explanation as to how these costs were incurred. A more detailed breakdown of the costs is available here: [Costs Breakdown](#).

Central Bank – External Costs (2010-2025)	Amount
Investigation costs (2010 -2015)	€4.965m
Inquiry costs (2015 – 2025)	€16.580m
Litigation costs (2015 – 2018)	€2.719m
Total	€24.264m

Separate to the external costs of €24m, operational costs of €7,820,621 were previously reported in the [Central Bank's Annual Report 2020 and Annual Performance Statement 2020-2021](#) and related to the investment by the Central Bank to ensure that inquiries were operationally fit for purpose. This included leasing and equipping appropriate premises to hold public and private hearings, acquiring appropriate technology to support the efficient progression of inquiry hearings and professional fees associated with the design, build and implementation of technology and Audio Visual Infrastructure.

Investigation costs (2010 - 2015)

The external costs incurred by the Central Bank in completing the investigation were €4.965m.

The investigation examined INBS's commercial lending in Ireland, Belfast and London over four years. In order to support an investigation of this scale and complexity, the Central Bank engaged external consultants and professional advisors.

In total, over the course of the five year investigation, the Central Bank gathered approximately 350,000 documents. The investigation resulted in a 3,500 page investigation report, two supplemental investigation reports addressing additional evidence, and was supported by 110,000 documents.

Inquiry costs (2015 – 2025)

The total external costs incurred by the Central Bank in relation to the running of the Inquiry and the delivery of the Decision are €16.580m.

Three external and independent individuals were appointed to conduct the inquiry. These Inquiry Members were supported by independent legal advisers and external data management and technology support. Given the volume of documentation to be considered, the Inquiry was run on a paperless basis supported by an external document review platform and evidence presentation system. This ensured the individuals subject to the Inquiry and any proposed witnesses had access to all relevant material.

This was the Central Bank's first administrative sanctions procedure inquiry and there was no blueprint for how to run this model of inquiry process in practice. The Inquiry had to develop new and bespoke procedures, which took into account numerous legal issues raised by the individuals subject to the Inquiry.

Eleven Inquiry Management Meetings took place resulting in 20 separate procedural decisions before the case went to substantive hearing in 2017. The substantive hearing ran for 105 days between 2017 and 2021, with oral evidence from 33 witnesses. In order for the Inquiry to continue during the COVID-19 pandemic, remote hearing capability was developed and implemented.

The Central Bank's Enforcement Division, which had conducted the investigation, was required to attend and participate in the Inquiry to

provide assistance, information and evidence as requested by the Inquiry. Costs were incurred for legal and data management support for this.

The scale of the work of the Inquiry is reflected in the approximately 1,400 page Inquiry Decision, which examines complex legal and evidential issues and provides detailed reasons for the Decision.

Litigation costs (2015 – 2018)

Mr Purcell and Mr Fingleton brought court proceedings to stop the Inquiry, including a challenge to the constitutionality of the legislation which gave the Central Bank the power to hold this, or any other, inquiry. The Central Bank engaged external legal support at a cost of €2.719m and successfully defended these challenges.

Internal costs

Over the 15-year investigation and Inquiry, internal costs were also incurred in the form of staff costs. There are teams within the Central Bank that manage and support investigations and the running of inquiries—the nature of the Central Bank’s enforcement work means that individuals work on a variety of matters and the Central Bank does not individually allocate internal enforcement costs. Details of the Central Bank’s staff costs are set out in the Central Bank’s Annual Report and Annual Performance Statement.

