

THE VATICAN BANK

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Monday, February 11 2013 was an overcast day in Rome. The night before was 27 degrees, the coldest of 2013.

February 11 is a small holiday in the Vatican. It is the day when the Holy See celebrates a treaty in 1929 that created the modern Vatican City State.

The holiday had thinned the ranks of a routine Monday meeting among the resident Cardinals. The smaller than usual entourage followed the Pope to the third floor of the Papal Palace to pray with other cardinals waiting there. They sang a midday prayer for the memorial of Our Lady of Lourdes.

Joseph Ratzinger, an Austrian, a reluctantly conscripted member of the Hitler Youth, a draftee of the German anti-aircraft corps, former WWII allied prisoner of war and now the very reluctant Pope Benedict 16th rose to address the small gathering. What he spoke of no Pope had spoken of in 600 years. Pope Benedict 16th had chosen Monday, February 11, 2013 as the day for his resignation ending his 8 year term. He gave the Church two weeks' notice. He would leave on February 28th, 2013.

Though the Vatican-Leaks scandal was just 10 months prior, Pope Benedict 16th stated reason was that his failing health no longer enabled him to meet the demands of his position. In the preceding 1000 years only 4 popes had resigned.

Now, three years later, the former Pope Benedict, according to Pope Francis, still plays an active advisory role. To paraphrase Mark Twain, statements of Pope Benedict's ill health now seem to have been very premature.

So what was the reason for Pope Benedict's resignation if there was not an imminent health issue?

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The Vatican City State covers 109 acres, which is one third the land area of the Fort Wayne Country Club. The Vatican has an official population of 842, about half the size of the student body at Northside High School. The Vatican City State is the smallest sovereign country in the world. It has no extradition treaties.

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The finances of the Vatican after WW1 were a shambles. Ernesto Pacelli, president of the private Bank of Rome, had convinced the Vatican to invest its money for the first

time in its history and those investments were profitable. But Pacelli left in 1915 and Pope Benedict 15th ran things by himself for the last 7 years. The result was not good.

When Pope Pius 11th became Pope in 1922, he had a financial mess on his hands. The funds received from Peters Pence were being diverted to cover the operating costs of the Curia instead of the needs of the Catholic poor. Pope Pius ordered an audit of Vatican finances. The audit took 6 years to complete.

The audit was finally presented to the Pope in 1928. The Vatican was down to its last lira. The Bank of Rome was in another crisis and the Vatican, now the Bank's major investor, was called to make another bailout. The Vatican did not have the money. Pius turned to the Italian state for help. It was the first official contact between the Vatican and the Italian government since the loss of the Papal States to Italian unification in 1870.

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In 1922, the Fascists marched on Rome. King Emmanuel 3rd asked their leader to form a new government. When Pope Pius 11th approached the Italian government in 1928, Benito Mussolini, was the Prime Minister and, effectively, the dictator of Italy.

The Pope and Mussolini needed each other. The Pope had no real political power. Most had been lost in the Napoleonic Wars more than 100 years prior and the rest was lost with the Papal States in 1870. But Mussolini needed the Pope's recognition of his rise to power. In return, the Pope needed money to right the Vatican financial ship. The Lateran Treaties were signed in February of 1929 by Pope Pius 11th and Mussolini at the Lateran Palace in Rome.

The Lateran Treaties created the modern day Vatican City State. And the treaties paid reparations for the loss of the Papal States in 1870 which the Pope now finally accepted.

The reparations amounted to the modern equivalent of almost \$1.5 billion. The Pope had asked for twice that. In compromise the Italian government would pay the salaries of some 2500 parish priests. The reparations were a windfall for the Vatican and the Holy See.

Wisely, Pope Pius began a search for a financial advisor. There had been no one since the exit of Pacelli 15 years prior. The Pope selected Bernardino Nogara. Nogara was a peace negotiator following WW1 and spent 5 years on the Allied Commission tasked with the rebuilding of German industry after the war. His experience in Germany influenced him. He was convinced that Germany would quickly recover from WW1.

Nogara insisted that there would be no religious, doctrinal or geographic restrictions on his leadership. He could make any investment with anyone, anywhere. Nogara reported only to the Pope much to the dismay of the Curia.

Nogara took immediate advantage of the Pope's acceptance of his terms. Investments were made in arms manufacturers and other industries that were very profitable but contrary to Church doctrine.

The Great Depression created investment opportunities for cash buyers. Nogara invested in real estate and industries throughout Europe at bargain prices. Many of these investments were in Germany and Austria. Holding companies were created to distance the Vatican from these transactions to mute criticism of their capitalism.

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Cardinal Eugenio Pacelli, cousin of the former head of the Bank of Rome, was the Vatican Secretary of State in 1933. He had been Nuncio or ambassador to Germany for the 12 years prior. He enjoyed the German lifestyle immensely.

The Nazi rise to power brought an end to the Weimar Republic. Adolf Hitler was appointed chancellor on January 30, 1933. A suspicious fire on February 28, 1933 in the Reichstag was blamed on Communists and gave the Nazi party the rationale to suspend many civil liberties. The persecution of the Jewish people began. None the less, Cardinal Pacelli sent Hitler a letter that Hitler interpreted as supportive of his anticommunist policies. Hitler sent his Vice Chancellor to the Vatican in response. Secret negotiations between the Nazis and the Vatican commenced.

The Vatican knew that Hitler could be a bigger threat than Mussolini but the rise of atheistic Communism was the greater concern. And, the knowledge that Hitler, like Mussolini, was baptized and raised as a Catholic gave hope that his views could be moderated. Hitler, like Mussolini before him in 1929, sought the validation that the Vatican could offer.

On July 20, the Vatican signed the Concordat of 1933. The Vatican was the first country to recognize Germany under the Third Reich. It was signed by Cardinal Pacelli, who would later become Pope Pius 12th, directly succeeding Pius 11th, and was witnessed by Monsignor Giovanni Montini, the future Pope Paul 6th, who would be Pope in the 1960s and 70s.

The Concordat of 1933 cared for the spiritual welfare of the 20 million Catholics in Germany and created a buffer against Stalin's communism. Hitler received the recognition he wanted. In return, Germany instituted an 8% payroll deduction on German Catholics to enforce the collection of donations. Those proceeds were sent

directly to the Vatican after the Germans subtracted their fees. This payroll tax continues to this day.

Cardinal Eugenio Pacelli, signer of the Concordat of 1933 and former papal nuncio or ambassador to Germany for 12 years became Pope Pius 12th in March of 1939. He was a very slight man who was 6 feet tall but weighed just 125 pounds. He had lived with his Mother until age 38. This was the man that would direct the Church through the 2nd WW and until 1958. Nogara continued as financial advisor to the Pope.

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It was uncertain in 1942 who would prevail in what now had become a world at war. D-Day was 2 years away. Germany occupied much of Europe. The 2000 year old Catholic Church could not pick the winners or the losers but it could take steps to assure its preservation. Nogara's penchant for privacy enabled him to make deals that were profitable regardless of who was being threatened. The Allies put more pressure on the Vatican for disclosure. Nogara needed to keep his ability to conduct the Vatican's financial affairs where the greatest return could be realized without regard to the political implications.

Nogara had a solution. The Institute for Works of Religion or IOR was formed on June 27th, 1942. It became a Vatican entity by Papal decree and writing out its charter in long hand 3 times. Its stated purpose was to administer the deposits of Holy See and fund its many charities. That was the public persona of the IOR. It was not an institute. It was and is a bank, commonly known as the Vatican Bank.

The Vatican Bank was protected by Vatican sovereignty. It was and is an off shore bank in the middle of Rome. The stock of the bank is owned solely by the Pope. Its only location is the Vatican. Nogara and the new Vatican Bank continued to report only to the Pope. The secrecy with which Nogara conducted the Holy See's financial affairs was now complete. All the banking transactions of the Vatican were now conducted by the Vatican Bank.

Nogara went into action. Currency moved through the bank in higher volumes. Deutschmarks became non blacklisted currencies and purchased arms for the Nazi war machine. He invested in insurance companies.

Many personal fortunes were lost in the War. The victims of the Holocaust lost everything, including life insurance policies. With no death certificate, these policies never paid off for those who lost their lives. The premiums were kept.

At the height of the war, Pope Pius 12th was urged to excommunicate Hitler and Mussolini. He did not.

The war in Europe ended in May of 1945. Fascism was defeated, communism was not. Communist Russia had expanded its territory. Fascism had only one redemption in the eyes of the Allies and the Vatican. It was anti-communist. Political pragmatism prevailed after the War. Some Nazi officials were deemed to have future benefit in the struggle against Communism. Plundered currency and gold was in flux. The Allies were trying to track these funds. Large amounts of cash and gold were moved physically from Swiss banks to the Vatican Bank. Some even in Red Cross ambulances. Each movement of the funds generated a fee. The movement of wealth and Nazi war criminals to South America after WW2 is well known now. The routes they took from Europe to South America were appropriately called the Ratlines.

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Paul Marcinkus was born in Cicero, IL in 1922. His parents were Lithuanian immigrants that settled in Cicero in 1914. His father was a window washer.

Marcinkus, an average student and better athlete, surprised his family and friends when he decided to attend seminary. Ordained in the Archdiocese of Chicago in 1947, he went to Rome to study canon law and was soon assigned to the Vatican. There his outgoing personality acquainted him with Monsignor Giovanni Montini, a witness to the Concordat of 1933 with Nazi Germany. They became fast friends and Montini would later become Pope Paul 6th. Marcinkus, to those in the Vatican, seemed to embody all that was American. He was a muscular 6 foot 4. His physical size was key when he fended off attacks against Pope Paul the 6th and later Pope John Paul 2nd. He drank Scotch whisky and smoked Havana cigars, whether it annoyed others in his company or not. He was gregarious, at times a back slapper, and he was a charmer. As an American, a Catholic and a product of Vatican diplomatic training, he was strongly anti-communist.

When his good friend Giovanni Montini became Pope Paul 6th, Marcinkus became his English translator, gate keeper and unofficial body guard. In 1971, the Pope appointed him Secretary of Administration of the Vatican Bank, effectively the president of the bank. Marcinkus, like Nogara before him, reported only to the Pope and had complete control of the Vatican Bank. Marcinkus also had no financial or banking background. He said later that his prior financial experience was handling the Sunday offering.

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Detective Sergeant Joe Coffey Jr, all Irish and all Catholic, was working for the District Attorney's office in New York City on Christmas Eve of 1970. A well dressed lawyer was in the office complaining to the DA that thugs were rousting the Playboy Club in NYC. Coffey was assigned the investigation. Going undercover at the Playboy Club, he and his associates discovered that the thugs were low level members of the New York

Genovese crime family. Through overheard conversations in the Club, Coffey learned that Vincent Rizzo, a middle ranked member of the Genovese mafia family was dealing in large amounts of counterfeit stock and bond certificates. These were from companies like AT&T, Coca-Cola and IBM. The FBI became involved in the investigation. In the next three years, they found that Leopold Ledl, an Austrian con-man with connections to the Vatican, was brokering a deal wherein the Vatican Bank would buy \$950M worth of certificates for \$650M in 5 installments less a \$150M kick back. Nobody ever knew who was to get the \$150M. The intent was the Vatican Bank would use the certificates at face value as collateral for other business deals. Agents of the Vatican Bank working for Marcinkus asked for \$14.5M of samples to test. The samples did not pass. The deal was off but most of the counterfeit certificates given the Vatican representatives were never seen again. The FBI approached Archbishop Marcinkus. He denied the matter and told the FBI that it would be a violation of Vatican Banking secrecy to discuss it further. Coffey and the FBI were at the limits of their authorization to investigate. But they had found documents on Vatican stationary verifying the 5 installment deal. They knew that the Vatican Bank was deeply involved in the plot but needed more proof. They went to the Dept of Justice. The Watergate Scandal was approaching full boil in 1973. The Dept of Justice was simply not interested in investigating the Vatican. Rizzo, Ledl and others went to prison in their respective countries. There was no more investigation by the FBI or Joe Coffey of Archbishop Marcinkus or the Vatican Bank.

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Marcinkus' closest friend outside the Vatican was Michele Sindona. Sindona was a lawyer with connections to the Archdiocese in Milan. He became a figure in the Vatican, a kind of fixer. He could accomplish business and financial deals that others could not. His connections included membership in Propaganda Due or P2, a secretive Masonic Lodge formed after WW2 and now headed by Lucio Gelli. In WW2, Gelli was in charge of transporting 60 tons of Yugoslavian gold. Only 40 tons were delivered. In 1998, in one of the many investigations of Gelli, this time for massive bank fraud, 192 gold ingots were found in various potted plants around his home. Gelli died in December of last year at age 96 taking many secrets with him.

The P2 secret lodge included leading military officers, politicians, businessmen and clergy. Their political aim was to resist the left wing movement that had a firm grasp on Italian politics. A 1982 investigation by Italian authorities found a membership list with 982 prominent names, including Silvio Berlusconi.

The broad membership of the P2 could control the outcome of events in Italy and beyond, sometimes by very unconventional means. The Italian Masonic Lodge expelled the P2 but it continued anyway.

Sindona's close association with Marcinkus and the Vatican provided legitimacy and funds that he used well. The Vatican Bank could transfer funds, produce letters of credit, and trade in foreign currencies under its own rules. It was not under any international conventions. It was possible to be in Rome, have a suitcase full of cash, walk across the street into the sovereign country of the Vatican, have it deposited in the Vatican Bank, and later move the funds to another bank anywhere and the original source of the cash would be erased.

.Marcinkus and Sindona expanded into the US. As always, the Vatican Bank never owned anything or paid for anything directly. There was always a series of holding companies and banks controlled by the Vatican Bank. The first acquisitions were real estate. One acquisition was the Watergate complex in Washington DC. Then Sindona purchased the Franklin Savings Bank in Long Island in 1972 using \$40m from Italian banks owned in part by the Vatican Bank. His American lawyers were President Nixon's former law firm. He had met Nixon in 1965 and that tie helped get Sindona cleared by NY state banking regulators.

Immediately, Sindona redirected the Franklin Savings Bank into foreign currency exchange and high risk loans. These were good ways to erase the history of deposits. The global economic crisis of 1973-74 and the Arab oil embargo exposed Sindona's financial maneuvers. The Franklin Bank was insolvent within two years. Federal charges of fraud and perjury were filed against Sindona. The Franklin Bank had deposits from Sicilian and American syndicates. They wanted their money back. Sindona tried to avoid the authorities and the syndicates. He faked a 2 month kidnapping and had a doctor shoot him in the leg as supposed proof. It didn't work. Sindona was convicted for fraud by the Justice Dept in 1980 and sentenced to 25 years. Marcinkus' offer to testify as a character witness was nixed by the Vatican

Sindona was extradited to Italy in 1984. The Italians had investigated the Italian banks used in the Franklin Bank purchase. The investigation was costly in terms of lives. Three investigators were assassinated in Italy in a 4 week period in 1979. The Italian government charged Sindona with the contract murder of Giorgio Ambrosoli who had gathered 2000 pages of evidence which linked the Vatican Bank to Sindona. Sindona paid American William Arico \$40K to carry out the killing. Arico confessed to Federal agents and was convicted. Arico fell to his death in a NY Federal prison in 1984.

In 1986 Sindona was jailed in a high security prison in northern Italy. He was in a cell by himself under 24 hour TV surveillance. His food was prepared under the watch of guards. Four days after his conviction for Ambrosoli's death, Sindona's morning espresso was poisoned with cyanide. His death was ruled a suicide. Estimates of the Vatican Bank losses in the Franklin Bank insolvency range between \$290M to \$3.2B in current dollars.

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Michele Sindona had a protégé in Roberto Calvi. Calvi was a lieutenant in the Italian army in WW2 on the Russian front. He returned to civilian life in 1943 and became a clerk in his father's bank in a small town. A friend of his father offered him a job at Banco Ambrosiano in Milan. Banco Ambrosiano was a small bank formed by a priest in 1896 to provide financial services to Catholic institutions and wealthy Catholic families.

Calvi was painfully shy, conversant only when the talk was business. And the banking business was his life. With limited social skills, he depended on his competence to rise through the ranks of Banco Ambrosiano. He was appointed Director General in 1971, the same year Archbishop Marcinkus was appointed to head up the Vatican Bank. Michele Sindona had already introduced Marcinkus to Calvi and arranged for Calvi to become a member of the secret Masonic lodge Propaganda Due or P2.

Calvi set up a web of holding companies and banks in countries such as Panama, the Bahamas, Luxemburg and Switzerland that offered the strictest client secrecy. True ownership could never be disclosed and dealings with those governments were handled by local attorneys. This avoided the high taxes and strict banking regulations of Italy. With just \$2.5 M, Calvi capitalized a bank in the Bahamas with the Vatican Bank as a co-investor and Archbishop Marcinkus on the board. In a few months the bank had deposits of over \$120M, 20% of it from the Vatican Bank. That bank was run from the Nassau home of its managing director. All the banks were paper shells. He used a company switchboard operator as a director in the documentation of one bank.

Calvi approached Marcinkus with a new pitch to move amounts of money far in excess of Italian regulations. Banco Ambrosiano would make deposits in the Vatican Bank, and then the Vatican Bank would move the funds to Calvi's secret offshore banks. The Vatican Bank would collect a fee on every transaction. Some deals worked, some did not.

Juan Peron returned to power in Argentina in 1973. Sindona had met Peron when he was in exile in Spain and had introduced Calvi. Calvi saw banking opportunities in Argentina's vast natural resources and right wing Peron would serve as a front to the left wing movement in South America, an interest to the Catholic Church and to the P2. Marcinkus was in. He offered to have the Vatican Bank serve as fiduciary bank putting the reputation of the Vatican Bank behind the plan. The deal stalled. Peron's ill health took a turn and Peron was out in 1974.

The Franklin Bank investigation was hurting Marcinkus so Marcinkus shifted from Sindona to Calvi to regain his stature. The Vatican Bank increased its ownership of the Banco Ambrosiano. Marcinkus and Calvi embarked on more complex deals moving ever larger amounts of money.

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Pope John Paul was elected in August of 1978. Problems came quickly. He received a report from Italian authorities on the Vatican Bank's suspected illegal export of large sums of cash. Then a report came from a journalist listing alleged members of P2, the rogue Masonic lodge, within the Curia. To be a Catholic and a Mason meant excommunication. The list was a who's who of the Curia within the Vatican. And there was Marcinkus' close relationship with Cardinal Cody, head of the Chicago diocese, the largest and wealthiest in the US. Cody's own mis-management of the diocese was a crisis in the US and in the Vatican. In just a month after his election, John Paul had a plan to clean house. The plan he finalized on September 28th, 1978 included the resignation of Cardinal Cody, the transfer or resignation of those on the list of P2 members within the Vatican Curia and the transfer of Archbishop Marcinkus, president of the Vatican Bank, back to the Chicago.

After discussing his plan with a close aide, John Paul went to his private chamber at 9:30pm. Sister Vincenza, who had been John Paul's aide for 16 years, knocked on his door at 4:30 the next morning with his customary pot of coffee. No response. She tried again at 4:45. No response again. She entered and found Pope John Paul dead. The good Sister found him in bed upright, wearing his glasses, with his notes on his plan to clean house in hand, his prescription medicine for low blood pressure on a table next to the bed. Four hours later the Signoracci brothers, whose family had tended to the deaths of Popes since 1870, embalmed John Paul's body rendering any forensic investigation futile. John Paul's eyeglasses, his notes and his prescription medicine were never seen again. Cody stayed in Chicago, nobody resigned and Marcinkus stayed at the Vatican Bank

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Things started to really unravel in 1981. The Italian authorities finally had enough evidence to arrest Calvi. Calvi tried to claim that everything was done on behalf of the Vatican Bank. It didn't work. Calvi was convicted and sentenced to a 4 year term. He appealed, posted bond and was released. Remarkably, Marcinkus continued to work with Calvi. And, eight days after his conviction, the Board of Directors of the Banco Ambrosiano re-affirmed Calvi's role as chairman.

Outside banks began to call loans and ask for verification of collateral. Calvi went to Marcinkus for aid. Marcinkus issued multiple "letters of patronage" to creditor banks. These letters acknowledged Vatican Bank's joint control of the many offshore holding companies and gave the illusion of support but there was no real guarantee to the creditors. At the same time Calvi secretly gave Marcinkus a full release of any Vatican Bank obligation to Banco Ambrosiano. The outside banks were appeased for the

moment. Things looked good on the outside, but inside, the house of cards was collapsing.

Calvi was still out on bond and the Italian banking officials were now planning other prosecutions against him. Pope John Paul 2nd created a commission to investigate the relationship between the Vatican Bank and Banco Ambrosiano. The letters of patronage were discovered and the commission recommended that the Pope dismiss Archbishop Marcinkus. The Pope refused. The Vatican Bank had provided the mechanism and the cover to fund the Solidarity Movement in Poland that was near and dear to the Polish Pope.

Still, Calvi was in deep trouble and now looking at a long sentence. He tried to create a threat to others who hopefully would come to his rescue. It was blackmail. He pulled together documents describing the involvement of individuals in the Vatican, Italian national politics, the P2 and others. A Peruvian bank jointly owned with the Vatican Bank made loans to Argentina to fund the purchase of Exocet anti ship missiles. It was an Argentinean Exocet missile that sunk the British ship HMS Sheffield in the Falklands War. Calvi's list of enemies grew. He put all of these documents in a large black briefcase that never left his side. He thought that briefcase was his insurance policy.

Marcinkus finally recognized that continued support of Calvi was not in his best interest. Calvi pleaded to Marcinkus for funds to prop things up. Marcinkus refused. When Calvi tried to go directly to the Pope, Marcinkus found out and cut him off. Calvi's threat to tell what he knew created very powerful enemies. Calvi feared for his life. He told his family to prepare to leave Italy.

Friday, June 11th, 1982 Calvi became a fugitive. His passport was held by the court as a condition of his bond. So he left Italy literally in the cover of darkness. He escaped to London using what was left of his network to travel by private boat and jet. Calvi hoped to raise the money he desperately needed from the comparative safety of London. He did not think about the fact that the people who had brought him there quickly left him and quickly left England.

The following Monday the Bank of Italy, similar to our Treasury Department, sent auditors to Banco Ambrosiano. They started to uncover the web that embraced the Vatican Bank and Banco Ambrosiano. On Thursday the Banco Ambrosiano's Board asked for an urgent meeting with the Vatican Bank to request assistance. The board then learned that Calvi had secretly indemnified the Vatican Bank. Marcinkus and the Vatican Bank refused assistance. Marcinkus knew the collapse of Banco Ambrosiano would be his collapse too. That evening the body of Calvi's long time secretary was found on the sidewalk below her 5th floor office window at Banco Ambrosiano.

Friday, June the 18th was one week after Calvi had arrived in London and 4 days after the end of the Falklands War. That dreary morning, Anthony Huntley was walking across the Blackfriars Bridge over the Thames River to his job as a postal clerk. Huntley noticed a thick yellow rope knotted around a scaffold bar next to the bridge. Peering over the side he saw a balding man dressed in a grey suit hanging from a noose, his feet just touching the river. A police launch retrieved the body and found 2 masonry stones in one trousers pocket and one in the other. Half of a brick was stuffed in the front of the trousers underneath the fly. Another stone was in a jacket pocket. The body had over \$14000 cash in multiple currencies and a passport with the name Gian Roberto Calvini, a close approximation of Calvi's name but not close enough for the London City Police. It took them two more days to confirm that the body was Roberto Calvi. And Calvi's briefcase of secrets was gone. Calvi's death was ruled a suicide. A new investigation in 2002 declared that Calvi had been murdered and in 2005 five people went on trial in Italy for his murder. All were acquitted.

While the Vatican Bank denied all responsibility to the creditors of the Banco Ambrosiano, it paid them over \$400M. The investigation into the collapse of Banco Ambrosiano took several years. In 1986 the Italian authorities issued an arrest warrant for Archbishop Marcinkus. He spent the next 4 years within the confines of the Vatican to avoid arrest. The Vatican has no extradition. Marcinkus finally avoided prosecution, returned to the Chicago diocese in 1990 then retired to Sun City AZ where he lived in a modest ranch style home next to a golf course and was an assistant parish priest. He died in 2006.

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If there had been any doubt that Pope Benedict 16th was going to be different than John Paul 2nd, it was erased when Benedict cancelled the annual Christmas parties that been a hallmark of the extroverted Pope John Paul 2nd. The annual Christmas parties had enjoyed the entertainment of Lionel Richie, Tom Jones, Whitney Houston and others.

Benedict was the first German Pope in 1000 years and he was in for a rough ride. A speech he gave offended Muslims and created a storm of reprisals in Europe and the Middle East. The Church sex abuse scandal was front page news. An Italian journalist exposed secret Vatican Bank documents collected by a little known Vatican Bank insider in 2009. The documents showed that nothing had changed since the exit of Marcinkus 20 years ago.

The post 9/11 European Union pushed for the Vatican Bank to comply with 21st century global banking standards. The Vatican resisted. The Vatican Bank was a long way from compliance to EU rules. And the Vatican felt compliance with the EU would bring a loss of sovereignty.

Also in 2009, a 1999 class action suit, *Alperin vs. Vatican Bank* alleged that, in late WW2, members of the Catholic clergy assisted in the transfer of over 200 million Swiss francs from the Croatian treasury to the Vatican Bank and then to Croatian war criminals living in South America. The Federal Court of the Northern District of California ruled that it did not have jurisdiction over the Sovereign State of the Vatican. The suit was dropped without its merits ever being heard in court.

There was a second insider disclosure in 2012. Paolo Gabriele, the Pope's butler, gave an Italian journalist Vatican documents that described the issues of the Vatican Bank and the infighting of the Curia around those issues. This was the Vatican Leaks scandal. Gabriele was arrested for theft by the Vatican but later pardoned by the Pope.

Pope Benedict 16th, whose papal motto was "Cooperators of the Truth", was overwhelmed. He gave his two weeks' notice February 11, 2013.

Pope Francis was the first non-European Pope in 1300 years. He quickly established himself as the people's pope. The ornate papal vestments were put in storage. He moved into a Vatican guesthouse instead of the papal apartment. He began to re-energize the Church.

Francis had to decide whether to close the Vatican Bank or reform it knowing that all other attempts had failed. Pope Francis chose to try reform again. But, the issues that had overwhelmed Benedict were still there.

In the summer of 2013, Monsignor Nunzio Scarano was arrested and jailed by Italian officials for attempting the transport of \$24M in cash using a private jet from Switzerland to Italy. The money was then to run through Scarano's Vatican Bank accounts.

Scarano was a senior accountant with the Vatican. He was famous for his pockets full of 500 Euro notes, his 17 room apartment and his expensive tastes in art. How he managed this on a salary of \$40,000 per year was a question not yet answered.

Pope Francis' response was swift. The internal Vatican Bank oversight group that Pope Benedict had set up three years prior was terminated as were most of the bank's officials. He hired Washington DC based Promontory Financial Group to validate bank procedures and accounts. It was the first time an outside and truly independent firm had looked at the Vatican Bank's books. The process took 2 years and \$9M.

The Vatican Bank opened a web site (www.ior.va) and published its first ever public annual report in 2014 for the year 2013. The Vatican Bank claimed \$6.7B in deposits, making it about 5 times the current size of Star Financial Bank in Fort Wayne.

The Bank adopted a policy of KYC or "Know Your Customer". This is not a policy to improve customer service; it is a policy to know where the customer's money is coming from.

Pope Francis appointed a predominately lay board of financial professionals from around the world including the US, a significant change from the inside favoritism of the past 75 years. Cardinal George Pell of Australia was appointed Secretariat for the Economy overseeing the Vatican Bank. His bulldog tenacity, likely a product of his father's heavy weight boxing career, soon found over \$1B in transactions whose sources and uses were impossible to trace.

In April of 2015 The Vatican Bank signed an agreement to share information with the Italian government for the first time, an important step toward compliance with International Standards. But experts agree that that the Vatican Bank is still at least 5 years away from full compliance with those standards

In January of this year, 2016, Monsignor Nunzio Scarano, who was arrested for the attempted smuggling of \$24M in 2013, was acquitted of those charges. He remains on trial for using his personal Vatican Bank accounts to receive and clear payments marked as "Donations to the Poor".

The End

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