

WHO KILLED GOD's BANKER?

By Edward Jay Epstein

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For Sir James Goldsmith

A THIRTY YEAR INVESTIGATION

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Prologue *A Tale of Two Banks*

At the beginning of the nineteenth century the Vatican was sufficiently weak and isolated that Napoleon was able to kidnap the Pope and keep him prisoner in France for seven years. Even after the Papal States were restored to the Vatican by the Treaty of Vienna in 1815, the cost of financing its wartime debt so exceeded its paltry income that it was only saved from bankruptcy by the French government assuming part of the Vatican debt. Finally, in 1870, in the process of unifying Italy, King Emmanuel seized Rome and all the remaining territory of the Papal States and left the Pope, Pius IX, barricaded in his palace, a prisoner in the Vatican. Although the new Italian parliament passed a law offering modest compensation for all the Papal territories that had been expropriated, Pope Pius IX refused, saying "I need money badly but what do you bring me, a part of what you stole from me." That statement defined the Vatican position for the next six decades, as it negotiated with a succession of Italian governments with neither sovereign status nor money.

The Popes only source of income during this period was an annual collection from Catholics around the world called Peter's Pence, which had been revived from the times of the Crusades. But Peter's Pence rarely exceeded a million dollars a year and, unable to further borrow to pay expenses, the Pope had to contain Vatican services as essential as the Sacred Roman Rota. Indeed, the Vatican was so impoverished by 1922 that it borrowed \$100,000 from a local Roman bank to pay for the funeral of the Pope.

Finally, on February 29, 1929, Pope Pius XI came to terms with the government of Benito Mussolini. In the agreement, called the Lateran Treaty, the Pope recognized that the Papal States, including Rome, were now part of Italy. In return, Mussolini accepted that a small parcel of land surrounding St. Peter's, called Vatican City, henceforth would be completely independent of the laws of Italy, and the Pope would be completely sovereign over this tiny territory. In addition, Mussolini awarded the Vatican compensation for the Papal property seized in 1870 of \$52.4 million dollars in the form of long-term Italian bonds, paying 5% interest a year, and \$39.7 million in cash.

Although the Vatican became financially solvent for the first time in over a century, it had been now officially reduced from a lost kingdom occupying most of central Italy to a token city-state in a patch of Rome. To make it autonomous in fact as well as in law, the Pope immediately expended part of the cash from the settlement on constructing a railroad station, a telephone exchange, administration buildings, a courthouse, radio transmitters, a jail, printing presses, barracks for the Swiss Guard, and an electric power plant.

None of this left the Vatican with much money. Aside from the Peter's Pence collection and the

sale of Vatican coins, postage stamps, and museum admissions— all of which dwindled during the world depressions of the 1930s— the only income the Vatican could count on was the approximately \$2.5 million a year in interest from its government bonds, a sum that shrank with the declining value of the Italian currency. As the situation grew more desperate, the Pope assigned the remainder of what the Vatican received in compensation to an investment unit called “Special Administration,” designed to use the Vatican’s unique sovereign standing to trade in the foreign exchange markets. He retained Bernardino Nogara, a Jewish banker who was an expert in international finance, to run it. To protect the Vatican against further devaluations in the lira, Nogara bought gold, dollars and other foreign currency, and then borrowing against them. He also engaged in complex arbitrage operations that increased the Vatican’s patrimony by more than 50 percent in ten years, while also providing the income necessary to pay the Vatican’s deficit. So the Vatican finally found a means of economic salvation: taking advantage of its sovereign exemption from regulation to trade.

The Second World War again put the Vatican in serious jeopardy. Surrounded by Fascist Italy, and threatened with annihilation by the Communists who were battling to take over Italy, Pope Pius XII briefly considered moving the Vatican to America. In 1942, as an immediate expedient for safeguarding its funds during the war, the Pope authorized the creation of a private bank within the walls of the Vatican, whose true function was obscured by its name “The Institute for the Works of Religion.” The Vatican official charged with superintending this bank was Giovanni Battista Montini, a priest from a prominent banking family in northern Italy, who had served in the Vatican’s Secretariat of State for 20 years. Montini organized the bank not only as a safe haven for the Vatican’s own money but also as a channel through which Catholic dioceses, missions, orders, and other entities could invest their funds. Even after Montini left the Secretariat to become Archbishop of Milan in 1954, he continued overseeing the operations of the bank as part of a three-man commission. When he became Pope in 1963, taking the name Paul VI, he made the bank a key instrument of expanding Vatican financial power.

The immediate problem confronting Pope Paul was a new Italian law requiring foreign investors, including the Vatican, to pay a 30 percent tax on dividends. Since this tax, if paid, would further squeeze Vatican income to the point that it would have to curtail services it considered essential, it refused to pay the tax on the grounds that it violated the Lateran Treaty of 1929. While the stalemate continued, Pope Paul found a remedy that would not only avoid the issue of direct Italian taxation but which would also eliminate much of the pejorative publicity about its investments in Italy. The Vatican bank would transfer most of its investments to anonymous companies in Liechtenstein, Panama, and other secretive offshore centers. These companies would be removed by many layers of banks and other intermediaries from the Vatican. This move would also be invisible to Italian tax collectors since no worldly authority, not even the Italian government, had the right to inspect Vatican records. To effect this change, the Vatican required the help of banks that could, with utter secrecy, set up these anonymous accounts for it and assist in transferring its assets to them.

The bank in Milan that Pope Paul initially turned to for help was the small and extremely private, as its name implied, Banca Privata Finanziata. It was run by a highly-successful financier named Michele Sindona, who was expert at maneuvering funds offshore.

The liaison with Sindona eventually grew dangerous. His banking empire became entangled in criminal investigations and some of the banks he controlled went bankrupt. As concerns mounted in 1969, Sindona was summoned to the Apostolic Place in the Vatican for a meeting

with Pope Paul, Cardinal Alberto di Jorio, the President of the Vatican Bank, and Cardinal Sergio Guerri, the head of the commission responsible for the administration of the Vatican city-state. Sindona was then told that although he would be allowed to complete the current transactions he was undertaking for the Vatican, he then would have to step aside.

The man the Pope put in charge of replacing Sindona's Banca Privata Finanziata was Paul Marcinkus, a 49-year-old American priest on his staff. He had known Marcinkus since he was a young priest, requesting him as an English translator on his trips to America. Standing six foot four inches tall, Marcinkus also had acted as the Pope's personal bodyguard. Now the Pope appointed him Bishop of Orta, and dispatched him to work under Cardinal Di Jorio at the Vatican bank. His real mission was to untangle Sindona's convoluted machination, and find a new bank to replace Sindona's. The bank he found was the venerable Banco Ambrosiano, which was named after the patron saint of Milan, and located on Via Clerica in Milan.

The Banco Ambrosiano had been originally founded and owned by priests in Milan in 1896. For decades, this bank was headed by Franco Ratti, the nephew of Pope Pius XI, and then by Duke Gallerati Scotti, a trusted friend of Pope Paul's from Milan. Aside from the personal connections, the Vatican owned even then the largest single block of stock in the Banco Ambrosiano. Its new chairman, Carlo Canesi, and its general manager, Roberto Calvi, also seemed eminently trustworthy. To cement the relationship, the Vatican bank sold the Banco Ambrosiano the controlling interest it held in the Banca Cattolica del Veneto, a Venice bank with over 100 branches. Aside from the official price of \$30 million, the Vatican bank also got a secret side payment of \$6.2 million. This money was channeled into its subsidiaries in Liechtenstein, and used by Calvi to buy for the Vatican enough additional shares in the Banco Ambrosiano to give it control of his bank.

Calvi, the son of a bank clerk, who would succeed Canesi as chairman, consolidated the Vatican's anonymous holding companies under a wholly-owned subsidiary in the Bahamas, called the Cisalpine Overseas Bank(Nassau). This entity based in Nassau, and controlled from a small office in Monte Carlo, became the center of a dizzying daisy-chain of money transfer and borrowing. With the Pope's approval, Marcinkus would become president of the Vatican Bank, and serve on the board of this subsidiary in Bahamas.

Even though Calvi was able to generate huge paper profits for the Vatican in the nineteen-seventies through sham transactions between the cabal of offshore subsidiaries, he still had a problem with Sindona. In November 1977, Sindona, who had been arrested in New York for making false statements in his attempt to take over an American bank, demanded that Calvi pay him nearly \$10 million Sindona claimed he was owed as a "commission." When Calvi refused, Sindona carried out a threat to ruin Calvi.

On November 13, 1977 employees of the Banco Ambrosiano were stunned to find the walls of the surrounding buildings of Milan's financial center plastered with giant white, yellow, and blue posters revealing in great detail the ultra-secret transactions of the bank. The event, which became known in Italy as the day of the "tazebas," or Chinese banners, since the excess of colorful posters made the financial district of Milan look like Beijing, had been organized by Sindona. Since he had been privy to the secret transfers, the wall posters had revealed the numbered accounts in Switzerland through which passed the secret side payments that had been used by Calvi and the Vatican bank to get control of the Banco Ambrosiano. In addition, they contained three questions, that if correctly answered, would expose the sham transactions between the Vatican bank and the Banco Ambrosiano. Calvi ordered the posters to be ripped

down, but it was too late, since Sindona had also sent an anonymous letter to the Bank of Italy detailing the transactions. The Bank of Italy, the central bank of Italy, had no choice but to launch an investigation. For the next 15 months, its investigators would question Calvi about these transactions

Meanwhile, the court-appointed liquidator of Sindona's banks, Mario Ambrosoli, reported that he had found coded evidence in Sindona's records of a \$6.5 million illegal payoff to an "American bishop and Milanese banker." The press suggested that this referred to Bishop Marcinkus and Banker Calvi. Before he could go further in unraveling the code, Ambrosoli was shot dead at point blank range in front of his home by two unidentified men. While his evidence may have been problematic, his silencing further amplified the furor over the posters.

Marcinkus' position was further weakened by a series of unfortunate events in the Vatican. First, Pope Paul, who had supported Marcinkus, died in August 1978. Shortly afterwards, his successor Pope John Paul, also abruptly died. Then the election of the first non-Italian Pope in seven centuries, John Paul II, left the Curia in disarray. Then Luigi Mennini, who was then was the chief aide to Marcinkus at the Vatican bank, was arrested in Italy for currency manipulation. As the pressure built, the new Pope appointed a commission of 15 cardinals to study the finances of the Vatican. Under these circumstances, it was becoming increasingly difficult to keep hidden the relationship between the Vatican bank and the Banco Ambrosiano.

There was also little the "Milanese banker" could do to avert the Sword of Damocles descending on him. Calvi, after using every legal tactic to delay the investigation, was arrested on May 21, 1981, along with top executives at his bank, and charged with violating Italy's foreign exchange regulations a decade earlier. He was then taken to the medieval Lodi prison and put into a cell with four terrorists, who kept him awake day and night with their ravings and radio. Calvi, desperately seeking help from the Vatican, told Marcinkus, "This trial is called IOR," the Italian initials of the Vatican Bank. Marcinkus sent a message back, according to Calvi's son, Carlos Calvi, saying "Our problems are your problems too." Calvi then attempted suicide by slashing his wrists and swallowing an overdose of barbiturates.

Finally, on July 20th 1981, after spending two months in Lodi, Calvi, though sentenced by a court to four years in prison, was released on bail while his appeal was processed.

Within a week, he was reinstated as chairman of the Banco Ambrosiano by its Board of Directors. The Bank of Italy, while approving his reappointment, warned him that if he failed to restore the financial soundness of his bank, he would almost certainly face another harsh imprisonment. Yet, though the Bank of Italy did not know it, there was by now a gaping \$900 million hole in Banco Ambrosiano's books. This money was in theory owed to its overseas subsidiaries by The Vatican bank but Calvi had so deeply hid the paper trail through a labyrinth of anonymous off-shore entities that the Vatican bank was refusing to recognize the debt. And even if it did, it did not have the \$900 million to plug the hole. So technically both banks were bankrupt, but the plight of these banks was not yet known to the public. Calvi's bank indeed still had over \$5 billion in deposits and a stock market value of nearly \$3 billion. In June 1982, the Bank of Italy demanded to see the books of the bank's overseas subsidiaries, and his Board of Directors had agreed to produce them. With the legal appeal keeping him out of prison rapidly expiring, Calvi's clock had all but run out. Calvi had one move yet to play: He vanished.

[1]

The Missing Banker

On June 11, 1982, Roberto Calvi, the chairman of the Banco Ambrosiano, left Italy. He had with him a black briefcase that an assistant had seen him stuff with documents from his safe. The disappearance of "God's Banker," as he was known in the Italian media because of the massive investments he made for the Vatican, set in motion an international manhunt. One week later, his body was found hanging under Blackfriars Bridge in London with an orange noose tied around his neck and his feet submerged in the swirling waters of the Thames. The black bag was gone. Also missing was \$1.2 billion from Banco Ambrosiano's subsidiaries in the Bahamas, Nicaragua, Peru, and Luxembourg. The Vatican bank was also missing one-half billion dollars from loans to letter-box corporations.

When the London river police cut down the body from scaffolding under the bridge on the morning of June 19, 1982, they did not know immediately it was the missing Italian banker. The Italian passport on the corpse identified him as "Gian Roberto Calvino." It was a bogus passport, it turned out, that he had used to get into Britain. The police ruled out robbery as "Calvino" still wore a very expensive Patek Phillippe watch on his wrist and had about \$14,000 in Swiss francs, British pounds and Italian Lire in his wallet. They also found seven large pieces of masonry stuffed in his pants. Even after he was identified, Scotland Yard, the Italian financial police, and Interpol, were totally baffled as to how this banker from Milan come to be dangling at the end of a rope over the Thames in London. Did he commit suicide? Or was he murdered? The autopsy was conducted by Professor Frederick Keith Simpson, one of England's most experienced pathologists. There was no river water in Calvi's lungs, so he had not drowned. The cause of death was asphyxia or loss of oxygen. There was a "V" shaped wound on his neck, consistent with suicide, and there was no marks on the arms to indicate he had been restrained, no puncture marks on his body to indicated he had been injected with a drug and no traces of suspicious chemicals in his stomach of drugs (other than the residue of a sleeping pill he had taken the previous night). In sort, there was no medical evidence of foul play.

But before the authorities could declare the hanging a suicide, there was a problem. The time of the death was fixed by his Patek Phillippe watch, which through valued at over \$100,000, was not water-proof. It stopped at 1:52. While the watch could have stopped for reasons other than water damage, the water marks on the face of it, when taken together with the dropping level of the tide that night at Blackfriars Bridge, established the latest time at which his body could have been suspended from the scaffolding. After 2:30 am, the level of the water in the Thames at Blackfriars bridge would not have been high enough to have reached Calvi's wrist (as was calculated from the length of the rope he was hanging by when he was found), so he must have been hanging before then. But he could not have hanged himself before 1 a.m. because the river level then would have been above his mouth, and there was no river water in his body. So, if he committed suicide, it he could only have been between 1:00 and 2:30 a.m. Making the problem more vexing, during those hours there was a low tide, and the distance to the water would have broken his neck. Yet, the pathologist had determined that Calvi's neck had not suffered the kind of injury that would have occurred in such a free-fall. In fact, he could have not have dropped more than 2 feet before his fall was broken by the water. To get that near the water, after tying the rope, he would have had to climb twelve feet down a nearly vertical iron ladder, and he then, with seven pieces of masonry in his clothes, would have to step across the two and one-half feet gap onto the scaffolding's rusty poles, which were arranged like monkey-bars in a children's playground. Next he would have to tie the rope and shimmy down to the next level of the scaffolding in the darkness. Yet, the medical examination had found none of signs, including

splinters, cuts, or abrasions on his hands, or rust and tears in his gray suit, that such a descent would be expected to have produced. While climbing up and down ladders and scaffolding might present no problem for a young man in the peak of health, Calvi was sixty-two year old, over-weight, and suffering from vertigo. So even in the absence of any murder signatures on Calvi's corpse, the Italian investigators found it difficult to accept the alternative: without help, he killed himself.

What was clear from their investigation is that Calvi had co-conspirators in getting to London. Italian authorities established that he had used three false identities, eight separate private plane flights around Europe, a speed boat, four different cars, and 14 temporary residences in getting into Britain. He had gone from Rome to Venice by plane, then to Trieste by car, where someone smuggled him in a speed boat to Yugoslavia. From there, a car drove him to a mountain retreat in Austria, and then on June 15th, he flew from a small airport in Austria to London in a leased jet disguised as a Fiat executive. The facilitator of this incredibly complex escape was Flavio Carboni, a well-connected Sardinian businessman. Since Calvi had previously used him to fix problems, when he learned he was about to be arrested for bank fraud, he asked him to arrange his escape from Italy. To this end, he had given him access to about \$19 million in numbered accounts. Carboni then employed Silvano Vittor, a cigarette smuggler, to be Calvi's bodyguard and driver. He also had two strikingly beautiful Austrian sisters, Manuela and Michaela Klienszig, help arrange the logistics.

Once in London, Carboni and the Klienszig sisters stayed at a deluxe hotel, but Calvi and Vittor checked into an inexpensive suite at a second-rate residential hotel, the Chelsea Cloisters. Calvi used the alias "Calvino." It was the last place any witness saw him on June 18th. When police searched the suite the next day, Vittor was gone. All police found in the suite was Calvi's personal belongings, including his toilet kit and sleeping pills, neatly packed inside two locked suitcases, as if they were waiting to be picked up by someone. His black attache case was missing, however. Despite an intense search, Scotland Yard could not find a single hotel employee, taxi driver, or other witness to Calvi's movements that night (or, for that matter, the three days he had been in London prior to his death.) During these London days, he was "the invisible man," as Police Deputy Superintendent White told me. "We don't even know how he got from his hotel, four and one half miles away, Blackfriars Bridge. And we do not know how Calvi's body got onto the end of that rope."

Even so, the coroner's jury in 1982, finding no evidence of murder, concluded that Calvi had hanged himself. But that did not end the investigation. In 1989, Carlo Calvi, Calvi's only son, hired Kroll Associates to re-investigate the case. After locating, authenticating and re-assembling the original scaffolding that Calvi had been tied to, hanged from, forensic experts conducted a reconstruction in which a stand-in for Calvi, who was the same size and weight, walked all the possible routes along the scaffolding poles that Calvi would have to walk if he had indeed tied the rope and hanged himself. The stand-in wore exact copies of Calvi's hand-made loafers he wore that night. These shoes were then put in water for the same time Calvi's shoes had been submerged, and then microscopically examined by a former London police laboratory chemist. On every route, the chemist found that the soles of the stand-in's shoes had picked up yellow paint smears that matched those on the scaffolding poles. Given Calvi's weight, and the pressure of the shoe on the narrow pole, he concluded such tell-tale traces were unavoidable. Yet, when he microscopically examined the soles of the shoes Calvi had actually worn, he found no traces of yellow paint on the soles. Since there was no way he could have hanged himself except

to have walked on the scaffolding, this investigation concluded "Someone else had to have tied him to the scaffolding and killed him."

A second British coroner's jury quashed the earlier verdict of suicide, declaring that there was not enough evidence available to determine whether it was murder and suicide. Instead it returned an open verdict, leaving the question of how Calvi met his end still dangling. But this did not satisfy Calvi's family, which was due a \$10 million payment from the Italian insurer Unione Italiana if, and only if, Calvi had been murdered.

In December 1998, a Rome court authorized the exhumation of Calvi's 16 year old corpse. His bones and other remains were then re-examined by a panel of forensic experts who concluded that the injuries to his neck were inconsistent with self- hanging, and that therefore he had most likely been murdered. If so, it was a murder disguised to look like a suicide

[2]

The Calvi Financial Thriller

For those who ruled the world of money, Calvi's hanging death in June 1982, threatened to open a Pandora's Box of troubles. Not only was \$1.2 billion dollars of his bank's money missing but through a subsidiary in Luxembourg it had been acting for the sovereign state of the Vatican. The news of Calvi's disappearance on June 11th 1982 reached Italy's top monetary authorities while they were aboard a military jet en route to Brussels to face the grim prospect of a devaluation of the lira-- the fifth in three years. Whatever might happen to the lira in Brussels that day, the concern of these men now focused on this new crisis. The collapse of Calvi's bank, the second largest private bank in Italy, was now practically unavoidable and this, in turn, could seriously undermine the credibility of the entire Italian banking system. One of the officials on the plane, Mario Sarcenelli, the Director General of the Treasury Ministry, also had a special interest in the Calvi case. It had almost destroyed his career. Three years earlier, when as the deputy director of the Bank of Italy, he had begun an investigation into the Bank Ambrosiano. Before he could complete it, police arrived at the palatial headquarters of the Bank of Italy in Rome, and arrested him on what he called "trumped up charges." He was accused of withholding information and confined to a dungeon in the Regina Coelus prison in Rome. Finally, after 10 days, he was freed on condition that he leave the Bank of Italy. That ended Sarcenelli's investigation.

That same day two other specially chartered jets took to the air. The first of these planes had been chartered in Luxembourg to go to Milan. It carried secret documents that up to now had been seen only by Calvi and his top deputy, which rush to the head office of the Banco Ambrosiano. They were hand delivered to Michel Leemans, Calvi's trusted deputy at the investment banking unit, who subsequently told me the documents identified the true owner of a group of the anonymous companies that held the mystery bloc of Banco Ambrosiano stock that had stymied Sarcenelli's investigators four years earlier.

The other chartered plane was an Alitalia Boeing 727 carrying Pope John Paul II to Geneva, Switzerland. Accompanying the Pope on this flight was Archbishop Marcinkus, now President of the Vatican's bank, the Institute for Religious Works. For the past week, Calvi's deputies at the Banco Ambrosiano, were desperately trying to reach him because Calvi had made him a director of the Banco Ambrosiano subsidiary in the Bahamas that had

served as a staging post for the international operations of the Banco Ambrosiano. Although it had been unprecedented for an Archbishop of the Vatican Curia to sit on the Board of Directors of a private bank, Marcinkus believed, as he told me in 1983, "extraordinary times called for extraordinary measures." The son of an immigrant window washer in Cicero, Illinois, he had come to the Vatican in 1950 as a 28 year old student priest, and never left. He quickly rose through the ranks of the bureaucracy to become the right hand of first Pope Paul and then Pope John Paul II. Three months before Calvi's disappearance the Pope had stood by Marcinkus' side at a meeting of the fifteen Cardinals on the Commission for Vatican Finances. When questions were raised about the Vatican's faltering income and rising deficits, the Pope had held his hand up to Marcinkus, and replied "If you have any problems--ask [him], he'll know how to solve them." The Cardinals also had no doubts about Marcinkus' loyalty to the Pope: he had, as one Cardinal remarked, "the fidelity of a Saint Bernard."

When Marcinkus returned with the Pope from Geneva, he immediately met with Leemans. Leemans came right to the point by producing two documents that he had been sent from Luxembourg on the chartered jet. Marcinkus saw that they were "letters of patronage", signed by his deputy and initialed by him. They clearly identified the Vatican Bank as the owner of the key anonymous companies through which the Vatican had incurred huge debts. Leemans explained that the Banco Ambrosiano Group would be forced into bankruptcy in a matter of hours unless these debts were repaid by the Vatican.

The Archbishop replied that the Vatican recognized no debt to the Bank Ambrosiano. He dismissed the letters of patronage as legally meaningless because he held a trump card --a "counter-letter," signed by Calvi, which released the Vatican from any responsibility proceeding from the "Letters of Patronage." As far as he was concerned, signing these letters of patronage was merely a personal mistake on his part. "I did it purely as an act of friendship to Calvi", he told Leemans. "I realize that I will have to pay personally for that error of judgment." Leemans could not accept this explanation at face value. He did not believe that these letters of patronage, which involved the Vatican in a debt exceeding one billion dollars, had been simply dashed out by Marcinkus as a token of friendship-- they had not even been signed by Marcinkus .

Moreover, before these letters had been issued, Marcinkus had sent his deputy to Lugano, Switzerland to see secret records held in a bank vault-- a vault in which the Vatican held one key and the Banco Ambrosiano the other. These records confirmed that the Vatican's bank was listed as the owner of record of the companies in question. They also showed that these companies held as their main asset over ten per cent of the shares of the Banco Ambrosiano. If so, Leemans reasoned that the Archbishop had an interest in issuing the letters that went beyond personal friendship for Calvi.

But the Vatican was a sovereign state which did not have answer to any authority other than the Pope. It could only be sued in a court in the Vatican with the permission of the Pope. If Marcinkus stood his ground and insisted that the letters, and whatever other evidence turned up, proceeded from his personal errors and naivety, the Vatican could not be held legally responsible for the huge debt . Seeing that there was no practical way around the stone wall erected by Marcinkus, Leemans suggested that they both work together to prevent the collapse of the Banco Ambrosiano with all the attendant public revelations. Specifically, he proposed raising a loan on the world market for the Vatican bank which would be used to save the Banco Ambrosiano.

The Archbishop, calculating that the interest for such a loan would amount to more than a hundred million dollars a year, told Leemans "We just don't have that kind of money."

As soon as he left the gates of the Vatican, Leemans placed a telephone call to Milan which interrupted the tense Board of Directors meeting of the Banco Ambrosiano. "Call in Grandmother", Leemans said, which was the prearranged signal to ask the Bank of Italy to take over the bank. It was the last meeting that the Board of Directors ever held. Trading in its shares was immediately suspended. The 86 year old bank, founded by priests in Milan, had expired. While the stunned employees of the bank milled around, a grey-haired woman plummeted from the executive office on the top floor to her death on the pavement below. Amidst the commotion, the acting president interrupted a press briefing to announce "Calvi's secretary just killed herself." Graziela Corrocher not only had been Calvi's secretary since he had become head of the bank, she was the only other person at the bank that knew the his full calendar of appointments and meetings. She left behind a note scrawled in red that cursed Calvi.

Later that evening at an office on the Avenue Des Citronniers in Monte Carlo, the employee on duty received a phone call ordering him to immediately close down what had been the European headquarters of Bank Ambrosiano Overseas in the Bahamas. His 11 years of night duty in this lonely room had consisted mainly of typing cryptic telephone messages from Milan into a telex machine, which had been specially constructed so that, unlike standard machines, it did not produce any copy on paper of its messages. There was also no paper trail of the work done here which, unknown to him or the other employee of this branch office, had resulted in transferring over \$1.2 billion borrowed by the Banco Ambrosiano and its subsidiaries from banks around the world to a handful of anonymous corporations in Panama and Liechtenstein.

By this time the corpse of Calvi had been cut down from under Blackfriars Bridge in London and the Italian counsel in London cabled Rome "They have our banker." That ended the search for Calvi, but there was a greater a greater mystery: the whereabouts of the money.

The trail of money, which began at the Banco Ambrosiano in Milan and then passed through its subsidiary in Monte Carlo, had stopped cold in Panama. The money had been transferred there, and in other off-shore banking centers, to anonymous corporations. Although records indicated that they were owned by the Vatican, the Vatican denied that it controlled their financial activities. And indeed, the precise relationship between these shadowy companies and the Vatican was known by no more than three persons at the Banco Ambrosiano. They were Carlo Canesi, who had made the original arrangements with the Vatican in the late sixties, Calvi, who was his assistant and successor, and possibly Graziela Corrocher, the personal secretary for both men. And all three of them were now dead. Nor could any documents be found, except for the two ambiguous "letters of patronage" in the bank's records that were disputed by the Vatican. The problem was that Calvi had left Italy with a black attache case full of key documents but it had not been recovered in London.

If the answer to the mystery could not be found in Milan or London, investigators had to seek it in the Vatican, a the sovereign state occupying some 108 acres in the heart of Rome. Despite its priceless works of art, and valuable property in Italy in the form of churches and other religious edifices, the Vatican had problems raising cash to meet its budget. It received no financial assistance from Catholic dioceses around the world, except for the annual Peter's Pence collection. It did have, the Vatican Bank, which, it will be recalled, Pope Pius had created in 1942 under the guise of an "Institute for the Works of Religion." The IOR, as it is called by its Italian initials, allowed the Vatican, instead of commercial banks, to earn the profits on banking transactions. It also operated outside the purview of the Bank of Italy or any other central bank. Technically, because the Vatican was an independent state, the Italian government did not have

even the right to inspect Vatican records. Archbishop Marcinkus, the head of the IOR, was known to have a close relationship with Calvi, and was listed as a director of the Banco Ambrosiano overseas subsidiary in the Bahamas, from appeared responsible for nearly \$900 million in missing funds.

According to the reconstruction by Bank of Italy, eight anonymous companies belonging to the Vatican bank owed the overseas subsidiaries of the Banco Ambrosiano the missing funds. Calvi had unsuccessfully attempted to the Vatican to refinance the massive debt but he first needed to obtain a document showing that the Vatican owned these companies. Archbishop Marcinkus had resisted providing any document that could be used to prove Vatican ownership of the anonymous companies since their indebtedness far exceeded the liquid resources of the Holy See. So Calvi cited records in the vault of the Banco Ambrosiano's banking subsidiary in Switzerland that he claimed would establish the Vatican's ownership of these subsidiaries in the event he was unable to refinance the debt. To verify this claim, the chief accountant of the Vatican bank, Pellegrino de Stroebel, was dispatched to Switzerland to view the secret records. Since they appeared to substantiate Calvi's claim, the Vatican bank furnished a document signed by Archbishop Marcinkus' deputy that acknowledged that the Vatican bank "directly or indirectly" controls the following entities", and gave a list of the eight anonymous companies, and then added "We also confirm our awareness of their indebtedness to subsidiaries of the Banco Ambrosiano". Marcinkus then initialed the document. As part of the deal to get this document, Calvi provided the Vatican bank a letter releasing them from any liability arising from these anonymous companies that had borrowed the missing \$900 million dollars. The key documents pertaining to this arrangement had vanished, along with Calvi. And Calvi was now dead.

As it turned out, Calvi could speak from the grave. In the summer of 1982, a special committee of inquiry in Parliament eerily heard Calvi's posthumous recollections on tape. Flavio Carboni, the Sardinian who had help organized Calvi's escape from Italy, had kept a microphone concealed behind his lapel during his final conversations with Calvi. These tapes had been seized when Carboni was arrested in Switzerland. On them, Calvi rambled on for no less than ten hours. At one point, Calvi recounted a conversation he had with Archbishop Marcinkus, claiming to have warned him "Be careful... If it comes out that you gave money to Solidarity, there won't be one stone of the Vatican left standing ." (He was referring to the Polish labor union movement which helped undermine the Soviet Union's control of Poland.)

Archbishop Marcinkus meanwhile stone-walled Italian regulators, stating that Calvi was the sole author of the machinations. Italian authorities then issued subpoenas, but they were returned unopened on the basis that the Vatican was not subjects to the laws of Italy. Finally, on August 6th 1982, the Minister of Finance, Beniamino Andreatta, ordered the Banco Ambrosiano liquidated and all its assets turned over to a new consortium of banks. The Vatican's controlling bloc of stock in the bank was worthless. The missing \$1.2 billion was never recovered.

"You can't run the church on Hail Marys alone", Archbishop Marcinkus told me when I asked him in 1983 about the transfer of the money. He said he knew none of the details of the transactions. According to him, the Pope had entrusted two lay bankers with this task: Sindona, who was the Pope had met with personally, and Calvi. "They, and they alone,know" he added. Calvi was dead, but Sindona was in prison in the United States.

I went to see Sindona in Otisville Federal Prison in upstate New York in April 1984. Born in Patti, Sicily in 1920, and educated by Jesuit priests, by the time he was forty-three, he had

become one of the most successful financiers in Europe and the principal financial advisor to the Vatican. Then, in March 1979, he was indicted by a US federal grand jury on charges of fraud proceeding from his 1972 take over of the Franklin National Bank. Although released on bond, he was required to remain in New York. Sindona instead staged his own kidnapping and fled in disguise to Italy. When arrested three months later, he was tried, convicted, and sentenced to 25 years in prison.

When I met him in the Otisville prison visiting room, the grey-haired financier appeared frail and nervous. After asking me to buy him a vanilla ice cream, we began the one-hour interview. He came right to the point, saying he only did what Pope Paul had instructed him to do: shift the Vatican's Italian assets to tax-free off-shore havens. When I asked him about anonymous entities named "Suprafin," "Zitropo" and "Manic," he said they themselves were merely vehicles to hide the transfers of money. It was, as he described it, purely a money laundering scheme, which he said was "legal" because the Vatican was sovereign. With the help of Calvi, the money was deposited in dozens of letter-box companies, which then borrowed against them from the Banco Ambrosiano, and sent the proceeds to other offshore entities.

If so, why couldn't the funds be recovered? He answered that the Vatican with Calvi's help had used these funds to make "questionable investments." As an example, he cited the Vatican's attempt to buy control of Rizzoli, which owned Italy's largest newspaper, the *Corriere della Sera*. "I don't know how much was lost," he said, because by then he was no longer advising the Vatican.

He claimed to know nothing about Calvi's death, but added, as I was leaving the room, that he might have a similar fate if he was ever sent back to Italy. It was the last time I saw Sindona. On September 25, 1984, he was extradited to Italy, and on March 18, 1986 he died in a prison in Rome from a dose of cyanide in his coffee, a death ruled a suicide.

[3]

The Masonic Swindle

When Calvi was arrested the year before his death in Milan, it was on a questionable technicality that occurred a decade earlier. His bank had arranged some currency legal transfer in 1971 that, were held by a magistrate to violate a retroactive 1976 foreign exchange law. Along with Calvi, six other former and present executives of the Banco Ambrosiano were arrested. Mass arrests of bankers by magistrates on technical offenses had by the 1980s become a common even in Italy. Calvi spent 2 months in the medieval Lodi prison. On getting out, Calvi was determined to pay whatever needed to be paid to get political protection against future imprisonment. "It is a question of surviving in a climate that is becoming like a religious war." He said in a newspaper interview. "It is an atmosphere that favors every sort of barbarism."

The person who offered Calvi such protection in this "religious war" was Licio Gelli. A mattress spring manufacturer and poet from Arezzo, Gelli claimed to run one a powerful web of influence in the form of a Masonic Lodge in Rome called Propagandi Due, or P-2. This secret society, according to a 64 volume investigation by a Commission of the Italian Parliament, included 43 members of Parliament, 48 generals, the heads of Italy's intelligence service, the top magistrates in the judiciary system, the civil servants running various state-owned enterprises (including the energy company ENI), key bank regulators and leading businessmen. The report concluded P-2 was a veritable a "state within a state." The Commission had come to

these conclusions largely based on the files of Gelli and his close associates, but most of those named in them denied any such membership in Gelli's secret lodge. Nor did his P-2 lodge ever hold meetings or conduct ordinary Masonic business, as is prescribed by Freemasonry. Whether any of powerful individuals were actually members of P-2, or whether the lists were part of a con game staged by Gelli, as long as people believed it existed, it provided a highly-profitable clearing-house for businessmen interested in buying influence or protection from government officials. For these transaction, Gelli acted as the go-between, deal-maker and record-keeper. In Calvi's case, Gelli extracted a heavy price from Calvi for arranging political protection (which, as it turns out, was never delivered.)

In accordance with Gelli's instructions Calvi transferred \$21 million to a South American bank. Supposedly, Calvi later told three magistrates investigating the P-2 lodge, Gelli was funneling the money through intermediaries to top officials of Italy's Socialist Party who presumably would intervene with bank regulators on the behalf of the Banco Ambrosiano. There were also much larger diversions that he elected not to tell the magistrates about. In 1982, Juerg Heer, the executive director of the credit section of Zurich's powerful Rothschild Bank, witnessed some extraordinary transfers from Calvi's Luxembourg subsidiary to a Gelli-controlled corporate shell in Panama called Bellatrix. According to Heer, these loans, which amounted to \$142 million, were temporarily deposited by Bellatrix at the Rothschild Bank, which then were used by Bellatrix to buy shares in Rizzoli at ten times their market value from Gelli and his associates. By this trick almost 90 percent of the \$142 million of the Bank Ambrosiano loan went into the pockets of Gelli and his associates, according to Heer. This diversion became so blatant by the Spring of 1982, that the Rothschild Bank director assisting Bellatrix warned Heer, "we have to find a solution or I will end up in Lake Zurich." The solution Heer found was to temporarily put the Bellatrix money into two different accounts at the bank. One was called Zirka; the other Reciota. They both supposedly were controlled by an independent fiduciary agent. Nevertheless, the money was released into other numbered accounts controlled by Gelli, and disappeared. All that Calvi's Luxembourg subsidiary had as collateral was the Rizzoli shares, which were now worth only a small fraction of the money it loaned. Making matters worse for Calvi, Italian law had been changed in 1982 so as block the transfer of these Rizzoli shares to the bank's Luxembourg subsidiary. So Calvi informed Gelli that the Rizzoli deal had not been consummated and that the \$142 million loaned to the Gelli entities still belonged to his bank. According to Calvi's personal assistant, as late as June 1982, Calvi counted on this diverted money as a "reserve fund," and part of Calvi's purpose in secretly slipping out of Italy in 1982 was to get the Bank Rothschild in Zurich to return the Bellatrix money from the numbered accounts. It was a destination he never reached.

The only further instructions Heer received in Zurich came from one of Gelli's associates shortly after Calvi's body was identified. According to Heer, he was requested to carry out a "secret operation." It involved some \$5 million in cash packed in a suitcase which was delivered to him at the Rothschild Bank. The money supposedly had come from one of Gelli's numbered accounts in Geneva. He also received, along with the suitcase, one-half of a \$100 bill. Following Gelli's associate's instructions, he gave the suitcase to two strangers who later arrived at the bank with the matching half of the bill, and who left with the suitcase in an armored limousine.

Less than three months later, on September 13, 1982, Gelli was arrested in Switzerland after making a \$55 million withdrawal from the same numbered account in Geneva. The subsequent

investigation uncovered records showing that this money had come from the money Calvi had diverted through Bellatrix, confirming Heer's account of the Rothschild transactions. (Heer was subsequently sued by the Rothschild Bank for exceeding his authority in arranging these loans, and, as a result, imprisoned for two months.)

Gelli then escaped from the Champ-Dollon Prison outside of Geneva and went to Argentina. In Italy, Gelli was sentenced in absentia to 8 years for financing terrorism in Florence, Italy and another 14 months for money laundering in San Remo. In 1987, Gelli surrendered in Chile and was sentenced to two months in prison in Switzerland. In February 1988, he was extradited back to Italy, accompanied by 2 armored cars and one hundred soldiers, to face trial in Bologna for slander. Although an appeals court threw out his conviction for slander, in 1992 he was convicted and sentenced to 18 years and one-half years for fraud in connection with the diversion of money from Calvi's Banco Ambrosiano. Before he could be imprisoned, he fled to France. By the time he was found on the Riviera, he was over 80, and under Italian law, too old to be imprisoned in Italy. Finally, in 2005, at the age of 86, he was implicated in the murder of Calvi, but acquitted in the trial.

[4]

The Mafia Intervention

Behind every great crime in Italy, there is a theory that the Mafia was behind it. In the realm of fiction, this theory can be found in Francis Ford Coppola's 1990 movie *The Godfather III*. It depicts the hanging of a Calvi-like banker under Blackfriars bridge in London as the work of Mafia killers who carried out this murder on the orders of the Godfather as a favor to corrupt figures in the Vatican. In the realm of the reality, Italian magistrates advanced a similar theory in court based almost entirely the testimony of "pentiti," or ex-Mafia turncoats who, despite their oath of silence, agreed to cooperate with government investigations. One such turncoat was Francesco Marino Mannoia, a former member of the Sicilian mafia who had been involved in heroin trafficking and at least 17 murders before his conversion to a government witness. In July 1991, he claimed to have hearsay information about the Calvi case, saying that he had heard from others that Francesco DiCarlo, another imprisoned Mafia hit man, had killed Calvi on orders from a Mafia boss Guiseppe Calo. For his party, DiCarlo, who was imprisoned in Britain for drug trafficking, denied the allegation. Instead, he told the magistrates that although he had been asked to "punish" the banker for squandering Mafia assets, he had refused the order. Then he offered his own hearsay evidence, saying that he had heard that two mafiosos from Naples had killed Calvi, but both men he mentioned were themselves dead.

The obvious problem with "pentiti" hearsay evidence is that it cannot be tested by confronting the source of it. Nor can the pentiti themselves be assumed to be telling the truth since they have powerful incentives, including their freedom, money, and even vengeance, to invent unverifiable stories that assist high-profile prosecutions. On June 6, 2007, after 230 months of hearing such evidence in a prison in Rome, presiding judge Mario Lucio d'Andria, dismissed the charges proceeding from this ex-Mafia testimony on the basis that there was "insufficient evidence" to continue.

[5]

Means, Opportunity, and Motive

The most obvious suspect would be the party responsible for Calvi's protection on the night he was killed, Flavio Carboni. He had organized Calvi's escape, his travels, his forged documents, his bodyguard, and his hotel room at the Chelsea Cloisters. He had also accompanied him in the private plane to London, and was in constant touch with him. So he had opportunity.

He also had arranged Calvi's lone bodyguard, Vittor, who left Calvi unprotected that night. At about 5 pm that afternoon, Carboni, phoned Calvi from the London Hilton, where he was staying and told him to pack his bags since he had arranged for him to move to a flat (which was untrue.) According to Vittor, Carboni arrived at the Chelsea Cloisters in a taxi that evening, and met him at the front desk, but didn't go up to see Calvi, who was waiting for him to move him. Since Calvi was relying on Carboni to hide him, he presumably would have followed whatever instructions Carboni provided, such as getting into a car or even a bridge to await a boat. If so, whether or not he used them, Carboni had the means to get him to Blackfriars bridge without using force.

Carboni also showed what might be construed as consciousness of guilt. Using a pseudonym, he left England by going to Scotland where he had a chartered jet waiting to fly him to Switzerland. (Vittor, also using a pseudonym, took an early morning commercial flight to Austria.)

And Carboni also had a motive: money. He had in his Swiss Bank account in Zurich \$11 million of money he had gotten from Calvi and which Calvi, if he had lived, might have used for his own purposes. More important, Calvi's death also provided Carboni with the contents of Calvi's black attache case. The last time Vittor saw Calvi, he had the bag, but, after his vanishing, the bag disappeared. The value of its content became clear only six years later. An Italian police raid on a smuggling suspect turned up copies of two letters apparently sent by registered mail Cardinal Agostino Casaroli, who then a high-ranking Vatican official. The letters said that the smuggler had advanced to Carboni \$1 million to get from him incriminating documents written by Calvi. Since these documents had come from Calvi's missing black bag, they were bought to the attention magistrate, Mario Almerighi, who was investigating the Calvi affair. When I interviewed Judge Almerighi in Rome, he told me that the Vatican acknowledged to him that a Vatican bishop had written checks for \$2 million to Carboni on Instituto per le Opere di Religione, the Vatican's bank. The magistrate also uncovered a memo in which a Vatican official discussed paying \$40 million to Carboni for other Calvi documents in the black bag. He concluded that these sensitive documents were being used, as he put it to me, "to blackmail the Pope." In tracing the scheme back to June 20, 1982, Judge Mario Almerighi, also found a witness who claimed to see Carboni give envelope to a Vatican official the day after Calvi died. If Carboni believed the Vatican would pay to keep secret the documents Calvi had in his black bag, Calvi might have also been worth a great deal more dead than alive.

Judge Almerighi, a self-styled Sherlock Holmes among investigating magistrates, prided himself on his deductive logic. One clue that caught his attention was the fact that Calvi shaved off the moustache he had worn his entire adult life on the day he was last seen in London by Vittor. "We know he had packed his bags, and was waiting for a car that evening, he had an escape plan," Judge Almerighi said. "Shaving the moustache would be necessary if he was told he was getting a new identity." His reasoning was that he was carefully following instructions when he delivered into the hands of a contract killer at the bridge. His theory of the case which was brought to trial was that Carboni took Calvi's black bag and then betrayed him. Since there

was no actual evidence of the crime, or even that a murder had been committed, Carboni was acquitted in 2005. As a result, the hanging of Calvi remains, three decades later, remains an unsolved crime.

About The Author

Edward Jay Epstein is the author of 15 books, eight of which have been excerpted in the *New Yorker*, *Atlantic*, and *Sunday Times of London*. He received his PhD from Harvard after receiving his master's degree in government from Cornell. His master's thesis on the search for political truth became the best-selling book *Inquest: The Warren Commission and the Establishment of Truth*. His doctoral dissertation on television news was published as *News From Nowhere*. He is the recipient of numerous foundation grants and awards, including the prestigious Financial Times/ Booz Allen prize for both best biography and best business book for his book *Dossier: The Secret History of Armand Hammer*. His books are available in electronic form for Kindle, Nook, and Ipads at his website www.edwardjayepstein.com