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Vatican bank releases financial report amid concerns over transactions

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Vatican City

In a bid for transparency and reform, the Vatican bank openly published a financial report for the first time Tuesday. But the report came amid new accounts of vague withdrawals and deposits made to and by the organization.

The Institute for the Works of Religion (IOR), the formal name for the bank, made the report available on its website [1] as part of a series of reforms started by Pope Benedict XVI and pushed forward this year by Pope Francis.

According to the report, audited by the international firm KPMG, the bank held earnings of 86.6 million euros ($117 million) for 2012, which was more than four times higher than in 2011 largely because of decreasing global interest rates.

The bank, which is privately held and does not manage the Vatican's budget, gave more than 50 million euros ($68 million) of the increase over to the Vatican for its use, the report states.

While the bank and the Vatican have said the report indicates a new step along a continuing process of transparency for the financial institution, Reuters news agency reported Monday [2] that the Vatican's own financial watchdog raised questions in 2011 about how the bank handled accounts held by foreign embassies.

The concerns by the Vatican's Financial Information Authority, Reuters reported, were over large cash deposits and withdrawals to and from the bank by the missions to the Vatican from Iran, Iraq and Indonesia.

Citing sources with knowledge of an investigation by the information authority of the matter, Reuters reported that some of the justifications for the transactions, totaling up to 500,000 euros ($680,000), were vague or disproportionate to their amounts.

Also, according to Italian newspaper *Corriere della Sera*, the bank sent letters closing 900 accounts held by individuals or groups that didn't pass a first round of review related to transparency in the origin or movement of funds. A story published by the paper Tuesday says the bank is closing all accounts held by foreign diplomatic missions. Of the 180 nations that have diplomatic relations with the Vatican, the newspaper said at least 20 have accounts at the bank.

Pope Francis ordered a broad review of the Vatican bank's operations in June, appointing a five-member commission to ensure the bank's activities are in harmony with the mission of the universal church.

In the new report, intended to be released annually, the bank said it had about 18,900 customers at the end of 2012, with religious orders accounting for about half of its client base.

The Vatican's embassies abroad, called nunciatures, accounted for 15 percent of the clients; cardinals, bishops and clergy, 13 percent; dioceses, 9 percent; and the rest split among employees and others.

The ability of the bank to fund religious orders around the world has long been an argument made by proponents as a key purpose.

"It is in the nature of the Catholic church that its institutions, missionary activities and charitable works reach out into parts of the world that are remote, and have very basic infrastructure, often including an underdeveloped banking and payments system," Tuesday's report states.

"For these customers, the IOR is particularly important as a trusted, reliable and effective institution, keeping funds safe for future use or sending funds through correspondent banks to the countries in which they operate."

The five-member commission appointed by Pope Francis to review the way the bank functions holds the status of a pontifical commission. Among its members are two Americans: Mary Ann Glendon, a former U.S. ambassador to the Vatican, and Msgr. Peter Wells, an official at the Vatican's Secretariat of State.

Release of the 100-page annual report for the bank comes as the Vatican and the bank are entering a second round of review by Moneyval, a European agency that monitors for money laundering and financial support of terrorism. Both organizations underwent review by the agency for the first time last year and were found out of compliance in seven of 16 areas.

Since that June 2012 review, the bank and Vatican have faced scrutiny in other areas, including the handling of credit cards services and the case of a Vatican accountant accused of a plot to smuggle millions in cash into Italy.

Credit card services were shut down at the Vatican in January after the Bank of Italy refused to process payments because of concerns about inadequate money-laundering controls. Services were fully restored in May.

Two day-to-day officials of the bank resigned shortly after the former accountant, Msgr. Nunzio Scarano, was arrested for alleged involvement in a plot to smuggle $26 million on behalf of a family of shipping magnates. Scarano also faces a separate criminal investigation related to suspicious movements of funds in his Vatican bank accounts.

As steps for transparency and reform at the bank continue, the pontifical commission has been granted wide authority to review its operations. The members are allowed to obtain documents and information as necessary and are allowed to interview bank personnel.

The Vatican bank, founded in its current form in 1942, traces its roots to the founding of its predecessor by Pope Leo XIII in 1887. It has 114 employees and is based inside Vatican City at the Bastion of Nicholas V.

In a note accompanying Tuesday's report, Ernst von Freyberg, the German-native president of the bank's board of superintendents, says it "has been engaged in a process of far-reaching reform" since April 2011.

"At the IOR, we are working hard on our part of the reform process: improving organization, compliance and transparency," writes von Freyberg, who also is interim director of day-to-day operations, a post he took over in July following the resignation of the bank's director and deputy director.

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