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### **Alves Reis and the Banknote Crisis of 1925**

Following September's article about Manuel Teixeira Gomes, we analyse this month one of the crises which prompted him to resign the Presidency of the Republic.



*Palácio do Menino de Ouro which is now the home of the British Council in Portugal*

Artur Virgílio Alves Reis (his surname is often misrepresented as Alves dos Reis) was a fraudster of immense daring and skill. He hoodwinked Waterlow, the British firm of banknote printers, and began a daring plan to take control of the Bank of Portugal.

It was only by a coincidence that his plan was exposed, and he and his accomplices were apprehended. The banknote scandal was a defining moment in the overthrow of Portugal's First Republic, leading to the eventual introduction of Salazar's dictatorship.

During the eventual appeal in the House of Lords in Britain, a Lord of Appeal declared that it was "a crime for which, in the ingenuity and audacity of its conception, it would be difficult to find a parallel."

### **Early life**

Reis was born in September 1896 into a humble family. His father was an undertaker who, at one point, was bankrupt. After a normal childhood, Reis began a course in engineering, but finding these studies too costly, he withdrew, married and set out for Portuguese Angola. One reason for emigrating was that his social status was lower than that of his wife, and he found the consequent humiliations difficult to bear.

Before he left Lisbon, Reis set about arranging for himself a qualification that would allow him to style himself “*Senhor Engenheiro*”, a valuable qualification.

Having no legitimate papers, he forged for himself a diploma (no. 2148) from the Polytechnic School of Engineering of Oxford University. The diploma showed that he had graduated in engineering sciences, geology, geometry, physics, metallurgy, mathematics, pure mathematics, palaeography, electrical engineering, mechanical engineering and applied mathematics, chemistry, applied engineering, general engineering and mechanical and civil design.

The diploma was purportedly signed by Henry Spooner, Director of the Polytechnic, and by John D. Peel, Chancellor of the University. Since the Portuguese administrative system often requires official documents to be validated by a notary, Reis arranged to have his forged diploma notarised, and it became his passport to paid employment in Angola.



*Alves Reis*

## **Life in Angola**

With his new wife and the new diploma, Reis emigrated in 1916. His boundless self-confidence and forged diploma soon won him a post with the Department of Public Works. He also took a second job as Supervising Engineer at the main railway repair workshop (this second day job from 05h00 to 09h00 in the early morning).

At the railway workshop, he set about the restoration of locomotives which his colleagues thought beyond repair. Unlike other supervisors, he worked on the machines himself, getting his hands dirty.

He persuaded the authorities to buy extra locomotives from the USA and proved that these engines were not too heavy for Angola's bridges. He demonstrated this proof by steaming over the most suspect bridges accompanied by his wife and baby on the footplate.

Promoted to Inspector of Public Works and Acting Chief Engineer in 1918 (he was only 22 years old), he soon resigned these posts and set up as an importer, where he made good profits.

## **Return to Lisbon**

Deciding in 1922 that it was time to return to Lisbon, Reis opened an import/export company to do business with Angola. Although in some financial difficulty, he bought control of Angolan Ambaca Railway Company, principally to get hold of the loan made by the Portuguese government to that business. He then embezzled that money to buy the Angola Mining Company. His fellow Ambaca directors prosecuted him, and he was jailed in Porto in July 1924.

## **Background to the plan**

While he was in gaol, Reis conceived a plan to get rich quick. He studied the arrangements and laws concerning the issuing of banknotes by the Bank of Portugal (BofP). He discovered that most of the shares of the Bank were privately held, and that dividends were paid to shareholders.

He also calculated that 300 million escudos in counterfeit notes could be inserted into Portugal's economy without drawing official notice. The key to this plan was forging a contract between BofP and a firm of specialist banknote printers.

Reis needed accomplices. First was José Bandeira, a petty criminal whose brother António happened to be Portuguese Ambassador in The Hague. Adolf Hennies was a native of Germany but had become Swiss and had profiteered in Germany during WW1; he had also speculated profitably in munitions for Poland. Third was Karel Marang, who had made money out of supplying foodstuffs to Germany during the war. He had adopted the snobbish name van Ysselveere, had bought a Liberian diplomatic passport and was also honorary consul for Persia.

These diplomatic connections made him a useful frontman.

### **The plan itself**

The crux of Reis' master plan was to persuade his accomplices and the printer that financiers had agreed to advance £1.3 million (in escudos) to the bankrupt colony of Angola, and that the BofP had agreed that the financiers might issue banknotes up to that value.

Reis needed to persuade his collaborators and the printer that strict secrecy was necessary, and that he was the sole intermediary between the printer and the BofP. Only Reis himself understood the full ramifications of his scheme.

To implement his plan, Reis first acquired official government-stamped paper, drew up a spurious contract for the loan to the colony of Angola, and had it notarised; the notarised signature was duly recognised by the British, German and French consulates with their impressive seals.

He then had the contract retyped in Portuguese and French in parallel columns; secretly forged the signatures of the High Commissioner of Angola and the Minister of Finance; and then bound in the notarisations from the original contract with tape and sealing wax.



*Crowds rush to exchange banknotes on December 8, 1925 at Bank of Portugal, Lisbon*

## **Contact with Waterlow**

Reis originally aimed to use German printers for the banknotes, but the runaway inflation in Germany had damaged their reputation; a Dutch firm also refused the contract. But this Dutch printer gave to Marang a personal introductory note to Sir William Waterlow, Managing Director of Waterlow and Co., the company which BofP employed to print its notes.

In accepting this business, Sir William relied on his own judgement, and failed to involve other members of his printing firm – in other words, he was operating secretly within his own business. He ignored warnings from a staff member that the whole affair was irregular, since only the Banco Nacional Ultramarino had authorisation to issue banknotes in Angola.

On a second counterfeit contract, Reis forged the signatures of the Governor and Deputy Governor of the BofP and bound them to the original contract with its notarised signatures and the seal of the Portuguese Republic. Sir William accepted this order to print notes of 500 escudos featuring an image of Vasco da Gama. These banknotes were subsequently known as Vasco da Gama notes.

Sir William wrote a letter of confirmation to the Governor of BofP via José Bandeira, which, of course, was never delivered. Reis made errors, since he gave instructions that Directors' signatures should alternate every 10,000 notes where Bank policy alternated them every 20,000; and, secondly, he made a mistake in the numbering, and some notes bearing his numbers were already in circulation. This mistake would be costly.

## **The notes are delivered**

In February 1925, Marang took delivery in London of the first batch of 20,000 notes in a specially-made valise. Using the diplomatic privilege of Persia, he took these notes first to The Hague, and then to Lisbon. In March, Marang brought another 30,000 notes to Lisbon; and Hennies brought 20,000 more.

With 70,000 notes in the country, the next job was to insert them into circulation. Reis sent his secretary Ferreira and Bandeira to Porto, where they paid a commission to freelance currency dealers to buy currency on the black market using these new notes.

Secondly, he sent the three accomplices to open accounts at banks in other Portuguese cities by depositing the new notes. When examined, these new notes were passed as genuine – as indeed they were, although unauthorised by the BofP. Once these accounts had been established, Reis withdrew genuine old notes at the head offices of those banks.

## **Spending their riches**

Reis had become rich. For £10,000, he bought a new house in Lisbon, the Palácio do Menino de Ouro, which is now the home of the British Council in Portugal. It had a huge safe in the

library, where Reis stored many of the new notes. He began to acquire more real estate, and to buy into Angolan corporations.

In June 1925, he founded the Bank of Angola and Metrópole with headquarters in central Lisbon, and he began to buy shares in the BofP itself. When he had gained control of the Bank, he would be able to disguise his deceptions and frauds and issue banknotes at will.

José Bandeira also began to spend lavishly. He bought three *quintas* (farms) from impoverished owners and invested in various businesses – taxis, a shirtmaker and a barber's. He employed a chauffeur to drive his Hispano Suiza, and was extremely generous to his mistresses, both past and present.

### **Further forgery**

By this time, Reis had learned that the numbering on some of his notes was not consistent with BofP policy, and he hid these falsely numbered notes in the safe at the Palácio. They were too valuable to discard, however, and he unsuccessfully tried to disguise their inky smell.

Failing to make use of them, Reis now ordered another 380,000 notes, making yet another mistake over the name of a director of the Bank, a mistake which Waterlow pointed out and corrected. Reis bribed the Venezuelan Ambassador to Portugal to bring parcels of the new Vasco notes to Portugal within his diplomatic baggage.

Reis knew that he needed 45,000 shares to take a controlling interest in the BofP, but also knew that the law prohibited secondary banks from buying BofP shares. He instructed Bandeira to use brokers to buy them, but this sudden interest nearly doubled the share price from £8 to £14, making them difficult to buy and, by September, Reis had managed to accumulate only 7,100 shares.

### **Reis in Angola again**

The economic activity consequent on Reis and his activities led to a rise in the value of the escudo both in Portugal and in Angola. In October 1925, Reis sailed for Angola, where he was considered the saviour of the Angolan economy. He bought interests in several companies and over half a million hectares of land.

At the end of November, he boarded ship to return to Lisbon.

### **Detection**

In early 1920s Portugal, financial crises were a common occurrence. No fewer than five banks collapsed, a striking contrast with the apparent wealth of the Bank of Angola and Metrópole.

The press began to ask why Reis' bank was so flush, when everyone else was in difficulty and, more particularly, it posed questions over Reis' past and his suitability as a director of a bank.

Alerted by newspaper stories, a teller working for a money changer in Porto started the avalanche which would sweep away the Reis edifice.

He had become suspicious of all these new 500-escudo notes. A BofP team went from Lisbon to Porto, but at first could find nothing wrong.

One team member began to examine the numbers on the banknotes themselves, and eventually stumbled on a pair of notes bearing exactly the same number.

Warned aboard ship on December 7 that the game was up, Reis decided to brazen it out, and he and his accomplices were arrested as they landed. The Bank decided to recall all Vasco da Gama notes in circulation.

### **The court case in Portugal**

Although Reis insisted that he had acted on the orders of the Governor and Deputy Governor of the Bank, the apartment of the Venezuelan Ambassador was raided, and 85,000 of the Vasco da Gama notes were found; the Palácio was also raided, the safe opened, and more Vasco da Gama notes discovered.

Reis, Bandeira and Marang were tried, while Hennies escaped to Germany under a different name. At his Portuguese trial in 1930, Reis suddenly confessed to everything and was sentenced to eight years' imprisonment, subsequently increased to 15; Bandeira and Marang were also jailed. Reis became religious in prison and was released in 1945, and 10 years later died in poor circumstances.

As the impact of this scandal on Portugal's financial reputation became clear, the press made demands for radical changes to make such crimes impossible. Four days after the arrests, on December 11, Teixeira Gomes, the President of the Republic, resigned in disgust and, six months later, on May 28, 1926, the First Republic was overthrown after yet another military uprising.

### **The court case in England**

The BofP sued Waterlow for negligence, and the judge found in favour of the Bank, awarding £581,851 in damages and costs; the total award increased to £705,392 after the Bank's successful appeal to the House of Lords in April 1932. Sir William never knew the total loss to his company since he had died of peritonitis the year before.

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**Peter Booker**

Peter Booker co-founded with his wife Lynne the Algarve History Association.

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