

SECOND DIVISION

[G.R. No. 166726, November 25, 2019]

EQUITABLE PCI BANK^[1] (FORMERLY INSULAR BANK OF ASIA & AMERICA/PHIL. COMMERCIAL AND INDUSTRIAL BANK^[2]), PETITIONER, VS. MANILA ADJUSTERS & SURVEYORS, INC.,^[3] ILOCOS SUR FEDERATION OF FARMERS COOPERATIVE, INC., ESTATE OF NG YEK KIONG AND ERNESTO COKAI, RESPONDENTS.

DECISION

HERNANDO, J.:

This is a Petition for Review on *Certiorari* under Rule 45 of the Rules of Court challenging the August 31, 2004 Decision^[4] and January 5, 2005 Resolution^[5] of the Court of Appeals (CA) in CA-G.R. CV No. 54738, affirming with modification the November 10, 1995 Decision^[6] of the Regional Trial Court (RTC) of Manila, Branch 7, in Civil Case No. 100783 which dismissed the Complaint for replevin and damages filed by respondent Ilocos Sur Federation of Farmers Cooperatives, Inc. (Federation).

The Antecedents

On June 27, 1975, the Federation and the Philippine American General Insurance Co., Inc. (Philam), represented by its adjuster, Manila Adjusters and Surveyors, Company (MASCO), executed a Deed of Sale^[7] involving salvaged fertilizers which were stored in warehouses in San Fernando, La Union. The agreement provided that the Federation would pay for the stocks of fertilizers in installments in accordance with an agreed schedule for the total amount of P5,159,725.00. Moreover, the Federation would be accountable for the storage and warehousing charges. The Federation was also required to open an irrevocably confirmed without recourse Letter of Credit (LOC) amounting to P1,000,000.00 which will be forfeited in favor of MASCO in case of the Federation's non-compliance with the terms and conditions of the contract.

Apparently, the Federation already availed of Domestic LOC No. D-75126^[8] dated June 23, 1975 from petitioner Equitable PCI Bank (Bank) (then Insular Bank of Asia & America), with a face value of P1,000,000.00 in favor of MASCO. The said LOC was amended^[9] on June 26, 1975 to extend its expiry date from July 23, 1975 to October 22, 1975. Likewise, the LOC shall be drawable by MASCO upon its submission to the Bank of a certification that the Federation failed to comply with the terms and conditions of the sale.^[10] According to the Bank, the following documents were needed to claim from the LOC: "(1) letter of default and demand for payment of the proceeds of the [LOC]; (2) the original copy of the [LOC]; (3) the original copy of the advice of [LOC] amendment extending the expiry date; (4) the

original of the draft drawn with the Bank; and 5) the certification of default."^[11]

Incidentally, the Federation only managed to pay the first installment of P300,000.00 and part of the second installment amounting to P200,000.00 out of the total amount of P5,159,725.00. Although the Federation also tendered a personal check amounting to P259,725.00, the same bounced due to insufficient funds. Thus, apart from its total previous payment of P500,000.00, the Federation no longer made additional payments. MASCO demanded payment from the Federation but it failed to settle its accountabilities.

On October 8, 1975, the date when the last installment became due, MASCO, through its President and General Manager, Dominador Tiongco (Tiongco), wrote a letter^[12] to the Federation informing the latter of its (Federation's) failure to fulfill its obligations. MASCO likewise signified its resolve to demand for the proceeds of the LOC from the Bank. Thereafter, MASCO allegedly sent to the Bank the following: a letter-claim^[13] dated October 8, 1975 addressed to the Bank expressing MASCO's intent to draw from the LOC; the original copy of LOC No. D-75126; the original copy of the advice of LOC amendment dated June 26, 1975 (which extended the original expiry date); the original of the draft drawn with the Bank; and the certification of default. The letter-claim and documents were purportedly personally delivered by MASCO's cashier to the Bank's branch manager. However, the Bank refused to pay MASCO the proceeds of the LOC.

In view of these, on January 9, 1976, the Federation filed a Complaint^[14] for replevin with damages dated December 18, 1975 against MASCO and Philam before the then Court of First Instance (CFI) of Manila which was raffled to Branch VII thereof. The Federation asked to be placed in physical possession and control of around 180 bags of fertilizers, in light of the parties' prior sale agreement. The Complaint was subsequently amended^[15] to include the alleged violation of MASCO and Philam of the contract of sale as an added cause of action. The Complaint was again amended^[16] to implead the Bank as a party defendant to enjoin it from paying the LOC it issued in favor of MASCO, and Ng Yek Kiong and Ernesto Cokai as third-party defendants.

In its Answer with Counterclaim and Cross-Claim,^[17] the Bank denied receipt of the letter-claim dated October 8, 1975, as well as the documents attached thereto. Likewise, it filed a cross-claim against MASCO contending that the latter failed to present to the Bank the draft under the LOC. In addition, the Bank filed a Third-Party Complaint^[18] against Ng Yek Kiong and Ernesto Cokai for indemnity based on surety agreement in which the latter bound themselves jointly and severally to indemnify the Bank up to P1,000,000.00 in connection with the LOC.

MASCO, in its Answer^[19] to the Bank's cross-claim, filed a counterclaim against the Bank for the payment of the proceeds of the LOC and for damages.

During the proceedings, the Federation and MASCO jointly submitted a Partial Stipulation of Facts^[20] which provided that after the Federation's default, MASCO duly and timely filed a claim against the LOC with then Insular Bank of Asia & America.^[21] Interestingly, the Federation did not present additional proof but opted to rely on the said stipulations. MASCO's witnesses identified the Partial Stipulation

of Facts and its letter-claim dated October 8, 1975 addressed to the Bank along with the required documents wherein it claimed for payment of the proceeds of the LOC considering the Federation's failure to comply with the terms of the sale.

Nevertheless, the Bank denied receipt of the letter-claim dated October 8, 1975. It further averred that it received instructions from the Federation not to release the proceeds of the LOC to MASCO since it (MASCO) supposedly violated the terms and conditions for the issuance of the same.

Meanwhile, in another case filed by Ng Yek Kiong against the Bank docketed as Civil Case No. 99661^[22] with the CFI of Manila, Branch XVI, an injunctive order was issued on February 18, 1976 which, as the Bank alleged, prevented it from paying the proceeds of the LOC. The said injunction was eventually dissolved by the Supreme Court in G.R. No. L-44126^[23] which was promulgated on February 28, 1977.

In any case, the Federation's Complaint was dismissed for lack of interest on the part of the plaintiff (Federation) and for failure to prosecute. Nonetheless, the proceedings as regards the counterclaim of MASCO against the Federation as well as the cross-claim of the Bank against MASCO (and the counterclaim of MASCO against the Bank) ensued.^[24]

Tiongco testified that MASCO executed a Deed of Sale sometime in June 1975 covering approximately 75,000 bags of salvaged fertilizer in favor of the Federation. He confirmed that the LOC was issued by then Insular Bank of Asia and America. He reiterated that out of the eight installment payments, the Federation only paid the first installment and part of the second installment. For this reason, MASCO repeatedly demanded from the Federation to pay according to the installment schedule yet the latter failed to do so. Because of the Federation's default, in October 1975 or when the last installment became due, MASCO was constrained to file a claim on the proceeds of the LOC from the Bank.^[25]

Tiongco averred that MASCO wrote a letter-claim to the Bank and appended the required documents in order to properly claim from the LOC.^[26] He specified that he instructed MASCO's cashier, Antonio Jimenez (Jimenez), to personally deliver the required documents to the Bank's manager. Yet, even after receipt of the claim, the Bank did not release the proceeds of the LOC. Additionally, he insisted that the Bank received the letter-claim dated October 8, 1975 and even pointed out the written date of receipt by the Bank's representative in MASCO's receiving copy of the letter-claim.^[27] Regardless, Tiongco admitted that he did not personally see or meet the individual who received the documents in behalf of the Bank and that he relied on Jimenez's word that he (Jimenez) delivered everything to the Bank.^[28]

Carlos Macazo, the Bank's Account Officer Assistant, stated that the Federation instructed the Bank not to pay MASCO because of its violation of the provisions of the Deed of Sale. He explained that non-compliance with the terms and conditions will result in the cancellation of the LOC. He added that based on the Bank's records, MASCO failed to present the draft of the Federation drawn under the LOC.^[29] Notwithstanding this, he stated that the Bank could not locate the written instruction of the Federation not to release the LOC's proceeds because there was no smooth

turnover of documents during the Bank's merger.^[30]

Andronico Uy, an officer of the Bank, asserted that documents for reception of the Bank should pass through a metered machine and the date and time of receipt should be stamped on the document and then signed by the Bank's clerk.^[31] Thus, it was the Bank's position that it could not have received MASCO's claim since there was no indication that it passed through the said machine.

The Ruling of the Regional Trial Court

In the November 10, 1995 Decision,^[32] the RTC held that the Federation did not comply with the terms and conditions of the Deed of Sale, since it failed to pay the entire sum of P5,159,725.00. On the other hand, the trial court found that MASCO properly filed its claim against the LOC with the Bank. It further found that the Federation and the Bank did not present sufficient evidence to overturn the said facts. Thus, the dispositive portion of the trial court's Decision reads:

WHEREFORE, and considering the foregoing, judgment is hereby rendered as follows:

1. The Complaint of plaintiff Ilocos Sur Federation of Farmers Cooperatives, Inc. is hereby dismissed. Said plaintiff Ilocos Sur Federation is hereby ordered to pay defendant Manila Adjusters & Surveyors, Inc. relative to [its] counterclaim, the storage fee of P80,000.00 plus interest thereon every year from the filing of the counterclaim until paid plus the sum of P50,000.00 as and for attorney's fees.
2. The cross-claim of cross-plaintiff Insular Bank of Asia and America, now Philippine Commercial and International Bank, is dismissed. Said cross-plaintiff Philippine Commercial and International Bank is ordered to pay defendant Manila Adjusters & Surveyors, Inc. regarding the latter's counterclaim, the face amount of the Letter of Credit of One Million (P1,000,000.00)[,] Pesos (sic), plus 12% interest per year from October 8, 1975 until paid and attorney's fees of P50,000.00.
3. Regarding the bank's counterclaim against plaintiff Ilocos Sur Federation of Farmers Cooperatives, Inc. and the bank's Third-Party complaint against Ng Yek Kiong and Ernesto Cokai, plaintiff Ilocos Sur Federation of Farmers Cooperatives, Inc. is ordered to indemnify the Philippine Commercial and International Bank whatever amounts that the bank shall pay the Manila Adjusters and Surveyors, Inc. in connection with the latter's judgment against the bank. Third-party defendants Ng Yek Kiong and Ernesto Cokai are adjudged jointly and severally liable with the plaintiff in favor of the bank up to the limit of their surety agreement of One Million (P1,000,000.00) Pesos.

SO ORDERED.^[33]

The Bank asked for a reconsideration^[34] but was denied in an Order^[35] dated March 4, 1996. Thus, the Bank appealed to the CA.

The Ruling of the Court of Appeals

The CA, in its assailed August 31, 2004 Decision,^[36] affirmed the RTC's findings and likewise found that MASCO complied with the conditions to claim the proceeds of the LOC upon presentation of the required documents to the Bank. Moreover, it ruled that MASCO was entitled to an award of interest based on Article 2209^[37] of the Civil Code. Since MASCO strictly complied with the terms of the LOC, it was legally entitled to payment and interest at the rate of 12% *per annum*. The appellate court noted that the Bank failed and refused to pay MASCO upon the instruction of the Federation because MASCO allegedly violated the terms and conditions of the Deed of Sale and the LOC. Notwithstanding this, it held that MASCO was not entitled to attorney's fees as such cannot be recovered as part of damages considering the policy that no premium should be placed on the right to litigate. The dispositive portion of the CA's assailed Decision reads:

WHEREFORE, the foregoing considered, the instant appeal is hereby **GRANTED** and the assailed [RTC] decision is **MODIFIED** with the deletion of the award of attorney's fees with respect to appellant bank. The [RTC] decision is affirmed in all there respects.

No costs.

SO ORDERED.^[38]

The Bank filed a motion for reconsideration which was denied by the CA in a Resolution^[39] dated January 5, 2005. Discontented, the Bank elevated^[40] this case before Us and raised the following Issues:

(A) WHETHER OR NOT THE COURT OF APPEALS ERRED IN NOT HOLDING THAT STRICT COMPLIANCE IN THE HANDLING OF DOCUMENTS IN A LETTER OF CREDIT TRANSACTION IS NECESSARY.

(B) WHETHER OR NOT INTEREST IS DUE DURING THE TIME INJUNCTION WAS ISSUED AND PRIOR TO THE REVERSAL THEREOF BY THIS HONORABLE COURT.^[41]

In its Amended Petition for Review,^[42] the Bank cited the following grounds:

Whether or not the Court of Appeals failed to cite evidence to support its conclusion that petitioner Bank was liable under the letter of credit[.]

Whether or not petitioner Bank can be held liable for payment of interest despite existence of an injunctive order that prevented it from paying[.]
^[43]

Thus, the main issue is whether or not MASCO submitted the required documents for it to be allowed to draw from the proceeds of the LOC from the Bank.

The Ruling of the Court

The petition is unmeritorious.