

SECOND DIVISION

[G.R. No. 192371, January 15, 2014]

LAND BANK OF THE PHILIPPINES, PETITIONER, VS. EMMANUEL OÑATE, RESPONDENT.

D E C I S I O N

DEL CASTILLO, J.:

This Petition for Review on *Certiorari*^[1] assails the December 18, 2009 Decision^[2] of the Court of Appeals (CA) in CA-G.R. CV No. 89346, which affirmed with modification the May 31, 2006 Decision^[3] of the Regional Trial Court (RTC), Branch 141, Makati City. The RTC dismissed the Complaint^[4] for Sum of Money, which petitioner Land Bank of the Philippines (Land Bank) filed against respondent Emmanuel C. Oñate (Oñate), and ordered Land Bank to return the amount of P1,471,416.52 it unilaterally debited from his accounts. On separate appeals by both parties, the CA affirmed the RTC Decision with modification that Land Bank was further ordered to pay Oñate the sums of P60,663,488.11 and US\$3,210,222.85 representing the undocumented withdrawals and drawings from his trust accounts with 12% *per annum* interest compounded annually from June 21, 1991 until fully paid.

Also assailed is the CA's May 27, 2010 Resolution^[5] denying Land Bank's Motion for Reconsideration.^[6]

Factual Antecedents

Land Bank is a government financial institution created under Republic Act No. 3844.^[7] From 1978 to 1980, Oñate opened and maintained seven trust accounts with Land Bank, more particularly described as follows:

Trust Account No.	Date Opened	Beginning Balance
01-014	09.07.78	P 250,000.00 ^[8]
01-017	11.16.78	1,312,896.00 ^[9]
01-024	02.23.79	900,000.00 ^[10]
01-075	10.08.79	500,000.00 ^[11]
01-082	10.25.79	200,001.00 ^[12]
01-089	03.18.80	43.98 ^[13]
01-125	03.13.80	188,161.00 ^[14]

Each trust account was covered by an Investment Management Account (IMA) with

Full Discretion^[15] and has a corresponding passbook where deposits and withdrawals were recorded. Pertinent portions common to the IMAs read:

You [Land Bank] are appointed as my agent with full powers and discretion, subject only to the following provisions:

1. You are authorized to hold, invest and reinvest the Fund and keep the same invested, in your sole discretion, without distinction between principal and income, in any assets which you deem advisable, without being restricted to those of the character authorized for fiduciaries under any present or future law.

2. You shall have full power and authority:

- (a) to treat all the Fund as one aggregate amount for purposes of investment, and to deposit all or any part thereof with a reputable bank including your own commercial banking department;
- (b) to pay all costs, expenses and charges incurred in connection with the administration, preservation, maintenance and protection of the Fund and to charge the same to the Fund;
- (c) to vote in person or by proxy on any stocks, bonds or other securities held by you, for my/our account;
- (d) to borrow money for the Fund (from your banking department or from others) with or without giving securities from the Fund;
- (e) to cause any asset of the Fund to be issued, held or registered in your name or in the name of your nominee, or in such form that title will pass by delivery, provided your records shall indicate the true ownership of such assets;
- (f) to hold the Fund in cash and to invest the same in fixed income placements traded and sold by your own Money Market Division; and
- (g) to sign all documents pertinent to the transaction which you will make in behalf of this Account.

3. All actions taken by you hereunder shall be for my account and risk. **Except for willful default or gross misconduct**, you shall not be liable for any loss or depreciation in the value of the assets of the Fund arising from any cause whatsoever.

4. You shall maintain accurate records of all investments, receipts, disbursements and other transactions of the Account. Records relating thereto shall be open at all reasonable times to inspection and audit by me either personally or through duly authorized representatives. Statements consisting of a balance sheet, portfolio analysis, statement of

income and expenses, and summary of investment changes are to be sent to me/us quarterly.

I/We shall approve such accounting by delivering in writing to you a statement to that effect or by failure to express objection to such accounting in writing delivered to you within thirty (30) days from my receipt of the accounting.

Upon your receipt of a written approval of the accounting, or upon the passage of said period of time within which objections may be filed, without written objections having been delivered to you, such accounting shall be deemed to be approved, and you shall be released and discharged as to all items, matters and things set forth in such accounting as if such accounting had been settled and allowed by a decree of a court of competent jurisdiction, in an action or proceeding in which you and I were parties.^[16] (Emphasis supplied)

In a letter^[17] dated October 8, 1981, however, Land Bank demanded from Oñate the return of P4 million it claimed to have been inadvertently deposited to Trust Account No. 01-125 as his additional funds but actually represents the total amount of the checks issued to Land Bank by its corporate borrowers as payment for their pre-terminated loans. Oñate refused. To settle the matter, a meeting was held, but the parties failed to reach an agreement. Since then, the issue of “miscrediting” remained unsettled. Then on June 21, 1991, Land Bank unilaterally applied the outstanding balance in all of Oñate’s trust accounts against his resulting indebtedness by reason of the “miscrediting” of funds. Although it exhausted the funds in all of Oñate’s trust accounts, Land Bank was able to debit the amount of P1,528,583.48 only.^[18]

Proceedings before the Regional Trial Court

To recoup the remaining balance of Oñate’s indebtedness, Land Bank filed a Complaint^[19] for Sum of Money seeking to recover the amount of P8,222,687.89^[20] plus interest at the legal rate of 12% *per annum* computed from May 15, 1992 until fully paid. Pertinent portions of Land Bank’s Complaint reads:

5. By virtue of the Deeds of Revocable Trust executed on January 9, 1989^[21] [sic] and February 5, 1989^[22] [sic] by Philippine Virginia Tobacco Administration (PVTA) and Philippine Virginia Tobacco Board (PVTB), LANDBANK likewise became a Trustee of certain funds belonging to PVTA and PVTB.

6. As authorized under the [Deeds] of Revocable Trust, on October 10, 1980, LANDBANK invested P4 Million of the trust accounts of PVTA and PVTB, through a direct lending scheme to the following companies:

(a) Republic Telephone Company, Inc. (RETELCO), under Promissory Note No. 1145 dated October 10, 1980, for P1,021,250.00 with maturity date on November 24, 1980,

subject to automatic roll-over up to October 10, 1981 at 17% interest per annum.

(b) Philippine Blooming Mills Company, Inc. (PBM), under Promissory Note (unnumbered) dated October 10, 1980, for P1,021,250.00, with maturity date on November 24, 1980, subject to automatic roll-over up to October 10, 1981, at 17% interest per annum;

(c) Cheng Ban Yek (CBY), under Promissory Note (unnumbered) dated October 10, 1980, for P1,023,138.89, with maturity date on November 28, 1980, subject to automatic roll-over up to October 10, 1981, at 17% interest per annum;

(d) Philippine Tobacco Filters Corporation (PHILTOFIL), under Promissory Note (unnumbered) dated October 10, 1980, for P1,021,250.00, with maturity date on November 24, 1980, subject to automatic roll-over up to October 10, 1981, at 17% interest per annum.

x x x x

7. Pursuant to such direct loan transactions granted to the aforementioned companies, LANDBANK issued four (4) cashier's checks for P1 Million each payable to RETELCO, PBM, CBY, and PHILTOFIL x x x

8. On or about November 24 and 28, 1980, the aforesaid borrowers (RETELCO, PBM, CBY, AND PHILTOFIL), pre-terminated their corresponding loans and paid their respective obligations in the form of checks payable to LANDBANK and delivered by [Oñate's] representative, Mr. Eduardo Polonio.

9. When the checks were delivered, [Oñate] fraudulently misrepresented to LANDBANK that they were [Oñate's] additional capital contribution to his personal trust account. On the basis of this misrepresentation, LANDBANK credited the payments made by the aforementioned corporate borrowers to [Oñate's] Trust Account No. 01-125.

10. After the payments were credited to his personal trust account, Oñate proceeded to withdraw the same, to the damage and prejudice of LANDBANK as the owner thereof.^[23]

In his Answer (With Compulsory Counterclaim),^[24] Oñate asserted that the setoff was without legal and factual bases. He specifically denied any knowledge or involvement in the transaction between Land Bank and its clients Philippine Virginia Tobacco Administration (PVTA) and Philippine Virginia Tobacco Board (PVTB). He also denied that he made fraudulent misrepresentation to induce the bank to deposit to his Trust Account No. 01-125 as his additional capital the payments allegedly tendered by the bank's corporate borrowers. He maintained that all the funds in his

accounts came from legitimate sources and that he was totally unaware of and had nothing to do with the alleged "miscrediting." While Oñate admitted having received the October 8, 1981 demand letter, he argued that he did not acquiesce thereto and, in fact, disputed the same during a meeting with an officer of Land Bank. He also refuted Land Bank's claim that it formally demanded for the return of the disputed amount as the September 3, 1991 letter^[25] it alluded to is not a demand letter. It was sent in response to his counsel's letter requesting for an accounting of his trust accounts.

By way of compulsory counterclaim, Oñate pointed out that per Balance Sheets^[26] as of June 30, 1982 the funds in his trust accounts already totaled P35,555,464.78. And as of January 1993, the accumulated balance of his accounts reached P229,222,160.25 and \$3,472,683.94 computed as follows:

With interest at the rate of eighteen percent (18%) compounded every ninety (90) days from the third quarter of 1982 to January, 1993, the trustor's equity of P35,555,464.78 has earned **interest** in the amount of **P193,666,695.47**. Adding the trustor's equity to the aforesaid accrued interest thereon, [Oñate's] peso deposits [in] his trust accounts with plaintiff bank have an accumulated balance of **P229,222,160.25** as of **January 1993**.

But that is not all. [Oñate's] dollar deposits to Trust Account No. 01-014 (which is for an "Undisclosed Principal") from the period July-September, 1980 alone, already amounted to \$1,690,943.78. x x x

With interest at the rate of six percent (6%) compounded every ninety (90) days from the first quarter of 1981, the said **dollar** deposits have earned interest of **\$1,781,740.16** up to **January, 1993**. Thus, [Oñate's] dollar deposits [in] Trust Account No. **01-014** have an aggregate balance of **\$3,472,683.94** as of **January 1993**.^[27]

Hence, even if the amount of P8,222,687.89 as of May 15, 1992 is deducted from the outstanding balance of his trust accounts as of January 1993, the bank still owes him P220,999,472.36 on top of his dollar deposits amounting to \$3,472,683.94.

Oñate prayed that a judgment be issued dismissing the Complaint and ordering Land Bank to pay him:

i) The sum of P220,999,472.36, representing the outstanding balance on the peso deposits [of Oñate's] various trust accounts as of January 1993, with interest thereon from said date at the rate of eighteen percent (18%) compounded every ninety (90) days, until the said amount is fully paid;

ii) The sum of \$3,472,683.94, representing the aggregate balance as of January 1993 on [Oñate's] dollar deposits [in] Trust Account No. 01-014, with interest thereon from said date at the rate of six percent (6%) compounded every ninety (90) days, until the said amount is fully paid;