



Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

PHILIPPINE NATIONAL BANK, G.R. No. 248821
Petitioner,

Present:

CAGUIOA, * J.,
INTING, ** *Acting Chairperson,*
GAERLAN,
DIMAAMPAO, and
SINGH, JJ.

- versus -

SPS. PEDRO CAGUIMBAL AND Promulgated:
VIVIAN CAGUIMBAL,
Respondents. October 10, 2022

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D E C I S I O N

INTING, J.:

Before the Court is a Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court filed by Philippine National Bank (PNB) assailing the Decision² dated February 19, 2019 and the Resolution³ dated July 1, 2019 of the Court of Appeals (CA) in CA-G.R. CV No. 04755-MIN. The assailed Decision: (1) set aside the Decision⁴ dated April 27, 2017 of Branch 5, Regional Trial Court (RTC) of Butuan City which dismissed the Complaint⁵ for sum of money, damages and attorney's fees filed by Spouses Pedro Caguimbal and Vivian Caguimbal (respondents) and (2) ordered PNB to pay respondents ₱100,000.00 as moral damages, ₱100,000.00 as exemplary damages, and ₱50,000.00 as attorney's fees and costs of litigation.

* On official leave.

** Per Special Order No. 2918-Revised dated October 12, 2022.

¹ *Rollo*, pp. 46-95.

² Id. at 97-129. Penned by Associate Justice Loida S. Posadas-Kahulugan and concurred in by Associate Justices Tita Marilyn Payoyo-Villordon and Evalyn N. Arellano-Morales.

³ Id. at 131-133.

⁴ Id. at 332-340. Penned by Presiding Judge Augustus L. Calo.

⁵ Id. at 134-154.

The Antecedents

Respondent Vivian is a sub-contractor of logs for SAMMILIA Federation of People's Forest Development Cooperative (SAMMILIA)⁶ in Diatagon, Lianga, Surigao del Sur. SAMMILIA, in turn, sells the logs to Baganga Plywood Corporation (Baganga Ply). Sometime in 2010, Vivian delivered logs to Baganga Ply and the latter issued six (6) PNB-Mati checks to Vivian in the total amount of ₱3,494,129.50 described as follows:

- a. Check No. 42439 in the amount of ₱1,319,085.00;
- b. Check No. 42400 in the amount of ₱1,000,000.00;
- c. Check No. 42438 in the amount of ₱98,075.00;
- d. Check No. 42399 in the amount of ₱1,000,000.00;
- e. Check No. 42437 in the amount of ₱39,011.00; and
- f. Check No. 42445 in the amount of ₱37,958.50.⁷

On August 9, 2010, Faith Caguimbal (Faith), Vivian's daughter, went to PNB-Butuan Branch to verify if the checks were good. She approached PNB-Butuan Branch Sales and Service Officer, Grace Besa (Grace) to make such inquiry. Upon verification, Grace informed Faith that a Stop Payment Order (SPO) was issued by Baganga Ply on the said checks.⁸

On August 12, 2010, the checks were again presented to PNB-Butuan Branch. This time, it was presented for deposit by Jill Martinez, cousin of Faith, to the branch's Sales and Service Head, Carlos S. Lim, Jr. (Carlos). Carlos, not knowing that the checks were previously inquired for verification, accepted all six (6) checks for deposit and sent them for clearing.⁹

On August 16, 2010, five (5) out of the six (6) checks were returned with stamp marks "SPO-funded" and accordingly, the amounts corresponding the five (5) checks earlier deposited to the joint account of Vivian and Faith were debited. Meanwhile, the other check in the amount of ₱1,000,000.00 (Check No. 42399) was not returned by the bank. When Vivian and Faith inquired as to its status, they were informed by Grace that the check "might be delayed for a day".¹⁰ In the meantime, Vivian sent a letter to Baganga Ply asking the latter to lift the SPO at least on the subject check.¹¹

⁶ Referred to as "SAMMILLA" in some parts of the *rollo*.

⁷ See *id.* at 146-147.

⁸ *Id.* at 333.

⁹ *Id.*

¹⁰ *Id.* at 98.

¹¹ *Id.* at 102.

On August 19, 2010, Faith went to PNB-Butuan Branch to update their passbook and saw that the amount of ₱1,000,000.00 was still intact and remained credited prompting respondents to assume that Baganga Ply had lifted the SPO on the subject check.¹² For the period of August 18, 2010 to August 31, 2010, Faith deposited and withdrew from the joint account and during the duration of which the amount of ₱1,000,000.00 remained intact in the balance of the joint account.¹³

On September 1, 2010, after Faith withdrew ₱25,000.00 from the joint account, she was shocked to see that the remaining balance left in the account was only ₱10,518.61. When Faith inquired from the branch manager, she was informed that the amount of ₱1,000,000.00 was debited from the account in order to implement the SPO made in relation to the subject check.¹⁴

The following day, September 2, 2010, PNB-Butuan Branch contacted Vivian and informed her about the SPO of the last check. When Vivian demanded for an explanation, she was eventually informed that it was only on August 27, 2010 that PNB learned that the subject check was only cleared through mistake after PNB received a complaint from Baganga Ply. However, Vivian refused to accept the explanation contending that the check was already cleared considering that the SPO came only 15 days after it was deposited when the clearing period was only 7 days. Meanwhile, Vivian was forced to borrow money from friends and associates to pay for her obligations which she was supposedly going to pay using the ₱1,000,000.00 from her account.¹⁵

When PNB refused to return the ₱1,000,000.00 despite demands of Vivian, she filed the present complaint.¹⁶

In its Answer,¹⁷ PNB alleged, among others, that respondents have no cause of action against it because it merely implemented the SPO of its client. It further averred that the actual knowledge of respondents of the existence of the SPO makes them not holders in due course of the subject check negating their right to sue nor demand for the payment of the check under the Negotiable Instruments Law. PNB further claimed for moral damages, exemplary damages, and attorney's fees by way of counterclaim.¹⁸

¹² Id. at 338.

¹³ Id. at 333.

¹⁴ Id. at 99-100.

¹⁵ Id.

¹⁶ Id. at 134-154.

¹⁷ Id. at 155-176.

¹⁸ Id. at 335.

The Ruling of the RTC

In its Decision¹⁹ dated April 27, 2017, the RTC dismissed the complaint. It ruled that respondents have no right over the amount of the check for their failure to show by concrete evidence that Baganga Ply lifted the SPO made on the subject check. Not being entitled to the amount of the check, PNB did not violate any right of respondents as to give rise to a cause of action. It further ruled that respondents should have impleaded Baganga Ply as the real party in interest, it being the drawer of the check.²⁰

Aggrieved, respondents appealed to the CA.

The Ruling of the CA

The CA rendered a Decision²¹ dated February 19, 2019, the dispositive portion of which states:

WHEREFORE, the appeal is partly GRANTED. The April 27, 2017 Decision of the Regional Trial Court of Agusan del Norte, Branch 5, Butuan City, in Civil Case No. 6090 is SET ASIDE and a new one is entered ordering PNB to pay plaintiffs-appellants (herein respondents) ₱100,000.00 as moral damages, ₱100,000.00 as exemplary damages, and ₱50,000.00 as attorney's fees and costs of litigation.

SO ORDERED.²²

The CA decreed that while PNB has the right to debit the amount erroneously credited to respondents' account, especially when respondents can hardly be considered as holders in due course of the check because they were fully aware that the check was previously subject to a SPO, PNB was nevertheless grossly negligent in attending to its business when it abruptly debited the account of respondents without prior notice rendering it liable for damages.²³

Petitioner filed a Motion for Reconsideration²⁴ which the CA denied in a Resolution²⁵ dated July 1, 2019.

¹⁹ Id. at. 332-340.

²⁰ Id. at 339.

²¹ Id. at 97-129.

²² Id. at 128.

²³ Id. at 122.

²⁴ Id at 395-402.

²⁵ Id. at 131-133.

Hence, petitioner filed the present petition raising the following errors:

Issues

I.

WHILE THE HONORABLE COURT OF APPEALS HAS CORRECTLY RULED THAT PETITIONER HAS THE RIGHT TO DEBIT/REVERSE/RECOVER FROM RESPONDENTS' ACCOUNT THE CHECK DEPOSIT FOR PHP1 MILLION WHICH WAS THE SUBJECT OF A STANDING SPO, IT COMMITTED A MISAPPREHENSION OF FACTS WHEN IT HELD THAT PETITIONER DID SO IN AN ARBITRARY MANNER.

II.

THE COURT OF APPEALS HAS DECIDED IN A MANNER CONTRARY TO LAW AND SETTLED JURISPRUDENCE WHEN IT HELD THAT RESPONDENTS ARE ENTITLED TO MORAL AND EXEMPLARY DAMAGES, AND ATTORNEY'S FEES AND EXPENSES OF LITIGATION.²⁶

In its Petition for Review on *Certiorari*,²⁷ petitioner argues that the manner it recalled the amount of ₱1,000,000.00 from the account of respondents cannot be considered as arbitrary considering that respondents were very much aware of the standing SPO on the subject check even before they deposited it in their account. It avers that it was constrained to immediately debit the account of respondents in order to preserve the funds considering the frequency by which respondents were withdrawing from their account, otherwise, had respondents withdrawn the amount before it could recall the same, it would only result in another cycle of litigation for recovery of the subject amount.

Petitioner further argues that the subject check was only inadvertently cleared because of an honest mistake and was not attended with fraud or bad faith that would warrant the imposition of moral damages, exemplary damages, and attorney's fees in favor of respondents.

²⁶ Id. at 61-62.

²⁷ Id. at 46-95.

In their Comment,²⁸ respondents assert that the CA's findings are substantiated by the records and not based on mere speculations. They also assert that the CA committed no reversible error in awarding moral and exemplary damages and attorney's fees as they have sufficiently proved and established their entitlement to it.

Thereafter, petitioner filed its Reply,²⁹ reiterating the arguments raised in its petition.

Our Ruling

The petition is unmeritorious.

The crux of the controversy revolves around the determination of whether PNB observed the due diligence expected of it as a banking institution when it handled the account of respondents.

The Court reiterates that its jurisdiction in a petition for review on *certiorari* under Rule 45 of the Rules of Court is generally limited only to errors involving questions of law. However, one of the recognized exceptions³⁰ is when the findings of the RTC and the CA are conflicting or contradictory as in the present case. Thus, the Court is constrained to review and reevaluate the evidence of the parties in order to resolve the issues raised.³¹

Time and again, the Court has consistently emphasized that the degree of diligence required of banks is more than that of a good father of a family.³² The banking industry is impressed with public interest and as such, banks are expected to exercise the highest degree of diligence as

²⁸ Id. at 407-417.

²⁹ Id. at 436-463.

³⁰ *Miro v. Vda. de Erederos*, 721 Phil. 772, 786 (2013). See also *Cirtek Employees Labor Union-Federation of Free Workers v. Cirtek Electronics, Inc.*, 665 Phil. 784, 789 (2011), where the Court enumerated the following exceptions to the general rule: (1) When the conclusion is a finding grounded entirely on speculation, surmises and conjectures; (2) When the inference made is manifestly mistaken, absurd or impossible; (3) Where there is a grave abuse of discretion; (4) When the judgment is based on a misapprehension of facts; (5) When the findings of fact are conflicting; (6) When the Court of Appeals, in making its findings, went beyond the issues of the case and the same is contrary to the admissions of both appellant and appellee; (7) When the findings are contrary to those of the trial court; (8) When the findings of fact are conclusions without citation of specific evidence on which they are based; (9) When the facts set forth in the petition as well as in the petitioners' main and reply briefs are not disputed by the respondents; and (10) When the findings of fact of the Court of Appeals are premised on the supposed absence of evidence and contradicted by the evidence on record.

³¹ *MOF Company, Inc. v. Shin Yang Brokerage Corp.*, 623 Phil. 424, 433 (2009).

³² *Philippine National Bank v. Pike*, 507 Phil. 322, 341 (2005).

well as high standards, and integrity and performance in all its transactions. By the nature of its functions, a bank is under obligation to treat the accounts of its depositors with meticulous care and always to have in mind the fiduciary nature of its relationship with them.³³

In fact, as early as 1990, the Court in the landmark case of *Simex International (Manila), Inc. v. Court of Appeals*³⁴ has already stressed the fiduciary duty of banks towards their clients:

The banking system is an indispensable institution in the modern world and plays a vital role in the economic life of every civilized nation. Whether as mere passive entities for the safekeeping and saving of money or as active instruments of business and commerce, banks have become an ubiquitous presence among the people, who have come to regard them with respect and even gratitude and, most of all, confidence. Thus, even the humble wage-earner has not hesitated to entrust his life's savings to the bank of his choice, knowing that they will be safe in its custody and will even earn some interest for him. The ordinary person, with equal faith, usually maintains a modest checking account for security and convenience in the settling of his monthly bills and the payment of ordinary expenses. As for business entities like the petitioner, the bank is a trusted and active associate that can help in the running of their affairs, not only in the form of loans when needed but more often in the conduct of their day-to-day transactions like the issuance or encashment of checks.

In every case, the depositor expects the bank to treat his account with the utmost fidelity, whether such account consists only of a few hundred pesos or of millions. The bank must record every single transaction accurately, down to the last centavo, and as promptly as possible. This has to be done if the account is to reflect at any given time the amount of money the depositor can dispose of as he sees fit, confident that the bank will deliver it as and to whomever he directs. x x x

³³ *Consolidated Bank and Trust Corporation v. Court of Appeals*, 457 Phil. 688, 690 (2003).

³⁴ 262 Phil. 387 (1990).

The point is that as a business affected with public interest and because of the nature of its functions, the bank is under obligation to treat the accounts of its depositors with meticulous care, always having in mind the fiduciary nature of their relationship. x x x³⁵

Thus, the fiduciary nature of the banking business requires banks to comply with two essential and fundamental obligations - to treat their clients' accounts with utmost fidelity and meticulous care, and to record all transactions accurately and promptly.³⁶

In the case at bar, PNB clearly failed to meet these two essential and fundamental obligations.

First, PNB admitted having cleared and credited the subject check to respondents' account by mistake despite the SPO of Baganga Ply. Its defense that it did not act with fraud or bad faith does not alter the fact that it was negligent in handling its affairs.

For one thing, banks, an industry where the general public's trust and confidence in the system is of paramount importance,³⁷ cannot afford to commit any mistake in handling their affairs no matter how slight.

Second, PNB's negligence in handling the account of respondents was further exemplified by the actions it took from the time the check was deposited on August 12, 2010 until it discovered its mistake on August 27, 2010.

While PNB consistently asserted that respondents were fully informed that the subject check will eventually be dishonored and that the return of the actual check "might be delayed for a day", thereby implying that it was also expecting its return, its admission that it was only on August 27, 2010 or fifteen (15) days after the subject check was deposited that it discovered its mistake and only after Baganga Ply had called its attention contradicts its position. If what PNB claims is true, it should have actively monitored the status and whereabouts of the subject check in order to maintain the accuracy of its records, especially the accounts of Baganga Ply and respondents.

³⁵ Id. at 395-396.

³⁶ *Metropolitan Bank and Trust Company v. Carmelita Cruz and Vilma Lowtay*, G.R. No. 221220, January 19, 2021.

³⁷ *Bank of the Philippine Islands v. Court of Appeals*, 383 Phil. 538, 554 (2000).

Moreover, instead of promptly contacting respondents on August 27, 2010 to discuss its intention of debiting their account due to the discovery of the error, PNB chose the opposite. It waited until September 1, 2010 before informing respondents of the dishonor and only after it had debited their account.

PNB's explanation that it could not have informed respondents on August 27, 2010 about the dishonor because its Butuan Branch only received the e-mail instructions to reverse the ₱1,000,000.00 from respondents' account on August 31, 2010 from its Mati Branch at the closing hours of August 27, 2010, making it appear that it has no control over the operating procedures of its branches, deserves scant consideration.

In the case, considering that the dishonor of the subject check transpired in 2010 when cellular phones and internet connections were already very much accessible, the manager or any responsible officer of Mati Branch could have simply called its counterpart at Butuan to immediately relay and explain the situation to respondents.

PNB, owing to its fiduciary duty to its depositors, should have taken the extra steps of finding a way to immediately apprise respondents of the situation even if it would mean that its officers would have to work beyond the official banking hours of August 27, 2010 to rectify or at least deescalate the situation.

Incidentally, when Faith withdrew from the account on August 31, 2010, PNB still did not inform Faith or respondents about the possible recall of the ₱1,000,000.00 from their account. To make things worse, on September 1, 2010, the entries in respondents' passbook show that after Faith withdrew ₱25,000.00, the initial balance of ₱1,035,518.61 suddenly fell to ₱10,518.61. It was only after Faith complained about the loss of the ₱1,000,000.00 that PNB corrected the entries in the passbook by adding a new debit entry of ₱1,000,000.00 with remarks "vs SPO" and explained its reason to her. Otherwise stated, had Faith not noticed the loss of the ₱1,000,000.00 from the balance of the account, PNB would not even bother itself to take the initiative of informing respondents regarding the debit of the subject amount.

Furthermore, PNB's argument that respondents should have expected the reversal of the ₱1,000,000.00 from their account by reason of their knowledge of the SPO on the subject check does not obliterate PNB's negligence. Respondents should not be faulted for assuming that the SPO on

the subject check was eventually lifted by Baganga Ply because the ₱1,000,000.00 remained in their account for at least thirteen (13) days from August 19, 2010, the day they sent a letter request to Baganga Ply to allow the payment of the subject check.

Certainly, PNB's lackadaisical attitude in dealing with the account of respondents falls short even of the slightest degree of diligence required of it. The business of a bank is imbued with public interest; thus, it requires due diligence and meticulousness in giving irreproachable service. For this reason, the bank should guard against injury attributable to negligence or bad faith on its part. The banking sector must at all times maintain a high level of meticulousness.³⁸

Thus, the Court is compelled to sustain the moral damages, exemplary damages, attorney's fees and costs of litigation awarded by the CA in favor of respondents.

Moral damages include physical suffering, mental anguish, fright, serious anxiety, besmirched reputation, wounded feelings, moral shock, social humiliation, and similar injury. Though incapable of pecuniary computation, moral damages may be recovered if they are the proximate result of the defendant's wrongful act or omission.³⁹ Further, moral damages are not awarded to penalize the defendant but to compensate the plaintiff for the injuries he may have suffered.⁴⁰ Moreover, in view of the significant role of banking institutions in commercial transactions, not to mention its contribution, to the economy in general,⁴¹ the Court, in several cases,⁴² has imposed damages and attorney's fees against them for their failure to exercise the highest degree of diligence, along with high standards of integrity and performance in the discharge of its functions.⁴³

In the case, PNB allowed the ₱1,000,000.00 to remain in respondents account for more than two (2) weeks from the time it was deposited making them believe that it was within their disposal. When PNB realized that the ₱1,000,000.00 was only credited to respondents' account due to an error, it unceremoniously debited the amount from respondents' account. Worse, PNB only offered to explain the deduction after Faith complained about it. Simply

³⁸ *Solidbank Corporation v. Sps. Arrieta*, 492 Phil. 95, 105 (2005).

³⁹ Civil Code of the Philippines, Art. 2217.

⁴⁰ *Bank of Commerce v. Spouses San Pablo, Jr.* 550 Phil. 805, 823 (2007).

⁴¹ *Philippine National Bank v. Vila*, 792 Phil. 86, 98-99 (2016).

⁴² *Philippine Savings Bank v. Chowking Food Corporation*, 579 Phil. 589, 596-597 (2008); *Gonzales v. Phil. Commercial and International Bank*, 659 Phil. 244, 272 (2011); *Philippine National Bank v. Vila*, 792 Phil. 86, 98-99 (2016).

⁴³ *Banta v. Equitable Bank, Inc.*, G.R. No. 223694, February 10, 2021.

put, PNB's failure to exercise the highest degree of diligence expected of it justifies the imposition of moral damages against it. This is in addition to the anxiety and social humiliation suffered by respondent Vivian when she had to seek for loans from friends and associates to cover the amount.

With regard to the award of exemplary damages, the Court sustains the award of exemplary damages in view of PNB's negligence to promptly and accurately record respondents' transactions. Such damages are imposed by way of example or correction for the public good, in addition to the moral, temperate, liquidated or compensatory damages.⁴⁴

Finally, the award of attorney's fees and costs of litigation is maintained since respondents were compelled to litigate and protect their rights consistent with Article 2208 of the Civil Code.⁴⁵

WHEREFORE, the Petition for Review on *Certiorari* is **DENIED**. The Decision dated February 19, 2019 and Resolution dated July 1, 2019 of the Court of Appeals in CA-G.R. CV No. 04755-MIN are **AFFIRMED with MODIFICATION**. Petitioner Philippine National Bank is ordered to pay respondents Spouses Pedro Caguimbal and Vivian Caguimbal ₱100,000.00 as moral damages, ₱100,000.00 as exemplary damages, and ₱50,000.00 as attorney's fees and costs of litigation, all with legal interest at the rate of 6% *per annum* from the date of finality of this Decision until fully paid.

SO ORDERED.


HENRI JEAN PAUL B. INTING
Associate Justice

WE CONCUR:

(On official leave)

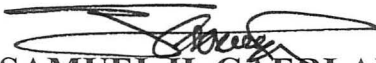
ALFREDO BENJAMIN S. CAGUIOA
Associate Justice
Chairperson


⁴⁴ Article 2229, Civil Code of the Philippines.

⁴⁵ Article 2208. In the absence of stipulation, attorney's fees and expenses of litigation, other than judicial costs, cannot be recovered, except:

x x x

(2) When the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest.



SAMUEL H. GAERLAN
Associate Justice


JAPAR B. DIMAAMPAO
Associate Justice


MARIA FILOMENA D. SINGH
Associate Justice

ATTESTATION

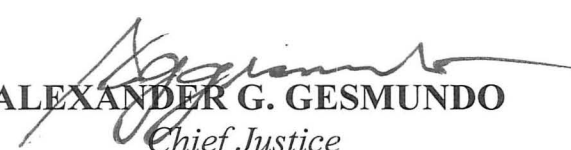
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


HENRI JEAN PAUL B. INTING
Associate Justice
Acting Chairperson

(Per S.O. No. 2918-Revised dated October 12, 2022)

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Acting Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ALEXANDER G. GESMUNDO
Chief Justice