

## SECOND DIVISION

[ G.R. No. 227990, March 07, 2018 ]

### **CITYSTATE SAVINGS BANK, PETITIONER, VS. TERESITA TOBIAS AND SHELLIDIE VALDEZ, RESPONDENTS.**

#### **DECISION**

**REYES, JR., J:**

This is a petition for review on *certiorari*<sup>[1]</sup> under Rule 45 of the Rules of Court seeking to annul and set aside the Decision<sup>[2]</sup> dated May 31, 2016 and Resolution<sup>[3]</sup> dated October 10, 2016 issued by the Court of Appeals (CA) in CA-G.R. CV No. 102545.

#### **The Antecedent Facts**

Rolando Robles (hereinafter referred to as Robles), a certified public accountant, has been employed with Citystate Savings Bank (hereinafter referred to as the petitioner) since July 1998 then as Accountant-trainee for its Chino Roces Branch. On September 6, 2000, Robles was promoted as acting manager for petitioner's Baliuag, Bulacan branch, and eventually as manager.<sup>[4]</sup>

Sometime in 2002, respondent Teresita Tobias (hereinafter referred to as Tobias), a meat vendor at the Baliuag Public Market, was introduced by her youngest son to Robles, branch manager of petitioner's Baliuag, Bulacan branch.<sup>[5]</sup>

Robles persuaded Tobias to open an account with the petitioner, and thereafter to place her money in some high interest rate mechanism, to which the latter yielded.<sup>[6]</sup>

Thereafter, Robles would frequent Tobias' stall at the public market to deliver the interest earned by her deposit accounts in the amount of Php 2,000.00. In turn, Tobias would hand over her passbook to Robles for updating. The passbook would be returned the following day with typewritten entries but without the corresponding counter signatures.<sup>[7]</sup>

Tobias was later offered by Robles to sign-up in petitioner's back-to-back scheme which is supposedly offered only to petitioner's most valued clients. Under the scheme, the depositors authorize the bank to use their bank deposits and invest the same in different business ventures that yield high interest. Robles allegedly promised that the interest previously earned by Tobias would be doubled and assured her that he will do all the paper work. Lured by the attractive offer, Tobias signed the pertinent documents without reading its contents and invested a total of Php 1,800,000.00 to petitioner through Robles. Later, Tobias became sickly, thus she included her daughter and herein respondent Shellidie Valdez (hereinafter referred

to as Valdez), as co-depositor in her accounts with the petitioner.<sup>[8]</sup>

In 2005, Robies failed to remit to respondents the interest as scheduled. Respondents tried to reach Robies but he can no longer be found; their calls were also left unanswered. In a meeting with Robies' siblings, it was disclosed to the respondents that Robies withdrew the money and appropriated it for personal use. Robies later talked to the respondents, promised that he would return the money by installments and pleaded that they do not report the incident to the petitioner. Robies however reneged on his promise. Petitioner also refused to make arrangements for the return of respondents' money despite several demands.<sup>[9]</sup>

On January 8, 2007, respondents filed a Complaint for sum of money and damages. against Robles and the petitioner.<sup>[10]</sup> In their Complaint, respondents alleged that Robles committed fraud in the performance of his duties as branch manager when he lured Tobias in signing several pieces of blank documents, under the assurance as bank manager of petitioner, everything was in order.<sup>[11]</sup>

After due proceedings, the Regional Trial Court (RTC), on February 12, 2014, rendered its Decision,<sup>[12]</sup> viz.:

**WHEREFORE**, in light of the foregoing, judgment is hereby rendered ordering defendant Robles to pay plaintiff the following:

1. the amount of Php1,800,000.00 as actual damages plus legal rate of interest from the filing of the complaint until fully paid;
2. the amount of Php100,000.00 as moral damages; and
3. the amount of Php50,000.00 as exemplary damages.

The plaintiffs claim for attorney's fees and litigation expenses are DENIED for lack of merit.

Further, defendant bank is absolved of any liability. Likewise, all counterclaims and cross-claims are DENIED for lack of merit.

SO ORDERED.<sup>[13]</sup>

### **Ruling of the CA**

The matter was elevated to the CA. The CA in its Decision<sup>[14]</sup> dated May 31, 2016, found the appeal meritorious and accordingly, reversed and set aside the RTC's decision, in this wise:

**WHEREFORE**, the *Appeal* is hereby **GRANTED**. The Decision Dated 12 February 2014 of the [RTC], Third Judicial Region, Malolos City, Bulacan, Branch 83, in Civil Case No. 11-M-07, is **MODIFIED** in that [petitioner] and [Robles] are **JOINTLY** and **SOLIDARILY** to pay [respondents] the amounts set forth in the assailed Decisions as well as attorney's fees in the amount of **ONE HUNDRED THOUSAND PESOS** (P 100,000.00).

**SO ORDERED.**<sup>[15]</sup>

Petitioner sought a reconsideration of the decision, but it was denied by the CA in its Resolution<sup>[16]</sup> dated October 10, 2016.

In the instant petition, respondents put forward the following arguments to support their position:

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ARGUMENTS

IN RENDERING THE ASSAILED DECISION AND RESOLUTION, THE CA DECIDED QUESTIONS OF SUBSTANCE WHICH ARE NOT IN ACCORD WITH APPLICABLE LAWS AND JURISPRUDENCE.

[A]

THE CA SERIOUSLY ERRED IN RULING THAT THE DOCTRINE OF APPARENT AUTHORITY IS APPLICABLE IN THIS CASE.

[B]

THE CA SERIOUSLY ERRED IN RULING THAT RESPONDENT TOBIAS IS NOT GUILTY OF CONTRIBUTORY NEGLIGENCE.

[C]

THE CA SERIOUSLY ERRED IN RULING THAT CITYSTATE IS JOINTLY AND SOLIDARILY LIABLE WITH ROBLES TO PAY FOR THE DAMAGE SUPPOSEDLY SUFFERED BY RESPONDENTS.

[D]

THE CA SERIOUSLY ERRED IN RULING THAT CITYSTATE IS JOINTLY AND SOLIDARILY LIABLE FOR ATTORNEY'S FEES.<sup>[17]</sup>

In this petition for review on *certiorari*, petitioner alleged that it should not be held liable considering that it has exercised a high degree of diligence in the selection and supervision of its employees, including Robles, and that it took proper measures in hiring the latter. Further, it posits that it has complied with standard bank operating procedures in the conduct of its operations.

Petitioner also argues that Robles acted in his personal capacity in dealing with Tobias, who agreed with full knowledge and consent to the back-to-back loans and that it was not privy to the transactions between them. Therefore, petitioner submits that the CA erred in applying the doctrine of apparent authority.

**Ruling of the Court**

The petition is denied.

The business of banking is one imbued with public interest. As such, banking institutions are obliged to exercise the highest degree of diligence as well as high standards of integrity and performance in all its transactions.<sup>[18]</sup>

The law expressly imposes upon the banks a fiduciary duty towards its clients<sup>[19]</sup> and to treat in this regard the accounts of its depositors with meticulous care.<sup>[20]</sup>

The contract between the bank and its depositor is governed by the provisions of the Civil Code on simple loan or *mutuum*, with the bank as the debtor and the depositor as the creditor.<sup>[21]</sup>

In light of these, banking institutions may be held liable for damages for failure to exercise the diligence required of it resulting to contractual breach or where the act or omission complained of constitutes an actionable tort.<sup>[22]</sup>

The nature of a bank's liability is illustrated in the consolidated cases of *Philippine Commercial International Bank v. CA, et al.*, *Ford Philippines, Inc. v. CA, et al.* and *Ford Philippines, Inc. v. Citibank, N.A., et al.*<sup>[23]</sup> The original actions *a quo* were instituted by Ford Philippines, Inc. (Ford) to recover the value of several checks it issued payable to the Commissioner of Internal Revenue (CIR) which were allegedly embezzled by an organized syndicate.

The first two of the three consolidated cases mentioned above involve twin petitions for review assailing the decision and resolution of the CA ordering the collecting bank, Philippine Commercial International Bank (PCIB) to pay the amount of a crossed Citibank N.A. (Citibank) check (No. SN-04867) drawn by Ford in favor of CIR as payment for its taxes.

The said check was deposited with PCIB and subsequently cleared by the Central Bank. Upon presentment with Citibank, the proceeds of the check were released to PCIB as the collecting/depository bank.

However, it was later discovered that the check was not paid to the CIR. Ford was then forced to make another payment to the CIR.

Investigation revealed that the check was recalled by the General Ledger Accountant of Ford on the pretext that there has been an error in the computation of tax, he then directed PCIB to issue two manager's checks in replacement thereof.

Both Citibank and PCIB deny liability, the former arguing that payment was in due course as it merely relied on the latter's guarantee as to "all prior indorsements and/or lack of indorsements." Thus, Citibank submits that the proximate cause of the injury is the gross negligence of PCIB in indorsing the check in question. The CA agreed and adjudged PCIB solely liable for the amount of the check.

On the other hand, the last of the three consolidated cases, assails the decision and resolution of the CA which held Citibank, the drawee bank, solely liable for the amount of crossed check nos. SN-10597 and 16508 as actual damages, the proceeds of which have been misappropriated by a syndicate involving the employees of the drawer Ford, and the collecting bank PCIB.

This Court in resolving the issue of liability in *PCIB v. CA*, considered the degree of negligence of the parties.

While recognizing that the doctrine of imputed negligence makes a principal liable for the wrongful acts of its agents, this Court noted that the liability of the principal would nonetheless depend on whether the act of its agent is the proximate cause of the injury to the third person.

In the case of Ford, this Court ruled that its negligence, if any, cannot be considered as the proximate cause, emphasizing in this regard the absence of confirmation on the part of Ford to the request of its General Ledger Accountant for replacement of the checks issued as payment to the CIR. In absolving Ford from liability, this Court clarified that the mere fact that the forgery was committed by the drawer/principal's employee or agent, who by virtue of his position had unusual facilities for perpetrating the fraud and imposing the forged paper upon the bank, does not automatically shift the loss to such drawer-principal, in the absence of some circumstance raising estoppel against the latter.

In contrast, this Court found PCIB liable for failing to exercise the necessary care and prudence required under the circumstances. This Court noted that the action of Ford's General Ledger Accountant in asking for the replacement of the crossed Citibank check No. SN-04867, was *not in the ordinary course of business* and thus should have prompted PCIB to validate the same. Likewise, considering that the questioned crossed check was deposited with PCIB in its capacity as collecting agent for the Bureau of Internal Revenue, it has the responsibility to ensure that the check is deposited in the payee's account only; and is bound to consult BIR, as its principal, of unwarranted instructions given by the pay or or its agent, especially so as neither of the latter is its client. Having established PCIB's negligence, this Court then held the latter solely liable for the proceeds of Citibank check (No. SN-04867).

Insofar as Citibank check Nos. SN-10597 and 16508, this Court affirmed the findings of the CA and the trial court that PCIB cannot be faulted for the embezzlement as it did not actually receive nor held the subject checks. Adopting the conclusion of the trial court, this Court advanced that the act of misappropriation was in fact "the clandestine or hidden actuations performed by the members of the syndicate in their own personal, covert and private capacity and done without the knowledge of the defendant PCIB."<sup>[24]</sup>

While this Court admitted that there was no evidence confirming the conscious participation of PCIB in the embezzlement, it nonetheless found the latter liable pursuant to the doctrine of imputed negligence, as it was established that its employees performed the acts causing the loss in their official capacity or authority albeit for their personal and private gain or benefit.

Yet, finding that the drawee, Citibank was remiss of its contractual duty to pay the proceeds of the crossed checks only to its designated payee, this Court ruled that Citibank should also bear liability for the loss incurred by Ford. It ratiocinated:

Citibank should have scrutinized Citibank Check Numbers SN 10597 and 16508 before paying the amount of the proceeds thereof to the collecting bank of the BIR. One thing is clear from the record: the clearing stamps at the back of Citibank Check Nos. SN 10597 and 16508 do not bear any initials. Citibank failed to notice and verify the absence of the clearing stamps. Had this been duly examined, the switching of the worthless checks to Citibank Check Nos. 10597 and 16508 would have been