

## THIRD DIVISION

[ G.R. No. 126911, April 30, 2003 ]

**PHILIPPINE DEPOSIT INSURANCE CORPORATION, PETITIONER,  
VS. THE HONORABLE COURT OF APPEALS AND JOSE ABAD,  
LEONOR ABAD, SABINA ABAD, JOSEPHINE "JOSIE" BEATA  
ABAD-ORLINA, CECILIA ABAD, PIO ABAD, DOMINIC ABAD,  
TEODORA ABAD, RESPONDENTS.**

### D E C I S I O N

**CARPIO MORALES, J.:**

The present petition for review assails the decision of the Court of Appeals affirming that of the Regional Trial Court of Iloilo City, Branch 30, finding petitioner Philippine Deposit Insurance Corporation (PDIC) liable, as statutory insurer, for the value of 20 Golden Time Deposits belonging to respondents Jose Abad, Leonor Abad, Sabina Abad, Josephine "Josie" Beata Abad-Orlina, Cecilia Abad, Pio Abad, Dominic Abad, and Teodora Abad at the Manila Banking Corporation (MBC), Iloilo Branch.

Prior to May 22, 1997, respondents had, individually or jointly with each other, 71 certificates of time deposits denominated as "Golden Time Deposits" (GTD) with an aggregate face value of P1,115,889.96.<sup>[1]</sup>

On May 22, 1987, a Friday, the Monetary Board (MB) of the Central Bank of the Philippines, now Bangko Sentral ng Pilipinas, issued Resolution 505<sup>[2]</sup> prohibiting MBC to do business in the Philippines, and placing its assets and affairs under receivership. The Resolution, however, was not served on MBC until Tuesday the following week, or on May 26, 1987, when the designated Receiver took over.<sup>[3]</sup>

On May 25, 1987, the next banking day following the issuance of the MB Resolution, respondent Jose Abad was at the MBC at 9:00 a.m. for the purpose of pre-terminating the 71 aforementioned GTDs and re-depositing the fund represented thereby into 28 new GTDs in denominations of P40,000.00 or less under the names of herein respondents individually or jointly with each other.<sup>[4]</sup> Of the 28 new GTDs, Jose Abad pre-terminated 8 and withdrew the value thereof in the total amount of P320,000.00.<sup>[5]</sup>

Respondents thereafter filed their claims with the PDIC for the payment of the remaining 20 insured GTDs.<sup>[6]</sup>

On February 11, 1988, PDIC paid respondents the value of 3 claims in the total amount of P120,000.00. PDIC, however, withheld payment of the 17 remaining claims after Washington Solidum, Deputy Receiver of MBC-Iloilo, submitted a report to the PDIC<sup>[7]</sup> that there was massive conversion and substitution of trust and

deposit accounts on May 25, 1987 at MBC-Iloilo.<sup>[8]</sup> The pertinent portions of the report stated:

x x x

On May 25, 1987 (Monday) or a day prior to the official announcement and take-over by CB of the assets and liabilities of The Manila Banking Corporation, the Iloilo Branch was found to have recorded an unusually heavy movements in terms of volume and amount for all types of deposits and trust accounts. It appears that the impending receivership of TMBC was somehow already known to many depositors on account of the massive withdrawals paid on this day which practically wiped out the branch's entire cash position. . . .

x x x

. . . The intention was to maximize the availment of PDIC coverage limited to P40,000 by spreading out big accounts to as many certificates under various nominees. . . .<sup>[9]</sup>

x x x

Because of the report, PDIC entertained serious reservation in recognizing respondents' GTDs as deposit liabilities of MBC-Iloilo. Thus, on August 30, 1991, it filed a petition for declaratory relief against respondents with the Regional Trial Court (RTC) of Iloilo City, for a judicial declaration determination of the insurability of respondents' GTDs at MBC-Iloilo.<sup>[10]</sup>

In their Answer filed on October 24, 1991 and Amended Answer<sup>[11]</sup> filed on January 9, 1992, respondents set up a **counterclaim against PDIC** whereby they asked for payment of their insured deposits.<sup>[12]</sup>

In its Decision of February 22, 1994,<sup>[13]</sup> Branch 30 of the Iloilo RTC declared the 20 GTDs of respondents to be deposit liabilities of MBC, hence, are liabilities of PDIC as statutory insurer. It accordingly disposed as follows:

WHEREFORE, premises considered, judgment is hereby rendered:

1. Declaring the 28 GTDs of the Abads which were issued by the TMBC-Iloilo on May 25, 1987 as deposits or deposit liabilities of the bank as the term is defined under Section 3 (f) of R.A. No. 3591, as amended;
2. Declaring PDIC, being the statutory insurer of bank deposits, liable to the Abads for the value of the remaining 20 GTDs, the other 8 having been paid already by TMBC-Iloilo on May 25, 1987;
3. Ordering PDIC to pay the Abads the value of said 20 GTDs less the value of 3 GTDs it paid on February 11, 1988, and the amounts it may have paid the Abads pursuant to the Order of this Court dated September 8, 1992;

4. Ordering PDIC to pay immediately the Abads the balance of its admitted liability as contained in the aforesaid Order of September 8, 1992, should there be any, subject to liquidation when this case shall have been finally decide; and
5. Ordering PDIC to pay legal interest on the remaining insured deposits of the Abads from February 11, 1988 until they are fully paid.

SO ORDERED.

On appeal, the Court of Appeals, by the assailed Decision of October 21, 1996,<sup>[14]</sup> affirmed the trial court's decision except as to the award of legal interest which it deleted.

Hence, PDIC's present Petition for Review which sets forth this lone assignment of error:

THE HONORABLE COURT OF APPEALS ERRED IN AFFIRMING THE HOLDING OF THE TRIAL COURT THAT THE AMOUNT REPRESENTED IN THE FACES OF THE SO CALLED "GOLDEN TIME DEPOSITS" WERE INSURED DEPOSITS EVEN AS THEY WERE MERE DERIVATIVES OF RESPONDENTS' PREVIOUS ACCOUNT BALANCES WHICH WERE PRE-TERMINATED/TERMINATED AT THE TIME THE MANILA BANKING CORPORATION WAS ALREADY IN SERIOUS FINANCIAL DISTRESS.

In its supplement to the petition, PDIC adds the following assignment of error:

THE HONORABLE COURT OF APPEALS ERRED IN AFFIRMING THE HOLDING OF THE TRIAL COURT ORDERING PETITIONER TO PAY RESPONDENTS' CLAIMS FOR PAYMENT OF INSURED DEPOSITS FOR THE REASON THAT AN ACTION FOR DECLARATORY RELIEF DOES NOT ESSENTIALLY ENTAIL AN EXECUTORY PROCESS AS THE ONLY RELIEF THAT SHOULD HAVE BEEN GRANTED BY THE TRIAL COURT IS A DECLARATION OF THE RIGHTS AND DUTIES OF PETITIONER UNDER R.A. 3591, AS AMENDED, PARTICULARLY SECTION 3(F) THEREOF AS CONSIDERED AGAINST THE SURROUNDING CIRCUMSTANCES OF THE MATTER IN ISSUE SOUGHT TO BE CONSTRUED WITHOUT PREJUDICE TO OTHER MATTERS THAT NEED TO BE CONSIDERED BY PETITIONER IN THE PROCESSING OF RESPONDENTS' CLAIMS.

Under its charter,<sup>[15]</sup> PDIC (hereafter petitioner) is liable only for deposits received by a bank "in the usual course of business."<sup>[16]</sup> Being of the firm conviction that, as the reported May 25, 1987 bank transactions were so massive, hence, irregular, petitioner essentially seeks a judicial declaration that such transactions were not made "in the usual course of business" and, therefore, it cannot be made liable for deposits subject thereof.<sup>[17]</sup>

Petitioner points that as MBC was prohibited from doing further business by MB Resolution 505 as of May 22, 1987, all transactions subsequent to such date were not done "in the usual course of business."

Petitioner further posits that there was no consideration for the 20 GTDs subject of