



Republic of the Philippines
Supreme Court
 Manila

THIRD DIVISION

**RICHARDSON STEEL
 CORPORATION, AYALA
 INTEGRATED STEEL
 MANUFACTURING, CO., INC.,
 ASIAN FOOTWEAR AND
 RUBBER CORP., and SPOUSES
 RICARDO O. CHENG AND
 ELEANOR S. CHENG,**
Petitioners,

G.R. No. 224235

Present:

LEONEN, J.,
 Chairperson,
 HERNANDO,
 INTING,
 DELOS SANTOS, and
 LOPEZ, J., JJ.

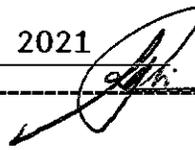
- versus -

**UNION BANK OF THE
 PHILIPPINES,**
Respondent.

Promulgated:

June 28, 2021

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DECISION

DELOS SANTOS, J.:

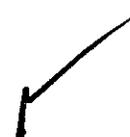
Before the Court is a Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court seeking the reversal of the Decision² dated June 29, 2015 and the Resolution³ dated April 20, 2016 of the Court of Appeals (CA) in CA-GR. CV No. 100331, which reversed and set aside the Decision⁴ dated June 4, 2012 of the Regional Trial Court (RTC) of Makati City, Branch 62, in Civil Case No. 01-575.

¹ *Rollo*, pp. 12-59.

² *Id.* at 60-79; penned by Associate Justice Myra V. Garcia-Fernandez, with Associate Justices Noel G. Tijam (now a retired Member of the Court) and Mario V. Lopez (now a Member of the Court), concurring.

³ *Id.* at 80-81.

⁴ *Id.* at 143-160; rendered by Presiding Judge Selma Palacio Alaras.



The Facts

The present case originated from a Complaint⁵ for Specific Performance and Damages with a Prayer for Preliminary Mandatory and Prohibitory Injunctions filed by petitioners Richardson Steel Corporation (RSC), Ayala Integrated Steel Manufacturing, Co., Inc. (AISM), Asian Footwear and Rubber Corp. (AFRC), and the spouses Ricardo O. Cheng (Ricardo) and Eleanor S. Cheng (spouses Cheng) against respondent Union Bank of the Philippines (UBP).

Petitioners' Version

Petitioner corporations are sister companies and the spouses Cheng are their principal stockholders and officers (collectively referred to as petitioners). Petitioners alleged that in January 1996, UBP proposed a special financing arrangement to fund petitioner RSC's business venture, which was the construction and operation of the Continuous Galvanizing Line (CGL) under the wholesale lending program of the Development Bank of the Philippines (DBP) of the JEXIM 2 Program. Petitioners accepted the offer and ended their established banking relationship with the Philippine Commercial International Bank.⁶

UBP's proposal includes the following features: (a) a credit accommodation for ₱240,000,000.00 to finance the construction of a new plant and the acquisition of a continuous galvanizing machine; and (b) a working capital of ₱600,000,000.00 to sustain its operations.⁷

Petitioners contended that while the credit accommodation was released, the promised working capital never came into fruition. Despite lack of funds, petitioners were able to complete the construction of the CGL Plant. However, RSC remained incapable of commencing full operation of the CGL due to insufficiency of funds. Thus, RSC sent a letter to UBP for the release of the promised credit line facility for its working capital requirement. However, the anticipated credit line was still not provided by UBP.⁸

On December 3, 1999, with mounting debts and without capacity to pay due to the failure to fully operate its new CGL venture, petitioners negotiated for the restructuring of its loan with UBP and applied for an additional loan or credit line of ₱150,000,000.00 for petitioner RSC and ₱30,000,000.00 for petitioner AISM. Thereafter, Memorandum of

⁵ Id. at 635-644.

⁶ Id. at 143-144.

⁷ Id. at 144.

⁸ Id.

Agreements (MOAs) and Credit Line Agreements (CLAs) for working capital purposes were entered into by petitioners RSC and AISMC and UBP. Despite the restructuring agreement, petitioner AFRC was not granted a credit line.⁹

Petitioners alleged that from December 1999 to November 2000, they had been requesting for the availment of the agreed credit line to plump up their working capital. However, despite the execution of the required Promissory Notes and other pertinent documents, UBP failed and refused to release the amounts indicated in the Promissory Notes of petitioner corporations. Instead, UBP unilaterally, without the consent of petitioners, applied the proceeds of the credit line to the payment of the monthly interests of the restructured loans of petitioners under the Restructuring Agreements (RAs). Thus, petitioners filed a Complaint for Specific Performance and Damages with a Prayer for Preliminary Mandatory and Prohibitory Injunctions in April 2001.¹⁰

On October 20, 2003, during the pendency of the proceedings before the RTC, UBP filed its Petition dated October 17, 2003 for the Extrajudicial Foreclosure of the Real Estate Mortgages (REMs). On April 13, 2004, petitioners filed a Joint Motion for Leave to Admit Supplemental Complaint with attached Supplemental Complaint asserting that UBP had no right to foreclose the REMs considering that they were not yet in default. Petitioners likewise contended that UBP failed to send any written communication declaring them in default and informing them of the foreclosure of the mortgaged properties after the execution of the RAs. Thereafter, on November 24, 2003, the properties covered by the REMs were sold at a public auction with UBP as the highest bidder.¹¹

Respondent's Version

UBP, on the other hand, denied the allegations that it failed to provide partial financing or that it failed to release the working capital required by petitioner corporations. UBP claimed that it arranged a ₱180-Million loan financing with the DBP through its Special Lending Facility under the DBP JEXIM 2 Program in order to finance the construction of the building and the acquisition of machinery and equipment needed for the CGL Plant. UBP alleged that petitioners have fully drawn the ₱180 Million loan in July 1998.¹²

⁹ Id.

¹⁰ Id. at 18-19 and 1182.

¹¹ Id. at 1188.

¹² Id. at 1563-1564.

When the project was presented to DBP, the working capital was estimated to be ₱119,404,000.00 and such amount will be financed by equity infusions or contributions by petitioner corporations and shareholders. However, during the negotiations, the working capital ballooned to ₱600 Million and the arrangement for financing the working capital encountered difficulties due to the following reasons: (a) Ricardo failed to provide the equity funding for the working capital and hesitated to include the land where the project site was erected to become part of its equity contribution; (b) the prevailing condition of the GI Sheet Industry during that time; and (c) the lack of track record of Ricardo in the GI Sheet Industry.¹³

UBP contended that it complied with its obligation under the CLAs, MOAs, and RAs and even released funds to petitioners as credit availments under their existing credit lines. UBP argued that it exerted all efforts to raise the financing for the working capital requirement of petitioners and it cannot be faulted for the non-release of the funds due to petitioners' failure to comply with the credit and collateral requirements of the various banks participating in the syndicated financing.¹⁴

As regards the issue on the foreclosure of the REMs, UBP claimed that it had valid grounds to institute the foreclosure proceedings against the properties subject of the REM since petitioners defaulted in their payments and that it merely complied with the provisions in the RAs.¹⁵

The Ruling of the RTC

The RTC ruled in favor of petitioners and held that while the CLA and the MOA are interrelated and complementary and the same holds true for the RAs and the MOAs, it is undeniable that the CLAs and the RAs are independent from one another. The RAs pertain to the payment of the restructured loan obligations of petitioners, while the CLAs pertain to the available funds that petitioners may draw from UBP and utilize the proceeds thereof for working capital purposes.¹⁶

While UBP argued that the CLAs executed by RSC and AISMC were for the purpose of payment of interest on the previous restructured loans, the RTC, applying the Parol Evidence Rule under Section 9, Rule 130 of the Rules of Court, held that when an agreement has been reduced into writing, the parties cannot be permitted to adduce evidence to prove alleged practices which, to all purposes, would alter the terms of the agreement. The RTC opined that the CLA clearly indicated that the purpose of its execution is to

¹³ Id. at 64-65.

¹⁴ Id. at 65.

¹⁵ Id. at 1569.

¹⁶ Id. at 154.

provide working capital to petitioners and not to service existing debts and interest. Thus, the RTC ordered UBP to comply with the CLAs by releasing the funds needed for petitioners' working capital upon execution of the documents needed pursuant to the CLA.¹⁷

The RTC likewise awarded damages in favor of petitioners. With UBP's failure to comply with the terms of the CLA, petitioners were not able to sustain its business operations due to lack of raw materials and their properties were foreclosed. The RTC noted that the UBP failed to introduce evidence to refute petitioners' claim for damages and attorney's fees.¹⁸

The RTC also ruled that the foreclosure proceedings during the pendency of the case must be annulled for being premature. The RTC held that at the time of the filing of the complaint and before the foreclosure, petitioners' accounts were not yet due and demandable.¹⁹

The *fallo* of the RTC Decision reads as follows:

PREMISES CONSIDERED, judgment is hereby rendered as follows:

1. The foreclosure proceedings on and the sheriff's sale of all of [petitioners] Richardson Steel Corporation, Ayala Integrated Steel [Manufacturing] Co.[.] Inc. and Eastland Development Corporation properties mortgaged to the [respondent] Union Bank of the Philippines are hereby ordered and declared null and void and of no force and effect;

2. [T]he [respondent] Union Bank of the Philippines is ordered to release and deliver to the [petitioner] Richardson Steel Corporation the amount of one hundred fifty million (P150,000,000.00) Philippine currency for the latter's working capital requirements upon execution of the required commercial instruments and/or documents pursuant to the Credit Line Agreement;

3. [T]he [respondent] Union Bank of the Philippines is ordered to release and deliver to the [petitioner] Ayala Integrated Steel [Manufacturing Co., Inc.] the amount of thirty million (P30,000,000.00) Philippine currency for the latter's working capital requirements upon execution of the required commercial instruments and/or documents pursuant to the Credit Line Agreement;

4. [A]ll interest assessed upon the [petitioners] from December 3, 1999 up to the present in connection with or that resulted from or brought by the non-release of the credit availments covered by the credit line agreements are declared null and void. Interests on [petitioner]

¹⁷ Id. at 155 and 159.

¹⁸ Id. at 158.

¹⁹ Id. at 159.

corporations' obligations shall accrue and commence only upon the release of the working capital;

5. [T]he [respondent] Union Bank of the Philippines is ordered to pay [petitioners] Richardson Steel Corporation and Ayala Integrated Steel [Manufacturing Co.,] Inc. the amount of five million (P5,000,000.00) Philippine currency each as liquidated or compensatory damages;

6. [T]he [respondent] Union Bank of the Philippines is ordered to pay the [petitioner] Spouses Ricardo O. Cheng and Eleanor S. Cheng the amount of two million (P2,000,000.00) Philippine currency as and by way of moral damages;

7. [T]he [respondent] Union Bank of the Philippines is ordered to pay the [petitioners] the amount of five million (P5,000,000.00) Philippine currency as exemplary damages;

8. [T]he [respondent] Union Bank of the Philippines is ordered to pay the [petitioners] the amount of five hundred thousand (P500,000.00) Philippine currency as and by way of attorney's fees; and

9. [T]he cost of suit and expenses of litigation.

SO ORDERED.²⁰

Aggrieved, UBP appealed the case before the CA.

The Ruling of the CA

On appeal, the CA reversed and set aside the ruling of the RTC. The CA opined that even if the RAs have a different subject than the CLAs, this does not mean that the contracts should be interpreted separately especially since it is shown that the latter arose as a reasonable consequence of the former or that the contracts complement each other. The CA held that since the CLA and the RA were executed contemporaneously, they should not be treated independently.²¹ The CA further held that a reading of the terms and conditions of the CLA and the MOA shows that the proceeds of the credit line may be applied to interest payments on the restructured loans. This is with the conformity of the spouses Cheng who issued promissory notes and checks to be applied to interest payments. The CLA likewise provides a Set-Off Clause where UBP is authorized to release funds from the credit line to pay any and all obligations of petitioners, whether due or still to become due.²²

²⁰ Id. at 159-160.

²¹ Id. at 69-70.

²² Id. at 75.

The CA also upheld the foreclosure proceedings on the ground that petitioners were already in default of the restructured loans for having failed to pay the interest due therein. The CA declared that there is no factual or legal basis to award damages to petitioners.²³

The dispositive portion of the assailed CA Decision reads as follows:

WHEREFORE, the appeal is granted. The decision of the Regional Trial Court of Makati City, Branch 62 on November 12, 2012 is REVERSED and SET ASIDE. The complaint and counterclaims in Civil Case No. 01-575 entitled Richardson Steel Corporation, Ayala Integrated Steel Mfg. Co., Inc., Asian Footwear and Rubber Corp. and Spouses Ricardo O. Cheng and Eleanor S. Cheng versus Union Bank of the Philippines are DISMISSED.

SO ORDERED.²⁴

Petitioners moved for the reconsideration of the assailed CA Decision, however, such was denied through a Resolution²⁵ dated April 20, 2016. Thus, petitioners elevated the case before the Court through the present Petition for Review on *Certiorari* submitting the following grounds for the Court's resolution:

The Grounds

A. WITH ALL DUE RESPECT, THE FACTUAL FINDINGS OF THE [RTC] AND THE [CA] ARE CONTRADICTORY WHICH MERITS A REVIEW BY THE HONORABLE COURT OF THE FACTS EXTANT IN THIS CASE. x x x

B. THE DECISION OF THE HONORABLE [CA] IS CONTRARY TO THE FACTS AND EVIDENCE PRESENTED, AND CONTRADICTS AS WELL, THE LAW AND JURISPRUDENCE.

C. THE HONORABLE [CA] ERRED IN RULING THAT, BECAUSE THE MOA REFERRED TO BOTH THE RESTRUCTURING AGREEMENT AND CREDIT LINE AGREEMENT, THEY ARE COMPLEMENTARY CONTRACTS [AND] SHOULD BE CONSTRUED TOGETHER, AND THUS[,] THE CREDIT LINE AGREEMENT AND THE RESTRUCTURING AGREEMENT SHOULD NOT BE TREATED INDEPENDENTLY OF EACH OTHER.

D. THE HONORABLE [CA] ERRED IN RULING THAT, THE TERMS OF THE CREDIT LINE AGREEMENT AND [THE] MOA SHOW THAT THE PROCEEDS OF THE CREDIT LINE MAY BE APPLIED TO INTEREST PAYMENTS ON THE RESTRUCTURED

²³ Id. at 77.

²⁴ Id. at 78.

²⁵ Supra note 3.

LOAN; AND THAT, PETITIONERS HAD AUTHORIZED UNION BANK TO SET-OFF OR APPLY TO THE PAYMENT OF ANY AND ALL OBLIGATIONS, INCLUDING INTEREST PAYMENTS ON THE RESTRUCTURED LOAN, OF PETITIONERS TO UNION BANK WHETHER DUE OR TO BECOME DUE, ANY AMOUNT BELONGING TO PETITIONERS WHICH MAY COME INTO UNION BANK'S POSSESSION BY WAY OF DEPOSIT OR TO THE CREDIT OF OR BELONGING TO THE PETITIONERS.

E. THE HONORABLE [CA] ERRED IN RULING THAT, THE RTC ERRED: (I) IN DECLARING AS VOID THE FORECLOSURE OF MORTGAGE AND SALE OF PETITIONERS' PROPERTIES, (II) IN ORDERING UNION BANK TO RELEASE THE CREDIT AVAILMENTS IN FAVOR OF PETITIONERS, (III) IN AWARDING LIQUIDATED, COMPENSATORY, MORAL AND EXEMPLARY DAMAGES AND ATTORNEY'S FEES.²⁶

The Court's Ruling

The parameters of Rule 45 of the Rules of Court.

Time and time again, the Court has emphasized that it is not a trier of facts. Questions of facts and the re-assessment of the findings of the lower court, such as the interpretation and construction of contracts, are beyond the *ambit* of a petition for review on *certiorari* under Rule 45 of the Rules of Court. However, the Court has allowed some exceptions to this rule, to wit: (1) when the findings are grounded entirely on speculation, surmises or conjectures; (2) when the inference made is manifestly mistaken, absurd or impossible; (3) when there is grave abuse of discretion; (4) when the judgment is based on a misapprehension of facts; (5) when the findings of facts are conflicting; (6) when in making its findings the CA went beyond the issues of the case, or its findings are contrary to the admissions of both the appellant and the appellee; (7) when the findings are contrary to the trial court; (8) when the findings 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 petitioner's main and reply briefs are not disputed by the respondent; (10) when the findings of fact are premised on the supposed absence of evidence and contradicted by the evidence on record; and (11) when the CA manifestly overlooked certain relevant facts not disputed by the parties, which, if properly considered, would justify a different conclusion.²⁷

Herein petitioners submit that the circumstances of the case merit the review by the Court of the findings of fact made by the CA based on the following grounds: (a) the findings of fact of the CA and the RTC are

²⁶ *Rollo*, pp. 22-23.

²⁷ *Prudential Bank (now Bank of the Philippine Islands) v. Rapanot*, 803 Phil. 294, 306 (2017).

contradictory; (b) the CA failed to consider the admission by UBP that at the time it foreclosed petitioners' properties, the latter were not yet in default; and, (c) the CA failed to consider that UBP acted not in accord with the law in dealing with petitioners and thereby causing the latter irreparable damage and inquiry.

The exceptions are present in this case prompting the Court to recalibrate the assessment of the factual issues of the case, as well as to decide upon them in the interest of justice and in the exercise of the sound discretion of the Court.

The interpretation of the contracts.

The parties in this case diverge on their interpretation of three documents, namely: the RAs, the MOA and the CLA.

Petitioners filed the complaint for Specific Performance on the belief that: (a) UBP is obliged to release the loan under the agreed CLAs which were executed to finance the working capital requirement of their business and (b) that the CLAs are separate and distinct contracts from the RAs.

UBP, on the other hand, countered that: (a) the CLAs were executed to service the accrued interest of the restructured loan under the RAs; (b) the RAs and the CLAs were meant to be construed together and such fact was fully explained to the spouses Cheng; and (c) the contracts were executed to give petitioners a new lease in life and it would defy logic for a bank to extend another loan to a client who sought the restructuring of defaulted loan obligations.

While the RTC agreed with the position of petitioner, the CA found merit on the stance of UBP.

To elucidate, pertinent excerpts of the MOAs, the RAs, and the CLAs are hereby reproduced *verbatim*:

MEMORANDUM OF AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

AYALA INTEGRATED STEEL MANUFACTURING CO., INC., a corporation duly organized and existing under and by virtue of Philippine laws with office address at 186 Gen. Luis Street, Novaliches, Quezon City, hereinafter referred to as the "BORROWER"[;]

- and -



UNION BANK OF THE PHILIPPINES, a universal banking institution duly organized and existing under Philippine law with principal office at the SSS (Makati) Building, Ayala Avenue corner Herrera Street Makati City, hereinafter referred to as the "BANK"[;]

WITNESSETH:

WHEREAS, a Restructuring Agreement was executed on December 3, 1999 between the BORROWER and the BANK covering the indebtedness of the former to the latter in the amount of PESOS: FOUR HUNDRED SIXTY[-]EIGHT MILLION THREE HUNDRED SEVENTY[-]FOUR THOUSAND FIVE HUNDRED SEVENTY[-]TWO AND 16/100 (P468,374,572.16)[;]

WHEREAS, under the Restructuring Agreement, the BORROWER shall pay monthly interest on its restructured loan the rate of which shall be repriced monthly;

WHEREAS, the BORROWER has applied for Credit Line available within a period of two years which the BANK has approved subject to the conditions set forth hereunder;

NOW THEREFORE, for and in consideration of the foregoing premises and the covenants and stipulations set forth below, the parties agree as follows:

1. GRANT OF CREDIT LINE - The BANK shall grant and extend to the BORROWER a Credit Line available within a period of two (2) years starting from December 1999 up to December 3, 2001, subject to such conditions as may be approved by the BANK and embodied in a Credit Line Agreement;

2. AMOUNT OF LINE - The Credit Line shall be available to the BORROWER in the maximum amount of PESOS: ONE HUNDRED FIFTY MILLION (P150,000,000.00) through monthly partial releases in such amounts as determined by the BANK and subject to availability of funds;

x x x x

7. EXECUTION OF CREDIT LINE AGREEMENT- the BORROWER and the BANK shall [execute] a Credit Line Agreement containing the other terms and conditions covering the said line in addition [to] those set forth in this agreement[.]²⁸

MEMORANDUM OF AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

RICHARDSON STEEL CORPORATION, a corporation duly organized and existing under and by virtue of Philippine laws with office address at 668 Quirino Highway, Novaliches, Quezon City, hereinafter referred to as the "BORROWER";

²⁸ Rollo, pp. 113-114.

- and -

UNION BANK OF THE PHILIPPINES, a universal banking institution duly organized and existing under Philippine laws with principal office at the SSS (Makati) Building, Ayala Avenue corner Herrera Street, Makati City, hereinafter referred to as the "BANK";

WITNESSETH:

WHEREAS, a Restructuring Agreement was executed on December 3, 1999 between the BORROWER and the BANK covering the indebtedness of the former to the latter in the amount of:

Facility 1 (For Peso Denominated Loan) - PESOS: Fifty[-]Six Million Seven Hundred Seventy[-]One Thousand Five Hundred Sixty[-]Six and Three Centavos (P56,771,566.03).

Facility 2 (For Japanese Yen Denominated Loan) - YEN: Twenty[-]Four Million Three Hundred Fifty[-]One Thousand One Hundred Thirteen and Eighty[-]Seven Centavos (Y24,351,113.87).

Facility 3 (For Specialized Loans)

a. Existing Loans funded by DBP facilities - PESOS: One Hundred Eighty Million.

b. Amortizations falling due from 01-08-00 to 10-08-01 PESOS: One Hundred Seventy Million Six Hundred Seven Thousand Fifteen (P107,607,015.00).

WHEREAS, under the Restructuring Agreement, the BORROWER shall pay monthly interest x x x on its restructured loan the rate of which shall be [repriced] monthly and quarterly x x x;

WHEREAS, the BORROWER has applied for Credit Line available within a period of two (2) years which BANK has approved subject to the conditions set forth hereunder;

NOW, THEREFORE, for in consideration of the foregoing premises and the covenants and stipulations set forth below, the parties agree as follows:

1. GRANT OF CREDIT LINE - The BANK shall grant and extend and extend to the BORROWER a Credit Line available within a period of two (2) years starting from December 1999 up to December 3, 2001, subject to such conditions as may be approved by the BANK and embodied in a Credit Line Agreement;

2. AMOUNT OF [CREDIT] LINE - The Credit [L]ine shall be available to the BORROWER in the maximum amount of PESOS: THIRTY MILLION (P30,000,000.00) through monthly and quarterly partial releases x x x in such amount as determined by the BANK and subject to availability of funds;

x x x x



7. EXECUTION OF CREDIT LINE AGREEMENT - the BORROWER and the BANK shall execute a Credit Line Agreement containing the other terms and conditions covering the said line in addition [to] those set forth in this agreement[.]²⁹

RESTRUCTURING AGREEMENT

This Restructuring Agreement executed on December 03, 1999 at Makati City, by and between:

RICHARDSON STEEL CORPORATION, a corporation duly organized and existing under and by virtue of Philippines laws with office address at 668 Quirino Highway, Novaliches, Quezon City, hereinafter referred to as the "BORROWER";

- and -

UNION BANK OF THE PHILIPPINES, a universal banking institution duly organized and existing under Philippine laws with principal office at the SSS (Makati) Building, Ayala Avenue corner Herrera Street, Makati City, hereinafter referred to as the "BANK"[;]

WITNESSETH: That:

WHEREAS, the BORROWER and the BANK executed a Credit Line Agreement dated January 03, 1997 (the "Agreement") whereby the BANK granted credit accommodations to the BORROWER, evidenced by Promissory Notes (the "Note/s") executed by the BORROWER, the Agreement and the Notes being made integral parts hereof by reference.

WHEREAS, the BORROWER defaulted in its above-mentioned loans as of December 03, 1999, its outstanding obligations on the aforesaid Promissory Notes, inclusive of principal, capitalized interest, unpaid interest for the specialized loan, penalties, and other charges, are as follows:

- Facility 1 (For Peso Denominated Promissory Notes) - PESOS: Sixty[-]Four Million Three Hundred Twelve Thousand Hundred Forty Six and Thirteen Centavos (P64,312,846.13).
- Facility 2 (For Japanese Yen Denominated Promissory Notes) YEN: Twenty[-]Eight Million Six Hundred Fifty[-]Three Thousand Two Hundred Eight and Thirty[-]Four Centavos (Y28,653,208.34).

WHEREAS, the BORROWER has requested the BANK for the restructuring of its outstanding obligations and the 100% waiver of penalty in the amount of PESOS: Seven Million Six Hundred Twenty[-]Six Thousand Three Hundred Ten (P7,626,310.00) and JAPANESE YEN: Four Million Three Hundred Thirty[-]Eight Thousand Five Hundred Sixty[-]Six and Sixty[-]Seven Centavos (Y4,338,566.67); and the reduction of interest rate to 15% to be value dated January 1999 up to closing date.

²⁹ Id. at 116-117.



WHEREAS, the BANK has agreed to the BORROWER'S request for the restructuring of its loans with waiver of penalty and reduction of interest rate, subject to the following terms and conditions.³⁰

x x x x

RESTRUCTURING AGREEMENT

This Restructuring Agreement executed on December 03, 1999 at Makati City, by and between:

AYALA INTEGRATED STEEL MANUFACTURING CO., INC., a corporation duly organized and existing under and by virtue of Philippine laws with office address at 186 Gen. Luis Street, Novaliches Quezon City, hereinafter referred to as the "BORROWER";

- and -

UNION BANK OF THE PHILIPPINES, a universal banking institution duly organized and existing under Philippine laws with principal office at the SSS (Makati) Building, Ayala Avenue corner Herrera Street, Makati City, hereinafter referred to as the "BANK".

WITNESSETH: That:

WHEREAS, the BORROWER and the BANK executed a Credit Line Agreement dated February 29, 1996 (the "Agreement") whereby the BANK granted credit accommodations to the BORROWER, evidenced by Promissory Note/s (the "Notes") and Trust Receipts (the "TRs[") executed by the BORROWER, the Agreement, Notes and TRs being made integral parts hereof by reference.

WHEREAS, the BORROWER defaulted in its above-mentioned loans as of December 03, 1999, its outstanding obligations on the aforesaid Promissory Notes, and Trust receipts amounts to: PESOS Five Hundred Forty[-]Seven Million Four Hundred Fifty Thousand Eight Hundred Sixty[-]Five and Forty[-]Four Centavos (P547,450,865.44), inclusive of principal, capitalized interests, penalties, and other charges.

WHEREAS, the BORROWER has requested the BANK for the restructuring of its outstanding obligations and the 100% waiver of penalty in the amount of PESOS: Seventy[-]Nine Million Seven Hundred Seventy[-]Seven Thousand Eight Hundred Three and Eight Centavos (P79,777,803.08) and the reduction of interest rate to 15% to be value dated January 1999 up to closing date.

WHEREAS, the BANK has agreed to the BORROWER'S request for the restructuring of its loans and trust receipts with waiver of penalty and reduction of interest rate, subject to the following terms and conditions.³¹

x x x x

³⁰ Id. at 100.

³¹ Id. at 94.

RESTRUCTURING AGREEMENT

This Restructuring Agreement executed on December 03, 1999 at Makati City, by and between[:]

ASIAN FOOTWEAR AND RUBBER CORPORATION, a corporation duly organized and existing under and by virtue of Philippine laws with office address at 186 Gen. Luis Street, Novaliches, Quezon City, hereinafter referred to as the "BORROWER";

- and -

UNION BANK OF THE PHILIPPINES, a universal banking institution duly organized and existing under Philippine laws with principal office at the SSS (Makati) Building, Ayala Avenue corner Herrera Street, Makati City, hereinafter referred to as the "BANK".

WITNESSETH: That:

WHEREAS, the BORROWER and the BANK executed a Credit Line Agreement dated February 29, 1996 (the "Agreement") whereby the BANK granted credit accommodations to the BORROWER, evidenced by Promissory Note/s (the "Notes") executed by the BORROWER, the Agreement and the Notes being made integral parts hereof by reference.

WHEREAS, the BORROWER defaulted in its above-mentioned loans as of December 03, 1999, its outstanding obligations on the aforesaid Promissory Notes, inclusive of principal, penalties, and other charges, are as follows:

a. For Peso Denominated Promissory Notes - PESOS: One Hundred Ten Million Five Hundred Sixty[-]Four Thousand Five Hundred Thirty[-]One and Twelve Centavos (P110,564,531.12).

b. For Japanese Yen Denominated Promissory Notes - YEN: One Hundred Million Eight Hundred Seventy[-]Seven Thousand Two Hundred Thirty[-]Seven and Fifty[-]Two Centavos (Y100,877,237.52).

WHEREAS, the BORROWER has requested the BANK for the restructuring of its outstanding obligations and the 100% waiver of penalty in the amount of PESOS: Nineteen Million Six Hundred Thirty[-]Two Thousand Six Hundred Eighty[-]Three and Seventy[-]Eight Centavos (P19,632,683.78) and JAPANESE YEN: Fourteen Million Six Hundred Sixty[-]Nine Thousand Nine Hundred Sixteen and Ninety[-]Seven Centavos (Y14,669,916.97); and the reduction of interest rate to 15% to be value dated January 1999 up to closing date.

WHEREAS, the BANK has agreed to the BORROWER'S request for the restructuring of its loans with waiver of penalty and reduction of interest rate, subject to the following terms and conditions.³²

x x x x

³² Id. at 107.

RE: CREDIT LINE AGREEMENT

Sir/Gentlemen:

This confirms the agreement and understanding between UNIONBANK OF THE PHILIPPINES (the "Bank") and x x x (the "Client"), whereby the bank has agreed to grant the Client a credit line (the "Line") [via] the credit facilities applied for and approved by the Bank, under the following terms and conditions:

1. GRANT OF CREDIT LINE - The Bank agrees to make available to the client from time to time credit facilities in such amount/s as may be approved by the bank upon availment duly covered by availment documents referred to in Sec. 6 of this Agreement.

x x x x

4. PURPOSE/S - The proceeds from any availment/s of the Line shall be used exclusively for the purpose/s applied for and granted by the Bank. For working capital purposes.

x x x x

14. SET-OFF - In case of default of the Client, the Bank shall have the right at its option, and the Client fully authorizes the Bank to apply at any time to the payment of any and all obligations of the Client to the Bank, whether direct or contingent, whether now due or to become due, or whether previously, presently, or subsequently incurred, any amount now or hereafter on deposit with the Bank to the credit of or belonging to the Client, notwithstanding that such deposit/placement of the Client has matured or not.³³

The first issue to be resolved is whether the agreed credit line is primarily meant to service the interest payables of the restructured loans of petitioners based on the assertion of UBP that the "Working Capital" referred to in the CLAs encompass the accrued interest of the restructured loans.

It is a fundamental rule in the interpretation of contracts that if the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulation shall control.³⁴ The "plain-meaning-rule" is embodied under paragraph 1, Article 1370, of the Civil Code, which states that: "If the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control. If the words appear to be contrary to the evident intention of the parties, the latter shall prevail over the former."

³³ Id. at 119.

³⁴ *Palmares v. Court of Appeals*, 351 Phil. 664, 679 (1998).

The purpose of the Court in interpreting the contract is to determine the intent of the contracting parties. In *Abad v. Goldloop Properties, Inc.*,³⁵ it was explained that:

A court's purpose in examining a contract is to interpret the intent of the contracting parties, as objectively manifested by them. The process of interpreting a contract requires the court to make a preliminary inquiry as to whether the contract before it is ambiguous. A contract provision is ambiguous if it is susceptible of two reasonable alternative interpretations. Where the written terms of the contract are not ambiguous and can only be read one way, the court will interpret the contract as a matter of law. If the contract is determined to be ambiguous, then the interpretation of the contract is left to the court, to resolve the ambiguity in the light of the intrinsic evidence.

Applying the foregoing in the instant case, the terms of the subject contracts are clear, to wit: (a) the parties executed an RA to make the petitioners' defaulted loan up-to-date and to provide a more favorable payment terms to petitioners in a period of seven years; (b) the parties contemporaneously executed a MOA stating the execution of the Restuctured Loan Agreements and that the petitioners applied CLA with a term of two years and the amount of releases is equivalent to the monthly or quarterly interest payables on the restructured loans, but not to exceed the agreed aggregate value of the agreed Credit Line; (c) the CLAs were availed by petitioners for the purpose of financing the working capital of its business operations; (d) the CLA contains a Set-Off Clause that authorized the UBP to apply the proceeds of the credit line to any and all obligations of petitioners, in case of default.

After a careful review of the three contracts or agreements, the Court finds the assessment of the RTC more in line with the intent of the parties as objectively manifested by them in the said contracts. Considering that the written terms of the contracts in the case at bench are clear and devoid of ambiguity, the Court will interpret the contract as a matter of law between the parties.

Herein respondent UBP attempts to persuade the Court that the CLA is akin to an accessory or a complement to the RA. As such, UBP asserts that the provisions in the CLAs and the RAs must be construed together. In its assailed Decision, the CA agreed with UBP's stance and applied by analogy the "complementary-contracts-construed-together" doctrine. This application is premised on the fact that the three contracts were executed contemporaneously and that the spouses Cheng issued promissory notes and checks as payment for the interests accruing from the restructured loans and those checks were drawn from the credit line. The CA concluded that the

³⁵ 549 Phil. 641, 654 (2007).

issuance of the promissory notes and checks by the spouses Cheng shows that petitioners had full knowledge, awareness, and conformity with the arrangement — that is the proceeds of the credit line is used to pay the interest of the restructured loans as it comes due.³⁶

The application of the “complementary-contracts-construed-together” doctrine is clearly misplaced. The aforesaid doctrine requires that the stipulations, terms, and conditions of both the principal and accessory contracts must be construed together in order to arrive at the true intention of the parties.³⁷ Here, it is indubitable that there is no principal-accessory relationship between the RAs and the CLAs. The RAs and the CLAs are able to stand on their own and are not dependent on each other for their existence and validity. Likewise, the RAs and the CLAs have distinct and separate purposes, which are apparent on the face of the documents. The RAs show that the purpose of which is to modify the terms of an existing loan in order to help the petitioners recuperate and make their obligation up-to-date. On the other hand, the CLAs clearly indicate therein the purpose of its execution — to finance the working capital of the petitioners.

Furthermore, notwithstanding the findings of the CA that the promissory notes and the checks were issued to pay the interest payments under the restructured loan and were drawn against the credit line, the primary purpose as indicated in the CLAs still remains and should be applied — that is to finance the working capital of petitioners.

As properly pointed out by the RTC, “working capital” is a financial metric that represents operating liquidity of a business. Operating liquidity means the capability of the company to meet its near-term obligations as they come due.³⁸ Otherwise stated, along with the company’s fixed assets, such as property, plant and equipment, working capital forms part of the operating capital that funds maturing short-term debt and operational expenses.

Herein respondent UBP contends that the payment of accrued interest forms part of the “working capital” of a business. This is partly correct. An interest payable becomes part of the company’s working capital once it becomes current or once it accrues or falls due within the 12-month cycle of the calendar or fiscal year. Hence, contrary to the opinion of the RTC that the serviced debts are not classified as short-term considering that these pertain to interest payables on the long-term debts, it is worthy to emphasize that, generally, accruing interests of the restructured loans during the calendar or fiscal period are considered current debts and technically form

³⁶ *Rollo*, p. 75.

³⁷ See *Prudential Guarantee and Assurance, Inc. v. Anscor Land, Inc.*, 644 Phil. 634, 644 (2010).

³⁸ Business and Liquidity and the Operating Cycle. PrinciplesofAccounting.com <<https://www.principlesofaccounting.com/chapter-4/business-liquidity/>> (visited May 3, 2021).

part of the petitioner corporations' working capital.

Nonetheless, other than the interests or principal payments on current liabilities, a business needs to meet other current debts and expenses in order to sustain the operation of a business, such as the normal costs of running the business, *i.e.*, rent, utilities, materials, labor, supplies and other overhead expenses. As such, UBP cannot insist that the credit lines were executed primarily to extend a so-called "lifeline" to petitioners in order to enable them to pay only the interest due on the long-term restructured loans (7-year term) to the exclusion of all other current liabilities of petitioners. This postulation defies the very purpose of the execution of the CLAs: to meet the overall working capital requirement of petitioner corporations.

From the facts of the case, UBP knew from the very beginning that the purpose of the petitioners' availments under the CLA was to finance its working capital. To reiterate, such particular purpose was expressly specified in the CLA. It was also duly established that the CGL Plant was practically non-operational and/or had limited operating capacity for the years 1999 to 2001 due to scarcity in operating funds.³⁹ The petitioners were, thus, in need of fresh working capital to sustain the operations of the CGL Plant, which it then sought from UBP through the new CLA. Resultantly, UBP cannot plausibly argue that the petitioners' primary and sole motivation in securing a new CLA with UBP was to service its interest obligations for its restructured loans under the RAs.

The Court concurs with the RTC that the automatic application of the proceeds of the credit line to the payment of interest payables of the restructured loans as it comes due, without giving petitioners the choice and the opportunity to use its discretion on how to manage the proceeds of the credit line, is a clear circumvention of the agreement as expressly manifested in the CLA. With the failure of petitioners to manage the proceeds of the credit line to fund its overall operations, they were unduly deprived to realize profits which could have been used to augment their working capital and pay the current liabilities, including the current interest payables of the restructured loans.

Besides, conformably to the Parol Evidence Rule, when the terms of an agreement have been reduced to writing, it is considered as containing all the terms agreed upon and there can be, as between the parties and their successors-in-interest, no evidence of such terms other than the contents of the written agreement.⁴⁰ As a general rule, the parties to a written agreement are forbidden to add or contradict the terms thereof by testimony or other evidence purporting to show that different terms were agreed upon by the

³⁹ *Rollo*, p. 158.

⁴⁰ *Duvaz Corp. v. Export and Industry Bank*, 551 Phil. 382, 390 (2007).

parties, varying the purport of the written contract.⁴¹ As an exception, a party may put in issue any of the exceptions provided under Section 9,⁴² Rule 130 of the Rules of Court and may, therefore, present evidence to modify, explain, or add to the terms of the agreement. UBP had the burden of putting in issue in the pleadings and proving that the subject contracts had intrinsic ambiguity or failed to express the true intent of the parties. To the Court's assessment, UBP failed in this respect.

As regards the application of the Set-Off Clause, UBP cannot invoke Section 14 of the CLA as basis to apply the proceeds of the CLA as payment for petitioners' restructured loans under the RA since, as discussed earlier, these two contracts are independent of each other. Granting that the Set-Off Clause applies to other obligations outside of the CLA, it is crystal clear from the contract that such may be done only in case of default of petitioners. Here, UBP did not wait for petitioners to default on the payment of the restructured loans, but automatically charged the proceeds of the credit line to the interest payables. Thus, UBP cannot insist in prematurely applying the Set-Off Clause of the CLA.

Having entered into a well-defined contractual relationship, petitioners and respondent should honor the respective rights and obligations thereunder. It is well-entrenched, both in law and in jurisprudence, that obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.⁴³

Prescinding from the foregoing disquisitions, the RTC properly ruled that petitioners can legally demand from UBP the release of loan availments pursuant to the CLAs, subject to the compliance of the required promissory notes and other supporting documents, instead of automatically applying the proceeds thereof to the accruing interest payments of the restructured loans.

The foreclosure proceedings is premature.

The next issue is the validity of the foreclosure proceedings on the properties covered by the REMs. As the factual milieu of this case shows, properties of the petitioners served as collateral for the restructured loans.

⁴¹ *Mancol, Jr. v. Development Bank of the Philippines*, 821 Phil. 323, 333 (2017).

⁴² However, a party may present evidence to modify, explain or add to the terms of written agreement if he puts in issue in his pleading:

- (a) An intrinsic ambiguity, mistake or imperfection in the written agreement;
- (b) The failure of the written agreement to express the true intent and agreement of the parties thereto;
- (c) The validity of the written agreement; or
- (d) The existence of other terms agreed to by the parties or their successors in interest after the execution of the written agreement.

⁴³ *Premiere Development Bank v. Court of Appeals*, 471 Phil. 704, 716 (2004).

At the commencement of the complaint for Specific Performance before the RTC, UBP admitted that petitioners' obligations are not yet due and demandable. On October 20, 2003, during the pendency of the proceedings, UBP filed a petition for extrajudicial foreclosure of the subject properties. The RTC opined that the foreclosure was premature and that petitioners cannot be considered in default in view of UBP's unwillingness to fulfill its prestation under the MOA and the CLA. The CA, on the other hand, held that the records clearly show that petitioners are in default as can be found in UBP's Manifestation, Supplemental Answer, Pre-Trial Brief, Motion for Reconsideration, Demurrer to Evidence, and Memorandum, all of which were filed before the RTC.

The law is very specific when an obligor or a debtor is considered in default. Article 1169 of the Civil Code provides that:

Article 1169. Those obliged to deliver or to do something incur in delay from the time the obligee judicially or extrajudicially demands from them the fulfillment of their obligation.

However, the demand by the creditor shall not be necessary in order that delay may exist:

- (1) When the obligation or the law expressly so declare; or
- (2) When from the nature and the circumstances of the obligation it appears that the designation of the time when the thing is to be delivered or the service is to be rendered was a controlling motive for the establishment of the contract; or
- (3) When demand would be useless, as when the obligor has rendered it beyond his power to perform.

In reciprocal obligations, neither party incurs in delay if the other does not comply or is not ready to comply in a proper manner with what is incumbent upon him. From the moment one of the parties fulfills his obligation, delay by the other begins. (Emphasis supplied)

Here, it is extant in the records and duly established that petitioners availed of the CLA in order to finance its ailing operations. By automatically applying the proceeds of the CLA to the accruing interest on the restructured loans under the RA, the accounts were made up-to-date or in good standing. It was only during the pendency of the case that petitioners were declared in default due to failure of payments on the loan. With the refusal of UBP to release the loan proceeds under the CLA to the petitioners, it can be deemed that UBP reneged on its obligation under the CLA and failed to comply in the proper manner with what is incumbent upon it under contemplation of Article 1169 of the Civil Code.



The ruling of the Court in *Spouses Ong v. BPI Family Savings Bank, Inc.*⁴⁴ is instructive on this particular issue. The spouses Ong executed REMs in favor of Bank of Southeast Asia (BSA) as security for a term loan and credit line. When BSA refused to release the full amount of the credit line, the spouses Ong refused to pay the amortization of the term loans. When the Bank of the Philippine Islands (BPI) merged with BSA, BPI filed an extrajudicial foreclosure of the REMs for the spouses Ong's default on the term loan. The Court nullified the foreclosure proceedings on the ground of prematurity since the spouses Ong cannot be considered in default. The acquisition of the loan was based on BSA's promise to provide the spouses Ong with working capital for the expansion of their business. As a consequence of BSA's refusal to release the credit line, the spouses Ong were not able to purchase machineries and equipment that were essential to their business resulting to the cancellation of purchase orders of clients. Hence, no default can be attributed to the spouses Ong due to the failure of BSA/BPI to release the whole amount of the loans under the credit line.

Under the circumstances, the foreclosure of the REMs is deemed premature, and therefore, void and ineffectual.

The award of damages and attorney's fees.

As regards the propriety in the award of damages, there is no legal and sufficient basis to award actual or compensatory and moral damages. Actual or compensatory damages must be with a reasonable degree of certainty, premised upon competent proof and on the best evidence obtainable.⁴⁵ The grant of actual damages in the amount of ₱5,000,000.00 by the RTC on account of the stoppage of operations is purely based on estimate of unrealized profits or opportunity loss, thus, is deleted for lack of legal and evidentiary basis. Anent the award of moral damages, notably, the RTC failed to discuss the basis of awarding the same to the spouses Cheng. After a perusal of the records, there is lack of sufficient basis to grant the award of moral damages.

With respect to the award of exemplary damages, such has been granted to set an example for the public good. Considering that a banking institution is expected to uphold a higher standard of integrity and that its transactions are imbued with public interest, it is imperative upon UBP to stand guard against injury attributable to its negligence or bad faith.⁴⁶ Thus, the Court finds it proper to award exemplary damages in the amount of ₱5,000,000.00. This serves as an example and warning to banks to observe

⁴⁴ 824 Phil. 439 (2018).

⁴⁵ Id. at 452.

⁴⁶ *Solidbank Corporation v. Spouses Arrieta*, 492 Phil. 95, 105 (2005).

the requisite care and diligence in all of their affairs.⁴⁷

The award of attorney's fees in the amount of ₱500,000.00 is found to be excessive, and thus, reduced to ₱300,000.00.

WHEREFORE, the present Petition for Review on *Certiorari* is **PARTLY GRANTED**. Accordingly, the Decision dated June 29, 2015 and the Resolution dated April 20, 2016 of the Court of Appeals in CA-GR. CV No. 100331 are **REVERSED** and **SET ASIDE** and the Decision dated June 4, 2012 of the Regional Trial Court of Makati City, Branch 62, in Civil Case No. 01-575 is **REINSTATED with MODIFICATIONS** in that:

1. The foreclosure proceedings on and the sheriff's sale of all of petitioners Richardson Steel Corporation, Ayala Integrated Steel Manufacturing Co., Inc. and Eastland Development Corporation properties mortgaged to respondent Union Bank of the Philippines are hereby ordered and declared null and void and of no force and effect;

2. Respondent Union Bank of the Philippines is ordered to release and deliver to petitioner Richardson Steel Corporation the amount of ₱150,000,000.00 for petitioners' working capital requirements subject to the conditions set forth in the Credit Line Agreement;

3. Respondent Union Bank of the Philippines is ordered to release and deliver to petitioner Ayala Integrated Steel Manufacturing Co., Inc. the amount of ₱30,000,000.00 for the latter's working capital requirements subject to the conditions set forth in the Credit Line Agreement;

4. All interests assessed upon the petitioners from December 3, 1999 up to the present in connection with or that resulted from or brought by the non-release of the credit availments covered by the Credit Line Agreements are declared null and void. Interests on petitioner corporations' obligations shall accrue and commence only upon the release of the working capital;

5. Respondent Union Bank of the Philippines is ordered to pay petitioners the amount of ₱5,000,000.00 as exemplary damages;

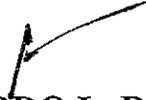
⁴⁷ *Poole-Blunden v. Union Bank of the Philippines*, 821 Phil. 915, 938 (2017).

6. Respondent Union Bank of the Philippines is ordered to pay petitioners the amount of ₱300,000.00 as and by way of attorney's fees; and

7. Respondent Union Bank of the Philippines is ordered to pay petitioners the cost of suit and expenses of litigation.

Likewise, a legal interest of 6% *per annum* shall be imposed on the amounts of all damages reckoned from the finality of this Decision.

SO ORDERED.


EDGARDO L. DELOS SANTOS
Associate Justice

WE CONCUR:



MARVIC MARIO VICTOR F. LEONEN
Associate Justice
Chairperson



RAMON PAUL L. HERNANDO
Associate Justice



HENRI JEAN PAUL B. INTING
Associate Justice



JHOSEP V. LOPEZ
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.



MARVIC MARIO VICTOR F. LEONEN
Associate Justice
Chairperson, Third Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division 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