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FIRST DIVISION

[G.R. No. 171805. May 30, 2011]

PHILIPPINE NATIONAL BANK, *petitioner, vs.* **MERELO B. AZNAR; MATIAS B. AZNAR III; JOSE L. AZNAR (deceased), represented by his heirs; RAMON A. BARCENILLA; ROSARIO T. BARCENILLA; JOSE B. ENAD (deceased), represented by his heirs; and RICARDO GABUYA (deceased), represented by his heirs,** *respondents.*

[G.R. No. 172021. May 30, 2011]

MERELO B. AZNAR and MATIAS B. AZNAR III, *petitioners, vs.* **PHILIPPINE NATIONAL BANK,** *respondent.*

SYLLABUS

1. REMEDIAL LAW; CIVIL PROCEDURE; JUDGMENT ON THE PLEADINGS; BASED EXCLUSIVELY UPON THE ALLEGATIONS APPEARING IN THE PLEADINGS OF THE PARTIES AND THE ANNEXES, IF ANY, WITHOUT CONSIDERATION OF ANY EVIDENCE *ALIUNDE*. — The legal basis for rendering a judgment on the pleadings can be found in Section 1, Rule 34 of the Rules of Court which states that "[w]here an answer fails to tender an issue, or otherwise admits the material allegations of the adverse party's pleading, the court may, on motion of that party, direct judgment on such pleading. x x x." Judgment on the pleadings is, therefore, based exclusively upon the allegations appearing in the pleadings of the parties and the annexes, if any, without consideration of any evidence *aliunde*. However, when it appears that not all the material allegations of the complaint were admitted in the answer for some of them were either denied or disputed, and the defendant has set up certain special defenses which, if proven, would have the effect of nullifying plaintiff's main cause of action, judgment on the pleadings cannot be rendered.

2. CIVIL LAW; OBLIGATIONS AND CONTRACTS; TRUSTS, DEFINED; KINDS. — Trust is the right to the beneficial

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enjoyment of property, the legal title to which is vested in another. It is a fiduciary relationship that obliges the trustee to deal with the property for the benefit of the beneficiary. Trust relations between parties may either be express or implied. An express trust is created by the intention of the trustor or of the parties. An implied trust comes into being by operation of law.

3. ID.; ID.; ID.; EXPRESS TRUST; INTENTIONALLY CREATED BY THE DIRECT AND POSITIVE ACTS OF THE TRUSTOR. — Express trusts, sometimes referred to as direct trusts, are intentionally created by the direct and positive acts of the settlor or the trustor — by some writing, deed, or will or oral declaration. It is created not necessarily by some written words, but by the direct and positive acts of the parties. This is in consonance with Article 1444 of the Civil Code, which states that "[n]o particular words are required for the creation of an express trust, it being sufficient that a trust is clearly intended." In other words, the creation of an express trust must be manifested with reasonable certainty and cannot be inferred from loose and vague declarations or from ambiguous circumstances susceptible of other interpretations.

4. ID.; PROPERTY, OWNERSHIP, AND ITS MODIFICATIONS; OWNERSHIP; QUIETING OF TITLE; A PARTY HAS NO RIGHT TO ASK FOR THE QUIETING OF TITLE IF HE HAS NO LEGAL AND/OR EQUITABLE RIGHT OVER THE SUBJECT PROPERTY; CASE AT BAR. — [W]e find that Aznar, *et al.*, have no right to ask for the quieting of title of the properties at issue because they have no legal and/or equitable rights over the properties that are derived from the previous registered owner which is RISCO, the pertinent provision of the law is Section 2 of the Corporation Code (*Batas Pambansa Blg. 68*), which states that "[a] corporation is an artificial being created by operation of law, having the right of succession and the powers, attributes and properties expressly authorized by law or incident to its existence." As a consequence thereof, a corporation has a personality separate and distinct from those of its stockholders and other corporations to which it may be connected. Thus, we had previously ruled in *Magsaysay-Labrador v. Court of Appeals* that the interest of the stockholders over the properties of the corporation is merely inchoate and therefore does not

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entitle them to intervene in litigation involving corporate property x x x. In the case at bar, there is no allegation, much less any proof, that the corporate existence of RISCO has ceased and the corporate property has been liquidated and distributed to the stockholders. The records only indicate that, as per Securities and Exchange Commission (SEC) Certification dated June 18, 1997, the SEC merely suspended RISCO's Certificate of Registration beginning on September 5, 1988 due to its non-submission of SEC required reports and its failure to operate for a continuous period of at least five years. Verily, Aznar, *et al.*, who are stockholders of RISCO, cannot claim ownership over the properties at issue in this case on the strength of the Minutes which, at most, is merely evidence of a loan agreement between them and the company. There is no indication or even a suggestion that the ownership of said properties were transferred to them which would require no less that the said properties be registered under their names. For this reason, the complaint should be dismissed since Aznar, *et al.*, have no cause to seek a quieting of title over the subject properties.

5. ID.; PRESCRIPTION OF ACTIONS; AN ACTION TO ENFORCE A WRITTEN CONTRACT MUST BE BROUGHT WITHIN TEN YEARS FROM THE TIME THE RIGHT OF ACTION ACCRUES; CASE AT BAR. — At most, what Aznar, *et al.*, had was merely a right to be repaid the amount loaned to RISCO. Unfortunately, the right to seek repayment or reimbursement of their contributions used to purchase the subject properties is already barred by prescription. Section 1, Rule 9 of the Rules of Court provides that when it appears from the pleadings or the evidence on record that the action is already barred by the statute of limitations, the court shall dismiss the claim x x x. The pertinent Civil Code provision on prescription which is applicable to the issue at hand is Article 1144(1), to wit: "The following actions must be brought within ten years from the time the right of action accrues: **Upon a written contract** x x x." Moreover, in *Nielson & Co., Inc. v. Lepanto Consolidated Mining Co.*, we held that the term "written contract" includes the minutes of the meeting of the board of directors of a corporation, which minutes were adopted by the parties although not signed by them x x x. Applied to the case at bar, the Minutes which was approved on March 14, 1961 is considered as a written contract between Aznar, *et al.*, and RISCO for the reimbursement of the

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contributions of the former. As such, the former had a period of ten (10) years from 1961 within which to enforce the said written contract. However, it does not appear that Aznar, *et al.*, filed any action for reimbursement or refund of their contributions against RISCO or even against PNB. Instead the suit that Aznar, *et al.*, brought before the trial court only on January 28, 1998 was one to quiet title over the properties purchased by RISCO with their contributions. It is unmistakable that their right of action to claim for refund or payment of their contributions had long prescribed. Thus, it was reversible error for the Court of Appeals to order PNB to pay Aznar, *et al.*, the amount of their liens based on the Minutes with legal interests from the time of PNB's acquisition of the subject properties.

APPEARANCES OF COUNSEL

Alvin C. Go for PNB.
Navarro & Associates for Merelo B. Aznar, *et al.*

D E C I S I O N

LEONARDO-DE CASTRO, *J.*:

Before the Court are two petitions for review on *certiorari* under Rule 45 of the Rules of Court both seeking to annul and set aside the Decision[1] dated September 29, 2005 as well as the Resolution[2] dated March 6, 2006 of the Court of Appeals in CA-G.R. CV No. 75744, entitled "*Merelo B. Aznar, Matias B. Aznar III, Jose L. Aznar (deceased) represented by his heirs, Ramon A. Barcenilla (deceased) represented by his heirs, Rosario T. Barcenilla, Jose B. Enad (deceased) represented by his heirs, and Ricardo Gabuya (deceased) represented by his heirs v. Philippine National Bank, Jose Garrido and Register of Deeds of Cebu City.*" The September 29, 2005 Decision of

[1] *Rollo* (G.R. No. 171805), pp. 75-88; penned by Associate Justice Arsenio J. Magpale with Associate Justices Vicente L. Yap and Apolinario D. Bruselas, Jr., concurring.

[2] *Id.* at 90-91.

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the Court of Appeals set aside the Decision[3] dated November 18, 1998 of the Regional Trial Court (RTC) of Cebu City, Branch 17, in Civil Case No. CEB-21511. Furthermore, it ordered the Philippine National Bank (PNB) to pay Merelo B. Aznar; Matias B. Aznar III; Jose L. Aznar (deceased), represented by his heirs; Ramon A. Barcenilla (deceased), represented by his heirs; Rosario T. Barcenilla; Jose B. Enad (deceased), represented by his heirs; and Ricardo Gabuya (deceased), represented by his heirs (Aznar, *et al.*), the amount of their lien based on the Minutes of the Special Meeting of the Board of Directors[4] (Minutes) of the defunct Rural Insurance and Surety Company, Inc. (RISCO) duly annotated on the titles of three parcels of land, plus legal interests from the time of PNB's acquisition of the subject properties until the finality of the judgment but dismissing all other claims of Aznar, *et al.* On the other hand, the March 6, 2006 Resolution of the Court of Appeals denied the Motion for Reconsideration subsequently filed by each party.

The facts of this case, as stated in the Decision dated September 29, 2005 of the Court of Appeals, are as follows:

> In 1958, RISCO ceased operation due to business reverses. In plaintiffs' desire to rehabilitate RISCO, they contributed a total amount of **₱212,720.00** which was used in the purchase of the three (3) parcels of land described as follows:
>
> > "A parcel of land (Lot No. 3597 of the Talisay-Minglanilla Estate, G.L.R.O. Record No. 3732) situated in the Municipality of Talisay, Province of Cebu, Island of Cebu. xxx containing an area of SEVENTY[-]EIGHT THOUSAND ONE HUNDRED EIGHTY[-]FIVE SQUARE METERS (78,185) more or less. x x x" covered by Transfer Certificate of Title No. 8921 in the name of Rural Insurance & Surety Co., Inc.";
> >
> > "A parcel of land (Lot 7380 of the Talisay Minglanilla Estate, G.L.R.O. Record No. 3732), situated in the Municipality of Talisay, Province of Cebu, Island of Cebu. x x x containing an area of THREE HUNDRED TWENTY[-]NINE THOUSAND

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[3] *Id.* at 157-166.

[4] *Id.* at 128-130.

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FIVE HUNDRED FORTY[-]SEVEN SQUARE METERS (329,547), more or less. x x x" covered by Transfer Certificate of Title No. 8922 in the name of Rural Insurance & Surety Co., Inc." and

"A parcel of land (Lot 1323 of the subdivision plan Psd-No. 5988), situated in the District of Lahug, City of Cebu, Island of Cebu. x x x containing an area of FIFTY[-]FIVE THOUSAND SIX HUNDRED FIFTY[-]THREE (55,653) SQUARE METERS, more or less." covered by Transfer Certificate of Title No. 24576 in the name of Rural Insurance & Surety Co., Inc."

After the purchase of the above lots, titles were issued in the name of RISCO. The amount contributed by plaintiffs constituted as liens and encumbrances on the aforementioned properties as annotated in the titles of said lots. Such annotation was made pursuant to the **Minutes of the Special Meeting of the Board of Directors of RISCO** (hereinafter referred to as the "Minutes") on March 14, 1961, pertinent portion of which states:

x x x x x x x x x

3. The President then explained that in a special meeting of the stockholders previously called for the purpose of putting up certain amount of ₱212,720.00 for the rehabilitation of the Company, the following stockholders contributed the amounts indicated opposite their names:

CONTRIBUTED SURPLUS

MERELO B. AZNAR	₱50,000.00
MATIAS B. AZNAR	50,000.00
JOSE L. AZNAR	27,720.00
RAMON A. BARCENILLA	25,000.00
ROSARIO T. BARCENILLA	25,000.00
JOSE B. ENAD	17,500.00
RICARDO GABUYA	17,500.00
	212,720.00

x x x x x x x x x

And that the respective contributions above-mentioned shall constitute as their **lien or interest** on the property described above, if and when said property are titled in the name of RURAL INSURANCE & SURETY CO., INC., subject to

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registration as their adverse claim in pursuance of the Provisions of Land Registration Act, (Act No. 496, as amended) until such time their respective contributions are refunded to them completely.

x x x x x x x x x"

Thereafter, various subsequent annotations were made on the same titles, including the Notice of Attachment and Writ of Execution both dated August 3, 1962 in favor of herein defendant PNB, to wit:

On TCT No. 8921 for Lot 3597:

Entry No. 7416-V-4-D.B. – Notice of Attachment – By the Provincial Sheriff of Cebu, Civil Case No. 47725, Court of First Instance of Manila, entitled "*Philippine National Bank, Plaintiff, versus Iluminada Gonzales, et al., Defendants,*" attaching all rights, interest and participation of the defendant Iluminada Gonzales and Rural Insurance & Surety Co., Inc. of the two parcels of land covered by T.C.T. Nos. 8921, Attachment No. 330 and 185.

Date of Instrument – August 3, 1962.
Date of Inscription – August 3, 1962, 3:00 P.M.

Entry No. 7417-V-4-D.B. – Writ of Execution – By the Court of First Instance of Manila, commanding the Provincial Sheriff of Cebu, of the lands and buildings of the defendants, to make the sum of Seventy[-]One Thousand Three Hundred Pesos (₱71,300.00) plus interest *etc*., in connection with Civil Case No. 47725, File No. T-8021.

Date of Instrument – July 21, 1962.
Date of Inscription – August 3, 1962, 3:00 P.M.

Entry No. 7512-V-4-D.B. – Notice of Attachment – By the Provincial Sheriff of Cebu, Civil Case Nos. IV-74065, 73929, 74129, 72818, in the Municipal Court of the City of Manila, entitled "*Jose Garrido, Plaintiff, versus Rural Insurance & Surety Co., Inc., et als., Defendants,*" attaching all rights, interests and participation of the defendants, to the parcels of land covered by T.C.T. Nos. 8921 & 8922 Attachment No. 186, File No. T-8921.

Date of the Instrument – August 16, 1962.
Date of Inscription – August 16, 1962, 2:50 P.M.

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Entry No. 7513-V-4-D.B. – Writ of Execution – By the Municipal Court of the City of Manila, commanding the Provincial Sheriff of Cebu, of the lands and buildings of the defendants, to make the sum of Three Thousand Pesos (₱3,000.00), with interest at 12% per annum from July 20, 1959, in connection with Civil Case Nos. IV-74065, 73929, 74613 annotated above.

File No. T-8921
Date of the Instrument – August 11, 1962.
Date of the Inscription – August 16, 1962, 2:50 P.M.

On TCT No. 8922 for Lot 7380:
(Same as the annotations on TCT 8921)

On TCT No. 24576 for Lot 1328 (Corrected to Lot 1323-c per court order):

Entry No. 1660-V-7-D.B. – Notice of Attachment – by the Provincial Sheriff of Cebu, Civil Case No. 47725, Court of First Instance of Manila, entitled "*Philippine National Bank, Plaintiff, versus, Iluminada Gonzales, et al., Defendants*", attaching all rights, interest, and participation of the defendants Iluminada Gonzales and Rural Insurance & Surety Co., Inc. of the parcel of land herein described.
Attachment No. 330 & 185.
Date of Instrument – August 3, 1962.
Date of Inscription – August 3, 1962, 3:00 P.M.

Entry No. 1661-V-7-D.B. – Writ of Execution by the Court of First Instance of Manila commanding the Provincial Sheriff of Cebu, of the lands and buildings of the defendants to make the sum of Seventy[-]One Thousand Three Hundred Pesos (₱71,300.00), plus interest, *etc*., in connection with Civil Case No. 47725.
File No. T-8921.
Date of the Instrument – July 21, 1962.
Date of the Inscription – August 3, 1962 3:00 P.M.

Entry No. 1861-V-7-D.B. – Notice of Attachment – By the Provincial Sheriff of Cebu, Civil Case Nos. IV-74065, 73929, 74129, 72613 & 72871, in the Municipal Court of the City of Manila, entitled "*Jose Garrido, Plaintiff, versus Rural Insurance & Surety Co., Inc., et als., Defendants*," attaching all rights,

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interest and participation of the defendants, to the parcel of land herein described.
Attachment No. 186.
File No. T-8921.
Date of the Instrument – August 16, 1962.
Date of the Instription – August 16, 1962 2:50 P.M.

Entry No. 1862-V-7-D.B. – Writ of Execution – by the Municipal Court of Manila, commanding the Provincial Sheriff of Cebu, of the lands and buildings of the Defendants, to make the sum of Three Thousand Pesos (₱3,000.00), with interest at 12% per annum from July 20, 1959, in connection with Civil Case Nos. IV-74065, 73929, 74129, 72613 & 72871 annotated above.
File No. T-8921.
Date of the Instrument – August 11, 1962.
Date of the Inscription – August 16, 1962 at 2:50 P.M.

As a result, a Certificate of Sale was issued in favor of Philippine National Bank, being the lone and highest bidder of the three (3) parcels of land known as Lot Nos. 3597 and 7380, covered by T.C.T. Nos. 8921 and 8922, respectively, both situated at Talisay, Cebu, and Lot No. 1328-C covered by T.C.T. No. 24576 situated at Cebu City, for the amount of Thirty-One Thousand Four Hundred Thirty Pesos (₱31,430.00). Thereafter, a Final Deed of Sale dated May 27, 1991 in favor of the Philippine National Bank was also issued and Transfer Certificate of Title No. 24576 for Lot 1328-C (corrected to 1323-C) was cancelled and a new certificate of title, TCT 119848 was issued in the name of PNB on August 26, 1991.

This prompted plaintiffs-appellees to file the instant complaint seeking the quieting of their supposed title to the subject properties, declaratory relief, cancellation of TCT and reconveyance with temporary restraining order and preliminary injunction. Plaintiffs alleged that the subsequent annotations on the titles are subject to the prior annotation of their liens and encumbrances. Plaintiffs further contended that the subsequent writs and processes annotated on the titles are all null and void for want of valid service upon RISCO and on them, as stockholders. They argued that the Final Deed of Sale and TCT No. 119848 are null and void as these were issued only after 28 years and that any right which PNB may have over the properties had long become stale.

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Defendant PNB on the other hand countered that plaintiffs have no right of action for quieting of title since the order of the court directing the issuance of titles to PNB had already become final and executory and their validity cannot be attacked except in a direct proceeding for their annulment. Defendant further asserted that plaintiffs, as mere stockholders of RISCO do not have any legal or equitable right over the properties of the corporation. PNB posited that even if plaintiff's monetary lien had not expired, their only recourse was to require the reimbursement or refund of their contribution.[5]

Aznar, *et al.*, filed a Manifestation and Motion for Judgment on the Pleadings[6] on October 5, 1998. Thus, the trial court rendered the November 18, 1998 Decision, which ruled against PNB on the basis that there was an express trust created over the subject properties whereby RISCO was the trustee and the stockholders, Aznar, *et al.*, were the beneficiaries or the *cestui que trust*. The dispositive portion of the said ruling reads:

WHEREFORE, judgment is hereby rendered as follows:

a) Declaring the Minutes of the Special Meeting of the Board of Directors of RISCO approved on March 14, 1961 (Annex "E," Complaint) annotated on the titles to subject properties on May 15, 1962 as an express trust whereby RISCO was a mere trustee and the above-mentioned stockholders as beneficiaries being the true and lawful owners of Lots 3597, 7380 and 1323;

b) Declaring all the subsequent annotations of court writs and processes, to wit: Entry No. 7416-V-4-D.B., 7417-V-4-D.B., 7512-V-4-D.B., and 7513-V-4-D.B. in TCT No. 8921 for Lot 3597 and TCT No. 8922 for Lot 7380; Entry No. 1660-V-7-D.B., Entry No. 1661-V-7-D.B., Entry No. 1861-V-7-D.B., Entry No. 1862-V-7-D.B., Entry No. 4329-V-7-D.B., Entry No. 3761-V-7-D.B. and Entry No. 26522-V-34, D.B. on TCT No. 24576 for Lot 1323-C, and all other subsequent annotations thereon in favor of third persons, as null and void;

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[5] *Id.* at 76-80.

[6] *Id.* at 131-134.

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c) Directing the Register of Deeds of the Province of Cebu and/or the Register of Deeds of Cebu City, as the case may be, to cancel all these annotations mentioned in paragraph b) above the titles;

d) Directing the Register of Deeds of the Province of Cebu to cancel and/or annul TCTs Nos. 8921 and 8922 in the name of RISCO, and to issue another titles in the names of the plaintiffs; and

e) Directing Philippine National Bank to reconvey TCT No. 119848 in favor of the plaintiffs.[7]

PNB appealed the adverse ruling to the Court of Appeals which, in its September 29, 2005 Decision, set aside the judgment of the trial court. Although the Court of Appeals agreed with the trial court that a judgment on the pleadings was proper, the appellate court opined that the monetary contributions made by Aznar, *et al.*, to RISCO can only be characterized as a loan secured by a lien on the subject lots, rather than an express trust. Thus, it directed PNB to pay Aznar, *et al.*, the amount of their contributions plus legal interest from the time of acquisition of the property until finality of judgment. The dispositive portion of the decision reads:

WHEREFORE, premises considered, the assailed Judgment is hereby SET ASIDE.

A new judgment is rendered ordering Philippine National Bank to pay plaintiffs-appellees the amount of their lien based on the *Minutes of the Special Meeting of the Board of Directors* duly annotated on the titles, plus legal interests from the time of appellants' acquisition of the subject properties until the finality of this judgment.

All other claims of the plaintiffs-appellees are hereby DISMISSED.[8]

Both parties moved for reconsideration but these were denied by the Court of Appeals. Hence, each party filed with this Court their respective petitions for review on *certiorari* under Rule

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[7] *Id.* at 165-166.

[8] *Id.* at 87.

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45 of the Rules of Court, which were consolidated in a Resolution[9] dated October 2, 2006.

In PNB's petition, docketed as G.R. No. 171805, the following assignment of errors were raised:

I

THE COURT OF APPEALS ERRED IN AFFIRMING THE FINDINGS OF THE TRIAL COURT THAT A JUDGMENT ON THE PLEADINGS WAS WARRANTED DESPITE THE EXISTENCE OF GENUINE ISSUES OF FACTS ALLEGED IN PETITIONER PNB'S ANSWER.

II

THE HONORABLE COURT OF APPEALS ERRED IN HOLDING THAT THE RIGHT OF RESPONDENTS TO REFUND OR REPAYMENT OF THEIR CONTRIBUTIONS HAD NOT PRESCRIBED AND/OR THAT THE MINUTES OF THE SPECIAL MEETING OF THE BOARD OF DIRECTORS OF RISCO CONSTITUTED AS AN EFFECTIVE ADVERSE CLAIM.

III

THE COURT OF APPEALS ERRED IN NOT CONSIDERING THE DISMISSAL OF THE COMPLAINT ON GROUNDS OF *RES JUDICATA* AND LACK OF CAUSE OF ACTION ALLEGED BY PETITIONER IN ITS ANSWER.[10]

On the other hand, Aznar, *et al.*'s petition, docketed as G.R. No. 172021, raised the following issue:

THE COURT OF APPEALS ERRED IN CONCLUDING THAT THE CONTRIBUTIONS MADE BY THE STOCKHOLDERS OF RISCO WERE MERELY A LOAN SECURED BY THEIR LIEN OVER THE PROPERTIES, SUBJECT TO REIMBURSEMENT OR REFUND, RATHER THAN AN EXPRESS TRUST.[11]

Anent the first issue raised in G.R. No. 171805, PNB argues that a judgment on the pleadings was not proper because its

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[9] *Id.* at 299.

[10] *Id.* at 49-50.

[11] *Rollo* (G.R. No. 172021), p. 19.

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Answer,[12] which it filed during the trial court proceedings of this case, tendered genuine issues of fact since it did not only deny material allegations in Aznar, *et al.*'s Complaint[13] but also set up special and affirmative defenses. Furthermore, PNB maintains that, by virtue of the trial court's judgment on the pleadings, it was denied its right to present evidence and, therefore, it was denied due process.

The contention is meritorious.

The legal basis for rendering a judgment on the pleadings can be found in Section 1, Rule 34 of the Rules of Court which states that "[w]here an answer fails to tender an issue, or otherwise admits the material allegations of the adverse party's pleading, the court may, on motion of that party, direct judgment on such pleading. x x x."

Judgment on the pleadings is, therefore, based exclusively upon the allegations appearing in the pleadings of the parties and the annexes, if any, without consideration of any evidence *aliunde*.[14] However, when it appears that not all the material allegations of the complaint were admitted in the answer for some of them were either denied or disputed, and the defendant has set up certain special defenses which, if proven, would have the effect of nullifying plaintiff's main cause of action, judgment on the pleadings cannot be rendered.[15]

In the case at bar, the Court of Appeals justified the trial court's resort to a judgment on the pleadings in the following manner:

> Perusal of the complaint, particularly, Paragraph 7 thereof reveals:
>
> "7. That in their desire to rehabilitate RISCO, the above-named stockholders contributed a total amount of Php212,720.00

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[12] *Rollo* (G.R. No. 171805), pp. 120-127.

[13] *Id.* at 92-119.

[14] *Pacific Rehouse Corporation v. EIB Securities, Inc.*, G.R. No. 184036, October 13, 2010.

[15] *Municipality of Tiwi v. Betito*, G.R. No. 171873, July 9, 2010, 624 SCRA 623, 638.

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> which was used in the purchase of the above-described parcels of land, which amount constituted liens and encumbrances on subject properties in favor of the above-named stockholders as annotated in the titles adverted to above, pursuant to the Minutes of the Special Meeting of the Board of Directors of RISCO approved on March 14, 1961, a copy of which is hereto attached as Annex "E".

On the other hand, defendant in its Answer, admitted the aforequoted allegation with the qualification that the amount put up by the stockholders was "used as part payment" for the properties. Defendant further averred that plaintiff's liens and encumbrances annotated on the titles issued to RISCO constituted as "loan from the stockholders to pay part of the purchase price of the properties" and "was a personal obligation of RISCO and was thus not a claim adverse to the ownership rights of the corporation." With these averments, We do not find error on the part of the trial court in rendering a judgment on the pleadings. For one, the qualification made by defendant in its answer is not sufficient to controvert the allegations raised in the complaint. As to defendants' contention that the money contributed by plaintiffs was in fact a "loan" from the stockholders, reference can be made to the Minutes of the Special Meeting of the Board of Directors, from which plaintiffs-appellees anchored their complaint, in order to ascertain the true nature of their claim over the properties. Thus, the issues raised by the parties can be resolved on the basis of their respective pleadings and the annexes attached thereto and do not require further presentation of evidence *aliunde*.[16]

However, a careful reading of Aznar, *et al.*'s Complaint and of PNB's Answer would reveal that both parties raised several claims and defenses, respectively, other than what was cited by the Court of Appeals, which requires the presentation of evidence for resolution, to wit:

Complaint (Aznar, *et al.*)	Answer (PNB)
11. That these subsequent annotations on the titles of the properties in question are subject	10) Par. 11 is denied as the loan from the stockholders to pay part of the purchase price of the

[16] *Rollo* (G.R. No. 171805), pp. 82-83.

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to the prior annotation of liens and encumbrances of the above-named stockholders per Entry No. 458-V-7-D.B. inscribed on TCT No. 24576 on May 15, 1962 and per Entry No. 6966-V-4-D.B. on TCT No. 8921 and TCT No. 8922 on May 15, 1962;	properties was a personal obligation of RISCO and was thus not a claim adverse to the ownership rights of the corporation;
12. That these writs and processes annotated on the titles are all null and void for total want of valid service upon RISCO and the above-named stockholders considering that as early as sometime in 1958, RISCO ceased operations as earlier stated, and as early as May 15, 1962, the liens and encumbrances of the above-named stockholders were annotated in the titles of subject properties;	11) Par. 12 is denied as in fact notice to RISCO had been sent to its last known address at Plaza Goite, Manila;
13. That more particularly, the Final Deed of Sale (Annex "G") and TCT No. 119848 are null and void as these were issued only after 28 years and 5 months (in the case of the Final Deed of Sale) and 28 years, 6 months and 29 days (in the case of TCT 119848) from the invalid auction sale on December 27, 1962, hence, any right, if any, which PNB had over subject properties had long become stale;	12) Par. 13 is denied for no law requires the final deed of sale to be executed immediately after the end of the redemption period. Moreover, another court of competent jurisdiction has already ruled that PNB was entitled to a final deed of sale;
14. That plaintiffs continue to have possession of subject properties and of their corresponding titles, but they never received any process	13) Par. 14 is denied as plaintiffs are not in actual possession of the land and if they were, their possession was as trustee for the creditors of RISCO like PNB;

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concerning the petition filed by PNB to have TCT 24576 over Lot 1323-C surrendered and/or cancelled;	
15. That there is a cloud created on the aforementioned titles of RISCO by reason of the annotate writs, processes and proceedings caused by Jose Garrido and PNB which were apparently valid or effective, but which are in truth and in fact invalid and ineffective, and prejudicial to said titles and to the rights of the plaintiffs, which should be removed and the titles quieted.[17]	14) Par. 15 is denied as the court orders directing the issuance of titles to PNB in lieu of TCT 24576 and TCT 8922 are valid judgments which cannot be set aside in a collateral proceeding like the instant case.[18]

Furthermore, apart from refuting the aforecited material allegations made by Aznar, *et al.*, PNB also indicated in its Answer the special and affirmative defenses of (a) prescription; (b) *res judicata*; (c) Aznar, *et al.*, having no right of action for quieting of title; (d) Aznar, *et al.*'s lien being ineffective and not binding to PNB; and (e) Aznar, *et al.*'s having no personality to file the suit.[19]

From the foregoing, it is indubitably clear that it was error for the trial court to render a judgment on the pleadings and, in effect, resulted in a denial of due process on the part of PNB because it was denied its right to present evidence. A remand of this case would ordinarily be the appropriate course of action. However, in the interest of justice and in order to expedite the resolution of this case which was filed with the trial court way back in 1998, the Court finds it proper to already resolve the present controversy in light of the existence of legal grounds that would dispose of the case at bar without necessity of

[17] *Id.* at 100-102.

[18] *Id.* at 122.

[19] *Id.* at 123-126.

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presentation of further evidence on the other disputed factual claims and defenses of the parties.

A thorough and comprehensive scrutiny of the records would reveal that this case should be dismissed because Aznar, *et al.*, have no title to quiet over the subject properties and their true cause of action is already barred by prescription.

At the outset, the Court agrees with the Court of Appeals that the agreement contained in the Minutes of the Special Meeting of the RISCO Board of Directors held on March 14, 1961 was a loan by the therein named stockholders to RISCO. We quote with approval the following discussion from the Court of Appeals Decision dated September 29, 2005:

> Careful perusal of the Minutes relied upon by plaintiffs-appellees in their claim, showed that their contributions shall constitute as "lien or interest on the property" if and when said properties are titled in the name of RISCO, subject to registration of their adverse claim under the Land Registration Act, until such time their respective contributions are refunded to them completely.
>
> It is a cardinal 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. When the language of the contract is explicit leaving no doubt as to the intention of the drafters thereof, the courts may not read into it any other intention that would contradict its plain import.
>
> The term **lien** as used in the Minutes is defined as *"a discharge on property usually for the payment of some debt or obligation. A lien is a qualified right or a proprietary interest which may be exercised over the property of another. It is a right which the law gives to have a debt satisfied out of a particular thing. It signifies a legal claim or charge on property; whether real or personal, as a* ***collateral or security*** *for the payment of some debt or obligation.*" Hence, from the use of the word "lien" in the Minutes, We find that the money contributed by plaintiffs-appellees was in the nature of a loan, secured by their liens and interests duly annotated on the titles. The annotation of their lien serves only as collateral and does not in any way vest ownership of property to plaintiffs.[20] (Emphases supplied.)

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[20] *Id.* at 84-85.

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We are not persuaded by the contention of *Aznar, et al.*, that the language of the subject Minutes created an express trust.

Trust is the right to the beneficial enjoyment of property, the legal title to which is vested in another. It is a fiduciary relationship that obliges the trustee to deal with the property for the benefit of the beneficiary. Trust relations between parties may either be express or implied. An express trust is created by the intention of the trustor or of the parties. An implied trust comes into being by operation of law.[21]

Express trusts, sometimes referred to as direct trusts, are intentionally created by the direct and positive acts of the settlor or the trustor — by some writing, deed, or will or oral declaration. It is created not necessarily by some written words, but by the direct and positive acts of the parties.[22] This is in consonance with Article 1444 of the Civil Code, which states that "[n]o particular words are required for the creation of an express trust, it being sufficient that a trust is clearly intended."

In other words, the creation of an express trust must be manifested with reasonable certainty and cannot be inferred from loose and vague declarations or from ambiguous circumstances susceptible of other interpretations.[23]

No such reasonable certitude in the creation of an express trust obtains in the case at bar. In fact, a careful scrutiny of the plain and ordinary meaning of the terms used in the Minutes does not offer any indication that the parties thereto intended that Aznar, *et al.*, become beneficiaries under an express trust and that RISCO serve as trustor.

Indeed, we find that Aznar, *et al.*, have no right to ask for the quieting of title of the properties at issue because they have no legal and/or equitable rights over the properties that are derived

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[21] *Heirs of Tranquilino Labiste v. Heirs of Jose Labiste*, G.R. No. 162033, May 8, 2009, 587 SCRA 417, 425.

[22] *Ringor v. Ringor*, 480 Phil. 141, 158 (2004).

[23] *Heirs of Pedro Medina v. Court of Appeals*, 196 Phil. 205, 213-214 (1981).

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from the previous registered owner which is RISCO, the pertinent provision of the law is Section 2 of the Corporation Code (*Batas Pambansa Blg. 68*), which states that "[a] corporation is an artificial being created by operation of law, having the right of succession and the powers, attributes and properties expressly authorized by law or incident to its existence."

As a consequence thereof, a corporation has a personality separate and distinct from those of its stockholders and other corporations to which it may be connected.[24] Thus, we had previously ruled in *Magsaysay-Labrador v. Court of Appeals*[25] that the interest of the stockholders over the properties of the corporation is merely inchoate and therefore does not entitle them to intervene in litigation involving corporate property, to wit:

> Here, the interest, if it exists at all, of petitioners-movants is indirect, contingent, remote, conjectural, consequential and collateral. At the very least, their interest is purely inchoate, or in sheer expectancy of a right in the management of the corporation and to share in the profits thereof and in the properties and assets thereof on dissolution, after payment of the corporate debts and obligations.
>
> While a share of stock represents a proportionate or aliquot interest in the property of the corporation, it does not vest the owner thereof with any legal right or title to any of the property, his interest in the corporate property being equitable or beneficial in nature. Shareholders are in no legal sense the owners of corporate property, which is owned by the corporation as a distinct legal person.[26]

In the case at bar, there is no allegation, much less any proof, that the corporate existence of RISCO has ceased and the corporate property has been liquidated and distributed to the stockholders. The records only indicate that, as per Securities

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[24] *Pantranco Employees Association (PEA-PTGWO) v. National Labor Relations Commission*, G.R. Nos. 170689 & 170705, March 17, 2009, 581 SCRA 598, 612.

[25] 259 Phil. 748 (1989).

[26] *Id.* at 754.

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and Exchange Commission (SEC) Certification[27] dated June 18, 1997, the SEC merely suspended RISCO's Certificate of Registration beginning on September 5, 1988 due to its non-submission of SEC required reports and its failure to operate for a continuous period of at least five years.

Verily, Aznar, *et al.*, who are stockholders of RISCO, cannot claim ownership over the properties at issue in this case on the strength of the Minutes which, at most, is merely evidence of a loan agreement between them and the company. There is no indication or even a suggestion that the ownership of said properties were transferred to them which would require no less that the said properties be registered under their names. For this reason, the complaint should be dismissed since Aznar, *et al.*, have no cause to seek a quieting of title over the subject properties.

At most, what Aznar, *et al.*, had was merely a right to be repaid the amount loaned to RISCO. Unfortunately, the right to seek repayment or reimbursement of their contributions used to purchase the subject properties is already barred by prescription.

Section 1, Rule 9 of the Rules of Court provides that when it appears from the pleadings or the evidence on record that the action is already barred by the statute of limitations, the court shall dismiss the claim, to wit:

> Defenses and objections not pleaded either in a motion to dismiss or in the answer are deemed waived. However, when it appears from the pleadings or the evidence on record that the court has no jurisdiction over the subject matter, that there is another action pending between the same parties for the same cause, or that the action is barred by a prior judgment or **by statute of limitations**, the court shall dismiss the claim. (Emphasis supplied.)

In *Feliciano v. Canoza*,[28] we held:

> We have ruled that trial courts have authority and discretion to dismiss an action on the ground of prescription when the parties'

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[27] *Rollo* (G.R. No. 171805), p. 113.

[28] G.R. No. 161746, September 1, 2010, 629 SCRA 550, citing *Gicano v. Gegato*, 241 Phil. 139, 145 (1988).

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pleadings or other facts on record show it to be indeed time-barred x x x; and it may do so on the basis of a motion to dismiss, or an answer which sets up such ground as an affirmative defense; or even if the ground is alleged after judgment on the merits, as in a motion for reconsideration; or even if the defense has not been asserted at all, as where no statement thereof is found in the pleadings, or where a defendant has been declared in default. **What is essential only, to repeat, is that the facts demonstrating the lapse of the prescriptive period, be otherwise sufficiently and satisfactorily apparent on the record; either in the averments of the plaintiffs complaint, or otherwise established by the evidence**.[29] (Emphasis supplied.)

The pertinent Civil Code provision on prescription which is applicable to the issue at hand is Article 1144(1), to wit:

The following actions must be brought within ten years from the time the right of action accrues:

1. **Upon a written contract**;
2. Upon an obligation created by law;
3. Upon a judgment. (Emphasis supplied.)

Moreover, in *Nielson & Co., Inc. v. Lepanto Consolidated Mining Co.*,[30] we held that the term "written contract" includes the minutes of the meeting of the board of directors of a corporation, which minutes were adopted by the parties although not signed by them, to wit:

Coming now to the question of prescription raised by defendant Lepanto, it is contended by the latter that the period to be considered for the prescription of the claim regarding participation in the profits is only four years, because the modification of the sharing embodied in the management contract is merely verbal, no written document to that effect having been presented. This contention is untenable. The modification appears in the minutes of the special meeting of the Board of Directors of Lepanto held on August 21, 1940, it having been made upon the authority of its President, and in said minutes the terms of modification had been specified. This is sufficient to have the agreement considered, for the purpose of applying the statute

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[29] *Id.* at 558-559.

[30] 125 Phil. 204 (1966).

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of limitations, as a written contract even if the minutes were not signed by the parties (3 A.L.R., 2d, p. 831). It has been held that a writing containing the terms of a contract if adopted by two persons may constitute a contract in writing even if the same is not signed by either of the parties (3 A.L.R., 2d, pp. 812-813). Another authority says that an unsigned agreement the terms of which are embodied in a document unconditionally accepted by both parties is a written contract (Corbin on Contracts, Vol. I, p. 85).[31]

Applied to the case at bar, the Minutes which was approved on March 14, 1961 is considered as a written contract between Aznar, *et al*., and RISCO for the reimbursement of the contributions of the former. As such, the former had a period of ten (10) years from 1961 within which to enforce the said written contract. However, it does not appear that Aznar, *et al*., filed any action for reimbursement or refund of their contributions against RISCO or even against PNB. Instead the suit that Aznar, *et al.*, brought before the trial court only on January 28, 1998 was one to quiet title over the properties purchased by RISCO with their contributions. It is unmistakable that their right of action to claim for refund or payment of their contributions had long prescribed. Thus, it was reversible error for the Court of Appeals to order PNB to pay Aznar, *et al.*, the amount of their liens based on the Minutes with legal interests from the time of PNB's acquisition of the subject properties.

In view of the foregoing, it is unnecessary for the Court to pass upon the other issues raised by the parties.

WHEREFORE, the petition of Aznar, *et al.*, in G.R. No. 172021 is *DENIED* for lack of merit. The petition of PNB in G.R. No. 171805 is *GRANTED*. The Complaint, docketed as Civil Case No. CEB-21511, filed by Aznar, *et al.*, is hereby *DISMISSED*. No costs.

SO ORDERED.

Corona, C.J. (Chairperson), Velasco, Jr., Peralta,[*] and *Perez, JJ.,* concur.

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[31] *Id.* at 223-224.

[*] Per Special Order No. 994 dated May 27, 2011.