

Title: Philippine National Bank vs. Ritratto Group Inc., et al.

Facts: Philippine National Bank (PNB) initiated a petition for review on certiorari to annul and set aside the decision of the Court of Appeals which affirmed the Regional Trial Court of Makati's decision to issue a writ of preliminary injunction, preventing PNB from foreclosing on mortgages held over properties of Ritratto Group Inc., Riatto International, Inc., and Dadasan General Merchandise.

PNB International Finance Ltd. (PNB-IFL), a PNB subsidiary, extended a credit facility under a letter of credit secured by real estate mortgages over parcels of land in Makati City, which respondents failed to fully repay. Consequently, PNB-IFL (through PNB as its attorney-in-fact) sought to foreclose the properties. The respondents filed for an injunction, leading the RTC to issue a temporary restraining order followed by a writ of preliminary injunction. The RTC denied PNB's motion to dismiss the case, leading PNB to challenge the RTC's orders before the Court of Appeals, which subsequently dismissed PNB's petition. PNB then escalated the matter to the Supreme Court, arguing that the CA committed errors in not dismissing the case because no cause of action exists against PNB, a mere attorney-in-fact for PNB-IFL.

Issues: The legal issues raised in the Supreme Court's decision mainly revolved around whether the respondents had a cause of action against PNB and not PNB-IFL, the validity of the loan contracts, the application of the doctrine of piercing the corporate veil, and the propriety of the issuance of the writ of preliminary injunction.

Court's Decision: The Supreme Court granted PNB's petition and reversed the CA's decision. The Court found that PNB, as an attorney-in-fact with limited authority, was never a party to the loan contracts between the respondents and PNB-IFL and thus, respondents had no cause of action against PNB. The SC also rejected the application of the doctrine of piercing the corporate veil, stating that PNB and PNB-IFL maintained their separate corporate personalities and the respondents failed to show any cogent reason to disregard this separation. Since the principal action was dismissed, the preliminary injunction issued was consequently lifted.

Doctrine: The Supreme Court reiterated the doctrine that a corporation has a separate legal personality from its stockholders or members, and this can only be disregarded in cases of fraud, wrongdoing, or when the subsidiary is a mere instrumentality of the parent company (piercing the corporate veil). Moreover, it emphasized that every action must be prosecuted

or defended in the name of the real party-in-interest.

Class Notes:

- Real Party-in-Interest: The party who stands to be benefited or injured by the judgment or the party entitled to the avails of the suit.
- Piercing the Corporate Veil: A remedy used to address situations where the separate corporate personality is abused for fraudulent or wrongful purposes, requiring the court to disregard the separate legal entity of a corporation and hold the individuals behind it personally accountable for its obligations.
- Preliminary Injunction: A provisional remedy issued to preserve the status quo pending the litigation of the main issue.

Historical Background: In a commercial financing context, this case illustrates the principles covering the enforceability of security interests, the relationship between a parent company and its subsidiary through the viewpoint of a creditor's rights, and the jurisdiction of Philippine courts over cases involving contracts executed by foreign-incorporated entities' representatives in the Philippines. PNB's legal challenge acted as a clarifying moment in the understanding and application of the doctrine of separate corporate personality and the conditions under which a court may pierce the corporate veil to hold a parent company accountable for the obligations of its subsidiary.