

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF LAW
DEGREE OF MASTER OF LAWS IN COMMERCIAL LAW – 2024/25
SEMESTER I END EXAMINATION

Banking Law – TLLM 1132
(Three Hours)

Total Number of Questions: 04

Answer any **Three (03)** Questions and **no more**.
(Candidates will be penalised for illegible handwriting.)

1. (a) Trust & Savings Bank mistakenly credited Rs. 500,000 to the account of Asanka, a customer, due to a system error. Asanka, unaware of the error, used Rs.300,000 of the funds to pay off her mortgage and spent Rs. 50,000 on luxury goods. Upon realizing the mistake, Trust & Savings Bank demanded the Rs. 500,000 be returned. Asanka claims she cannot repay the Rs. 350,000, arguing that the funds were received in good faith.

Analyze the Trust & Savings Bank's legal options to recover the mistaken payment, considering the defenses Asanka may raise, with reference to the legal authorities.

(12 Marks)

- (b) You are the legal counsel of Paramount bank that is facing a legal dispute with a customer, Raja. Raja alleges that the bank improperly closed his account, that the funds in question included assets deposited in a trust capacity and that some of the retained funds were linked to a joint account with his friend, Ranil.

You are required to provide an advisory opinion to the bank addressing the legitimacy of the bank's actions in closing the account and exercising its general lien as well as to include funds from trust and joint accounts in the lien.

(08 Marks)

(20 Marks)

2. John deposits a cheque issued by David, drawn on National Bank, into his account at Capital Bank. Unknown to Capital Bank, the cheque had been stolen from David and altered the cheque by increasing the amount and forged David's signature by John. Capital Bank, acting as the collecting banker, presents the cheque to National Bank. National Bank failed to detect the forgery and honored the cheque and transfers the funds to Capital Bank. David discovers the fraud and seeks to recover the funds from both Capital Bank and National Bank.

Analyze the legal liabilities and defenses of both Capital Bank and National Bank in light of statutory provisions and relevant case law.

(20 Marks)

3. The Financial Intelligence Unit (FIU) of Sri Lanka has detected a significant increase in suspicious financial activities linked to a newly established casino in Colombo, which maintains its bank account with Prime bank. This casino, owned by a foreign investor, has reported an unusually high volume of cash deposits from various unidentified sources. Also, authorities have traced a series of complex wire transfers from offshore shell companies in the Bahamas and the Isle of Man, which have been funneled into the casino's bank account. Further investigation reveals that some of these funds have been transferred to an unregistered charity organization suspected of having connections to a foreign extremist group.

Critically analyze the legal and regulatory implications of the above scenario, with a focus on the obligations of both the bank and the casino under Sri Lanka's Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) framework and international best practices for financial crime prevention. Discuss the role of the authorities in the investigation and prosecution of the offenders.

(20 Marks)

4. Critically analyze the legal and regulatory framework established under the Central Bank of Sri Lanka Act No. 16 of 2023, particularly its impact on the autonomy, governance and monetary policy functions of CBSL. Within this framework, discuss the role of commercial banks in capital formation, credit creation and digital transformation evaluating how CBSL's present monetary policy and inflation targeting programme, financial system oversight and prudential regulations shape commercial banking operations. Support your analysis with reference to statutory provisions and international best practice.

(20 Marks)

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