

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

INVESTMENT AND DEPOSIT

POLICY AND PROCEDURES

Introduction

Ontario Tobacco Asset Securitization Corporation ("OTASC") hereby adopts the following policy and procedures as it pertains to investment and deposit of OTASC funds.

Scope

This investment and deposit policy applies to all OTASC moneys and other financial resources available for investment on its own behalf or on behalf of any other entity when acting as agent for that other entity.

Objectives

The objectives of OTASC's Investment and Deposit Policy and Procedures are four fold:

- To conform with all applicable federal, state and other legal requirements;
- To adequately safeguard the principal amount of funds invested or deposited;
- To provide sufficient liquidity of invested funds in order to meet obligations as they become due; and
- To obtain a rate of return commensurate with market conditions.

Authorization

The authority to deposit and invest funds is delegated to the Treasurer of OTASC.

The Treasurer of OTASC may establish written procedures which shall provide adequate internal controls to ensure a satisfactory level of accountability regarding the management of OTASC funds.

Ethical Activity

All participants in the investment and deposit process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that places OTASC funds at unreasonable risk.

All participants involved in the investment and depository process shall refrain from personal business activity that could conflict with proper execution of the deposit and investment program.

Diversification

It is the policy of OTASC to diversify its deposits and investments by financial institutions, by investment instrument, and by maturity scheduling.

Safekeeping and Collateralization

Eligible securities used for collateralizing deposits shall be held by a third party bank, trust company or trust department of the bank subject to security and collateral agreements at the discretion of the OTASC.

The security and custodial agreements shall provide that securities held by the bank or trust company or agent of and custodian for, the OTASC, will be kept separate and apart from the general assets of the custodial bank or trust company.

The security and collateral agreement shall provide that eligible securities are being pledged to secure OTASC deposits and investments together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default.

Permitted Investments

As authorized by General Municipal Law, Section 11, OTASC authorizes the Treasurer of OTASC to invest moneys not required for immediate expenditure for terms not to exceed its projected cash flow needs in the following types of investments:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of Deposits;
- Obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments;
- Obligations issued pursuant to Local Finance Law Section 24.00 or 25.00 (with approval of State Comptroller) by any municipality, school district or district corporation other than County of Ontario; and
- Eligible Investments, as defined in the Indenture between OTASC and Manufacturers and Traders Trust Company, as Trustee as amended from time to time.