

Governance Guidelines of the Tobacco Settlement Financing Corporation

The Board of Directors (the “Board”) of the Tobacco Settlement Financing Corporation (the “Corporation“) has adopted the following Governance Guidelines (the “Guidelines”) to assist the Board in the exercise of its responsibilities. These Guidelines have been developed and are recommended by the Governance Committee of the Board.

Role of Directors

The business and affairs of the Corporation shall be managed by or under the direction of the Board. A director is expected to spend the time and effort necessary to properly discharge such director’s responsibilities. Directors are expected to discharge their duties in good faith with a degree of diligence, care and skill, and are responsible for the proper use of Corporation funds and assets. Accordingly, a director is expected to regularly attend meetings of the Board and committees on which such director sits, and to review prior to meetings material distributed in advance for such meetings. A director who is unable to attend a meeting (which it is understood will occur on occasion) is reasonably expected to notify the Secretary of the Board in advance of such meeting.

Functions of the Board

As part of its oversight role, the Board considers its primary functions to include the following, which will be discharged either directly by the Board or through appropriate committees:

- Evaluating and determining the salary ranges and salary adjustments of the Corporation’s Senior Officers (as defined in the Corporation’s By-Laws), and approving the salary of the Corporation’s President and CEO;
- Approving and or monitoring the Corporation’s financing activities;
- Monitoring fundamental financial and business strategies and approving significant Corporation actions;
- Advising management on significant issues facing the Corporation;
- Overseeing the Corporation’s financial reporting process and the adequacy of accounting, financial and internal controls; and
- Reviewing and evaluating the Corporation’s governance policies, code of ethics and legal and regulatory compliance procedures.

Membership Criteria

By law, the Corporation’s Board of Directors are the same as the directors of the State of New York Municipal Bond Bank Agency. The Corporation is a subsidiary of the State of New York Municipal Bond Bank Agency. The Corporation’s enabling legislation does not set forth specific criteria for membership on the Board. The purpose of the Governance Committee is to assist the Board of Directors to establish practices and procedures to promote honest and ethical conduct by Corporation Directors, officers and employees and enhance public confidence in the Corporation, including, but not limited to, assistance in monitoring and assessing the effectiveness of the Board

of Directors and in developing and implementing the Corporation's governance guidelines. The Governance Committee Charter places responsibility on the Governance Committee to prepare, and the Governance Committee has prepared, a profile of the skill sets and experiences of individuals best equipped to be constructive Directors of the Corporation.

Size of the Board

By law, the Corporation's membership is the same as that of the State of New York Municipal Bond Bank Agency.

Director Independence

It is the policy of the Board that, except for Directors who serve as Directors by virtue of holding a civil office of the State, a majority of the remaining members of the Board qualify as "independent" directors, as such terms is defined in the Public Authorities Accountability Act of 2005 (the "Act"). This policy applies to appointments made on or after January 13, 2006, the date of passage of the Act. The official or officials having the authority to appoint or remove such remaining members shall take such actions as may be necessary to satisfy this requirement.

Each Director should keep the Secretary and the Governance Committee fully and promptly informed as to any developments that might affect the Director's independence. This requirement shall be independent of any requirements for disclosure of conflicts of interests that may be applicable to Directors.

Director Compensation

By law, the Directors of the Corporation shall receive no additional salary or other compensation, either direct or indirect, for serving as Members of the Corporation other than reimbursement for actual and necessary expenses incurred in the performance of such person's duties.

BOARD AND COMMITTEE PROCEDURAL MATTERS

The procedures with respect to meetings of the Board of Directors, notice thereof and their conduct shall be as set forth in the By-laws. The procedures with respect to meetings of the Committees of the Corporation, notice thereof and their conduct shall be as set forth in the By-laws.

Evaluating Committee Performance

The Governance Committee and the Audit Committee shall each conduct an annual self-evaluation process, as required under their respective Charters.

OTHER MATTERS

Access to Management

the Board of Directors shall have full and unrestricted access to the Corporation's management. It is assumed that Directors will use judgement so that this contact is not distracting to the operations of the Corporation.

Guidelines Subject to Periodic Review

These Guidelines will be subject to a periodic review, first by the Governance Committee and then the full Board to assure that they are in accordance with sound corporate governance. These Guidelines are not intended to change or interpret any law or regulation, or the Corporation's enabling legislation or Bylaws.