

Your securities account is protected against the financial failure of your brokerage firm due to fraud or financial difficulties.

- ◆ The Securities Investor Protection Corporation (SIPC) provides primary coverage against loss following a liquidation proceeding.
- ◆ In addition, our Excess Securities Bond provides aggregate protection up to \$24.5 million per account above SIPC.
- ◆ Our capital strength – approximately \$200 million – also protects our customers. Historically, the firm has always maintained greater capital than required by any regulatory authority.

SIPC's coverage is fully described in the booklet, "How SIPC Protects You," that is available on the SWS website at www.swsgroupinc.com or upon request from your investment executive. SWS supplements the SIPC coverage with a bond purchased from a major insurance company. This Excess Securities Bond adds up to \$24.5 million per account in protection against loss in the event of a liquidation proceeding as governed by federal law.

KEY PROVISIONS

The following presents a simplified summary of the most important provisions of the Excess Securities Bond. It does not contain the legal documents that actually govern coverage. The full policy terms, conditions and limitations always govern. This summary does not alter the terms of the Excess Securities Bond in any way and cannot be used to support a claim in the event of loss.

There are several important conditions to the Excess Securities Bond. In general, these provisions are:

- ◆ The bond is subject to and shall follow all terms, definitions, conditions and limitations of the Securities Investor Protection Act of 1970 as amended.
- ◆ The bond covers only customer claims for loss of securities that would have been recoverable by the customer from the Securities Investor Protections Corporation. Coverage is only for claims in excess of SIPC's limit of liability for securities.
- ◆ When the SIPC files application for a protective court decree in accordance with the Securities Investor Protection Act, the filing date shall be the date of discovery for loss of securities sustained at any time prior to that date.
- ◆ The bond is renewable annually on May 20.

ADEQUACY OF COVERAGE

In the unlikely event of a liquidation process under the provisions of the Securities Investor Protection Act, all customers would share proportionately in any shortage in cash and securities belonging to customers. Here is a specific example:

Our firm typically holds \$12.5 billion of customer assets – most are physically located at the Depository Trust Company, a central facility established to hold and deliver securities for brokerage firms and commercial banks.

For purpose of example, let's assume a failure with a very large initial shortage of \$120 million. Although we believe our internal controls and safeguards would prevent such a shortage from occurring, it would represent less than a fraction of 1 percent of the \$12.5 billion we hold for customers. A SIPC trustee would therefore return from customer property on hand, more than 99.9% of each customer's account.

In addition, under SIPC* each customer would be entitled to replacement of any shortage up to \$500,000 (including up to \$100,000 in cash) and would share with other non-customer creditors in any remaining firm assets. The example of a \$120 million shortage is illustrated in the table on the overleaf.

*See SIPC booklet for all definitions. For example, the securities we hold in customer name without stock powers are returned separately without affecting the distribution shown in the table on the overleaf.

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Our Customer Protection

A summary explanation of the protection provided to our customers

Customer Account Valued at	Customer's Pro-rata Share of Assets**	Amount of SIPC Assistance	Amount from the Bond	Customer Loss Equals
\$ 50,000	\$ 49,500	\$ 500	\$ 0	\$ 0
\$ 1,000,000	\$ 990,000	\$ 10,000	\$ 0	\$ 0
\$ 5,000,000	\$ 4,950,000	\$ 50,000	\$ 0	\$ 0
\$ 10,000,000	\$ 9,900,000	\$ 100,000	\$ 0	\$ 0
\$ 100,000,000	\$ 99,000,000	\$ 500,000	\$ 500,000	\$ 0

** All examples are assumed to be accounts with less than \$100,000 in cash balances.

Expressed in general terms, federal law requires broker/dealers to:

- ◆ Maintain accurate records of securities and monies they hold for each customer.
- ◆ Promptly take possession and control of securities repurchased and hold customer securities identified as such in approved locations, and
- ◆ Make weekly computations of customer money balances and cash representing any customer securities not actually in possession and to deposit any such balances in bank accounts identified as being for the benefit of customers.

The law permits customer cash balances to be used to finance fully collateralized margin loans. SWS Group, Inc. broker/dealers are subject to periodic reviews by regulatory organizations, including the New York Stock Exchange, the National Association of Securities Dealers, and the Securities and Exchange Commission. SWS and its subsidiaries make a diligent effort to comply with all securities laws, including those designed to safeguard customer assets.

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