

**SWS GROUP, INC.**  
**CORPORATE GOVERNANCE GUIDELINES**

**I. The Board of Directors**

**A. Membership**

1. Size of Board.

The Board's optimum size is seven to nine members.

2. Mix of Directors; "Independent" Directors.

A majority of the directors shall satisfy the independence requirements of the New York Stock Exchange and any other regulatory authority.

The Board believes that it should not have more than one management director.

3. Board Membership Criteria.

The Board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated, and be selected based upon contributions they can make. The Company does not limit the number of boards on which a director may sit. Directors should plan to make a significant time commitment to the Company.

4. New Directors.

The Nominating/Corporate Governance Committee has, as one of its responsibilities, the recommendation of director candidates to the full Board. The Nominating/Corporate Governance Committee will maintain an orientation program for new directors.

5. Retirement; Resignation.

a. Term Limits.

The Board does not favor term limits for directors, but believes that it is essential to monitor overall Board performance as well as the performance of individual Board members.

b. Retirement Policy.

The Board does not favor a mandatory retirement policy for directors.

c. Resignation Policy - Management Directors.

Management directors shall offer to resign from the Board upon their resignation, removal or retirement as an officer of the Company.

d. Directors Changing Their Present Job Responsibilities.

The Board expects directors to offer to resign from the Board upon a change in their business position including, without limitation, retirement from the position held upon nomination as a director.

**B. Conduct**

1. Board Meetings.

a. Selection of Agenda Items and Executive Sessions.

The Chairman and Chief Executive Officer will establish the agenda for Board meetings. The non-management directors of the Board will meet in executive session during each of the Board's regularly scheduled meetings without any management directors and any other members of the Company's management who may otherwise be present. The non-management directors will rotate the presiding position among the chairs of the authorized Board Committees and will disclose this process in the annual proxy statement.

b. Distribution of Materials.

The Company shall distribute, sufficiently in advance of meetings to permit meaningful review, written materials for use at Board meetings.

c. Attendance of Non-Directors.

The Board believes that attendance of key executive officers augments the meeting process.

d. Number of Meetings; Attendance and Preparation.

The Board of Directors shall hold a minimum of 4 meetings per year. Directors are expected to attend all meetings and, prior to the meetings, to have reviewed all written meeting materials distributed to them in advance. Directors are expected to be physically present at all regularly scheduled meetings. Conference telephone, videoconference, or similar communication equipment attendance at a meeting will generally only be permitted if it is necessary to constitute a quorum.

2. Conflicts of Interest.

Directors are expected to avoid any action, position or interest that conflicts with an interest of the Company, or gives the appearance of a conflict. The Company annually solicits information from directors in order to monitor potential conflicts of

interest, and directors are expected to be mindful of their fiduciary obligations to the Company.

3. Consulting Arrangements with Directors.

The Board believes that the Company should not enter into paid consulting arrangements with outside directors or their employers, without obtaining the Board's approval. Such approval may, in appropriate circumstances, be granted on an annual basis.

4. Share Ownership by Directors.

The Board encourages equity ownership in the Company by directors, but believes the number of shares of the Company's stock owned by each director is a personal decision.

5. Compensation Review.

The Compensation Committee will annually review, and (when it deems appropriate) recommend to the full Board changes in, director compensation and benefits.

6. Assessing Board and Committee Performance.

The Board shall conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Board's self-evaluation shall be based, in part, on the Nominating/Corporate Governance Committee's assessment questionnaire.

7. Access to Senior Management.

Board members have complete and open access to senior members of management. The Chief Executive Officer shall invite key employees to attend Board sessions at which the Chief Executive Officer believes they can meaningfully contribute to Board discussion.

8. Management Succession.

The Nominating/Corporate Governance Committee shall develop management succession plans.

9. Interaction with Third Parties.

The Board believes that management should speak for the Company and that the Chairman should speak for the Board.

10. Confidentiality.

The Board believes maintaining confidentiality of information and deliberations is an imperative.

## **II. Committees of the Board**

### **1. Board Committees; Committee Charters.**

The Board currently has the following four Committees: the Audit Committee, the Compensation Committee, the Nominating/Corporate Governance Committee and the Executive Committee. The Audit Committee, the Compensation Committee and the Nominating/Corporate Governance Committee shall each consist of three or more directors, each of whom shall satisfy the independence (and, in the case of the Audit Committee, the financial literacy and experience) requirements of Section 10A of the Securities Exchange Act of 1934, the New York Stock Exchange and any other regulatory requirements.

Each Committee shall meet in executive session during each of its regularly scheduled meetings.

The Audit Committee, the Compensation Committee and the Nominating/Corporate Governance Committee shall each have appropriate written charters. These committee charters will be made available on the Company's website at [www.swst.com](http://www.swst.com).

### **2. Rotation of Committee Assignments and Chairpersons.**

Committee assignments and the designation of Committee chairpersons should be based on the director's knowledge, interests and areas of expertise. The Board does not favor mandatory rotation of Committee assignments or chairpersons. The Board believes experience and continuity are more important than rotation. Board members and chairpersons should be rotated only if rotation is likely to increase Committee performance.

### **3. Frequency of Committee Meetings; Attendance.**

The Audit Committee has four regularly scheduled meetings each year. The Compensation Committee, the Nominating/Corporate Governance Committee and the Executive Committee each will meet as needed to perform their duties pursuant to their respective charters. Committee members are expected to be physically present at all regularly scheduled meetings. Conference telephone, videoconference or similar communication equipment attendance at a meeting will generally only be permitted if it is necessary to constitute a quorum.

## **III. Duties and Responsibilities of the Committees**

### **1. Executive Committee.**

During the intervals between Board meetings, the Executive Committee shall, except as otherwise provided in Sections 12, 13, 14 and 15 of the Bylaws, have and may exercise all the powers and authority of the Board in the management of the Company's business.

2. Audit Committee.

The Audit Committee has the powers and responsibilities set forth in its Charter (which is available on the Company's website at [www.swst.com](http://www.swst.com)). The role of the Audit Committee is oversight. The members of the Audit Committee are not employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Audit Committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Company's independent auditors.

3. Compensation Committee.

The Compensation Committee shall have the powers and responsibilities set forth in its Charter (which is available on the Company's website at [www.swst.com](http://www.swst.com)).

4. Nominating/Corporate Governance Committee.

The Nominating/Corporate Governance Committee shall have the powers and responsibilities set forth in its Charter (which is available on the Company's website at [www.swst.com](http://www.swst.com)).

#### **IV. Other Guidelines**

1. Confidential Voting.

The Board has adopted a policy whereby shareholders' proxies are received by the Company's independent tabulators and the vote is certified by independent inspectors of election. Proxies and ballots that identify the vote of individual shareholders will be kept confidential from the Company's management and directors, except as necessary to meet legal requirements, in cases where shareholders request disclosure, or in a contested election.

2. Disclosure of Corporate Governance Guidelines.

These Corporate Governance Guidelines will be made available on the Company's website at [www.swst.com](http://www.swst.com).

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