

McNally Financial Services Corporation

Business Continuity Plan (BCP)

I. Emergency Contact Persons

Our firm's two emergency contact people are: David D. McNally, President, dmcnally@mcnallyfinancial.com at the primary contact number of (210) 545-7080 and John W. McCall, Jr., Principal, jmccall@mcnallyfinancial.com, at the primary contact number of (281) 465-3575. These names will be promptly updated in the event of a material change.

Rule: FINRA Rule 3520.

II. Firm Policy

Our firm's policy is to respond to a Significant Business Disruption (SBD) by safeguarding employees' lives and firm property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the firm's books and records, and allowing our customers to transact business. In the event that we determine we are unable to continue our business, we will assure customers prompt access to their funds and securities.

Significant Business Disruptions (SBDs)

The firm's plan anticipates two kinds of SBDs, internal and external. Internal SBDs affect only our firm's ability to communicate and do business, such as a fire in our building. External SBDs prevent the operation of the securities markets or a number of firms, such as a terrorist attack, a city flood, or a wide-scale, regional disruption. Our response to an external SBD relies more heavily on other organizations and systems, especially on the capabilities of our clearing firm.

Approval and Execution Authority

David D. McNally, President, a registered principal, is responsible for approving the plan and for conducting the required annual review. David D. McNally has the authority to execute this BCP.

Plan Location and Access

Our firm will maintain copies of its BCP plan and the annual reviews, and the changes that have been made to it for inspection. We have given FINRA District #6 a copy of our plan. An electronic copy of our plan is located on www.mcnallysupport.com, and www.mcnallyfinancial.com in the Business Continuity Plan folder.

III. Business Description

Our firm conducts business in equity, fixed income, and derivative securities. Our firm is an introducing firm and does not perform any type of clearing function for itself or others. Furthermore, we do not hold customer funds or securities. We accept and enter orders. All transactions are sent to our clearing firm, which executes our orders, compares them, allocates them, clears and settles them. Our clearing firm also maintains our customers' accounts, can grant customers access to them, and delivers funds and securities. Our firm services retail and institutional customers. We do not currently engage in any private placements.

Our clearing firm is Pershing, LLC and our contact person at that clearing firm is Toinette Moustakas, (201-413-4672). Our clearing firm has also given us the following alternative contact in the event it cannot be reached: Pershing, LLC, Post Office Box 2065, Jersey City, New Jersey 07303-2065, telephone contact number (213) 624-6100, extension 500, facsimile number (201) 413-5368 and email address at www.pershing.com/about.htm.

IV. Office Locations

Our firm has offices located at 1115 Tranquil Trail Drive, San Antonio, Texas 78232-5185, as well as the non-registered branches of the firm's independent contractor residences or places of employment.

1115 Tranquil Trail Drive, San Antonio, Texas 78232-5185

Our firm location at 1115 Tranquil Trail Drive, San Antonio, Texas 78232-5185 is the main office. Its main telephone number is (210) 545-7080. Our employees may travel to that office by means of foot, vehicle, and public transportation. We engage in order taking and entry at this location.

Independent Contractors Locations

Our independent contractors maintain non-registered branches at their residences and places of employment. Their names and locations are attached as enclosure (A).

V. Alternative Physical Location(s) of Employees

In the event of an SBD, we will move our staff from affected offices to the closest of our unaffected office locations. If none of our other office locations are available to receive those staff, we will move them to the Office of John W. McCall, Jr. 30 Misty Grove Circle, Houston, TX 77380. (281) 465-3575

Rule: FINRA Rule 3510(c)(6).

VI. Customers' Access to Funds and Securities

Our firm does not maintain custody of customers' funds or securities, which are maintained at our clearing firm, Pershing, LLC. In the event of an internal or external SBD, if telephone service is available, our registered persons will take customer orders or instructions and contact our clearing firm on their behalf, and if our Internet access is available, our firm will post on its website that customers may access their funds and securities by contacting Pershing, LLC, Post Office Box 2065, Jersey City, New Jersey 07303-2065, telephone (213) 624-6100, ext. 500 and facsimile (201) 413-5368. The firm will make this information available to customers through its disclosure policy.

If SIPC determines that we are unable to meet our obligations to our customers or if our liabilities exceed our assets in violation of Securities Exchange Act Rule 15c3-1, SIPC may seek to appoint a trustee to disburse our assets to customers. We will assist SIPC and the trustee by providing our books and records identifying customer accounts subject to SIPC regulation.

*Rules: FINRA Rule 3510(a);
Securities Exchange Act Rule 15c3-1; 15 U.S.C. 78eee (2003).*

VII. Data Back Up and Recovery (Hard Copy and Electronic)

Our firm maintains its primary hard copy books and records and its electronic records at 1115 Tranquil Trail Drive, San Antonio, Texas, 78232-5185. David D. McNally, President, (210) 545-7080 is responsible for the maintenance of these books and records. Our firm maintains the following document types and forms that are not transmitted to our clearing firm: Customer new account forms and associated documents.

The firm maintains its back up and data protection of all online electronic correspondence records with its contracted storage provider, EVault, a Seagate Company. The firm utilizes EVault's email system of "EVault ProMail." EVault is a data protection solutions provider offering high availability, secure backup and recovery to include archiving, email compliance, business continuity planning, and disaster recovery in compliance with regulatory requirements. EVault is headquartered in Emeryville, California with offices throughout North America and Europe. EVault's physical address is 6121 Hollis Street, Suite 2, Emeryville, California 94608. The firm's contact person is Chris Cummings at telephone number (510) 903-7100 or (877) 382-8581 and facsimile (510) 903-7200. EVault can be contacted by email at support@evault.com or www.evault.com.

Rule: FINRA Rule 240.17a-4(f).

In the event of an internal or external SBD that causes the loss of our paper records, we will physically recover them from our back-up location sites. If our primary site is inoperable, we will continue operations from our back up site or an alternate location. For the loss of electronic records, we will either physically recover the storage media or

electronically recover data from our back-up site, or, if our primary site is inoperable, continue operations from our back-up site or an alternate location.

Rule: *FINRA Rule 3510(c)(1).*

VIII. Financial and Operational Assessments

Operational Risk

In the event of an SBD, we will immediately identify what means will permit us to communicate with our customers, employees, critical business constituents, critical banks, critical counter-parties, and regulators. Although the effects of an SBD will determine the means of alternative communication, the communications options we will employ will include the firm's website, telephone and voice mail with AT&T, and email through EVault, a Seagate Company. In addition, we will retrieve our key activity records as described in the section above, Data Back Up and Recovery.

Rules: *FINRA Rules 3510(c)(3) & (f)(2).*

Financial and Credit Risk

In the event of an SBD, the firm will determine the value and liquidity of our investments and other assets to evaluate our ability to continue to fund our operations and remain in capital compliance. We will contact our clearing firm, critical banks, and investors to apprise them of our financial status. If we determine that we may be unable to meet our obligations to those counter-parties or otherwise continue to fund our operations, we will request additional financing from our bank or other credit sources to fulfill our obligations to our customers and clients. If we cannot remedy a capital deficiency, we will file appropriate notices with our regulators and immediately take appropriate steps.

Rules: *FINRA Rules 3510(c)(3), (c)(8) & (f)(2).*

IX. Mission Critical Systems

Our firm's "mission critical systems" are those that ensure prompt and accurate processing of securities transactions, including order taking, entry, execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts, and the delivery of funds and securities. More specifically, these systems include: all the systems provided by Pershing, LLC, through access to NetExchange Pro™ www.netxpro.com.

The firm has primary responsibility for establishing and maintaining the business relationships with our customers and has sole responsibility for our mission critical functions of order taking, entry and execution. Our clearing firm provides, through contract, the execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts, and the delivery of funds and securities.

Our clearing firm contract provides that our clearing firm will maintain a business continuity plan and the capacity to execute that plan. Our clearing firm represents that it will advise us of any material changes to its plan that might affect our ability to maintain our business and presented us with an executive summary of its plan, which is attached as enclosure (B). In the event our clearing firm executes its plan, it represents that it will notify us of such execution and provide the firm with equal access to services as its other customers. If we reasonably determine that our clearing firm has not or cannot put its plan in place quickly enough to meet our needs, or is otherwise unable to provide access to such services, our clearing firm represents that it will assist us in seeking services from an alternative source.

Our clearing firm represents that it backs up our records at a remote site. Our clearing firm represents that it operates a back up operating facility in a geographically separate area with the capability to conduct the same volume of business as its primary site. Our clearing firm has also confirmed the effectiveness of its back up arrangements to recover from a wide scale disruption by testing, and it has confirmed that it tests its back up several times each year.

Recovery time objectives provide concrete goals to plan for and test against. They are not, however, hard and fast deadlines that must be met in every emergency situation, and various external factors surrounding a disruption, such as time of day, scope of disruption, and status of critical infrastructure -- particularly telecommunications -- can affect actual recovery times. Recovery refers to the restoration of clearing and settlement activities after a wide-scale disruption; resumption refers to the capacity to accept and process new transactions and payments after a wide scale disruption. Our clearing firm has the following SBD recovery time and resumption objectives: recovery time period of four hours; and resumption time of the same business day.

a. The Firm's Mission Critical Systems

Order Taking

Currently, our firm receives orders from customers via telephone, facsimile, email, and in-person visits by the customer. During an SBD, either internal or external, we will continue to take orders through any of these methods that are available and reliable, and in addition, as communications permit, we will inform our customers when communications become available to tell them what alternatives they have to send their orders to us. The firm's customers will be informed of alternatives by telephone. If necessary, the firm will advise its customers to place orders directly with our clearing firm at Pershing, LLC, Post Office Box 2065, Jersey City, New Jersey 07303-2065 at telephone number (213) 624-6100, extension 500 and facsimile at (201) 413-5368.

Order Entry

Currently, the firm enters orders by recording them on paper and electronically and sending them to our clearing firm electronically or telephonically.

In the event of an internal SBD, we will enter and send records to our clearing firm by the fastest alternative means available, which include telephone and facsimile. In the event of an external SBD, we will maintain the order in electronic or paper format, and deliver the order to the clearing firm by the fastest means available when it resumes operations. In addition, during an internal SBD, we may need to refer our customers to deal directly with our clearing firm for order entry.

Order Execution

The firm currently executes orders by electronic transmission through Net Exchange Pro™. They can be contacted at www.netxpro.com. In the event of an internal SBD, the firm will execute orders through mobile telephone and facsimile. In the event of an external SBD, the firm would utilize mobile telephone and facsimile.

Other Services Currently Provided to Customers

We do not currently provide any other services to customers not already covered by the preceding procedures.

b. Mission Critical Systems Provided by Our Clearing Firm

Our firm relies, by contract, on our clearing firm to provide order execution, order comparison, order allocation, and the maintenance of customer accounts, delivery of funds and securities, and access to customer accounts.

Rules: FINRA Rules 3510(c) & (f)(1).

X. Alternate Firm Communications Among Customers, Employees, and Regulators

Customers

We now communicate with our customers using the telephone, email, the firm's web site, facsimile, U.S. postal mail, and in-person visits at our firm or at the other's location. In the event of an SBD, we will assess whatever means of communication are still available to us, and use the means closest in speed and form to the means that we have used in the past to communicate with the other party. For example, if we have communicated with a party by email but the Internet is unavailable, the firm will call the party on the telephone and follow up where a record is needed with paper copy via the U.S. postal mail.

Rule: FINRA Rule 3510(c)(4).

Employees

We now communicate with our employees using the telephone, email, and in-person visits at our firm or at the other's location. In the event of an SBD, we will assess whatever means of communication are still available to us, and use the means closest in speed and form to the means that we have used in the past to communicate with the other party. We will also employ a call tree so that senior management can reach all employees quickly during an SBD. The call tree includes all staff home and office phone numbers.

We have identified persons, noted below, who live near each other and may reach each other in person:

The person to invoke use of the call tree is David D. McNally, President of McNally Financial Services Corporation.

Caller	Call Recipients
David D. McNally	All listed on enclosure A

Rule: FINRA Rule 3510(c)(5).

Regulators

We are currently members of the following SROs: FINRA, MSRB. We communicate with our regulators using the telephone, email, facsimile, U.S. postal mail, and in-person visits at our firm or at the other's location. In the event of an SBD, we will assess whatever means of communication are still available to us, and use the means closest in speed and form (written or oral) to the means that we have used in the past to communicate with the other party.

Rule: FINRA Rule 3510(c)(9).

XI. Critical Business Constituents, Banks, and Counter-Parties

Business Constituents

The firm has contacted our critical business constituents (businesses with which we have an ongoing commercial relationship in support of our operating activities, such as vendors providing us critical services), and determined the extent to which we can continue our business relationship with them in light of the internal or external SBD. We will quickly establish alternative arrangements if a business constituent can no longer provide the needed goods or services when we need them because of a SBD to them or our firm. See the firm's major suppliers on the Vendor List Enclosure©.

Rules: FINRA Rule 3510(c)(7).

Banks

The firm has contacted our banks and lenders to determine if they can continue to provide the financing that we will need in light of the internal or external SBD. The bank maintaining our operating account is: Sterling Bank, 13750 San Pedro, San Antonio, Texas 78232, Safe Deposit Box #5605. The firm's contact person is Barbara Chandler at telephone number (210) 277-3123.

The firm does not maintain a Proprietary Account of Introducing Brokers/Dealers (PAIB account).

Rules: FINRA Rule 3510(c)(7).

Counter Parties

The firm has contacted our critical counter-parties, such as other broker/dealers or institutional customers, to determine if we will be able to carry out our transactions with them in light of the internal or external SBD. Where the transactions cannot be completed, we will work with our clearing firm or contact those counter parties directly to make alternative arrangements to complete those transactions as soon as possible.

Rules: FINRA Rules 3510(a) &(c)(7).

XII. Regulatory Reporting

Our firm is subject to regulation by: FINRA, SEC, MSRB, and the Texas State Securities Board. We now file reports with our regulators using paper copies in the U.S. mail, and electronically using fax, email, and the Internet. In the event of an SBD, we will check with the SEC, FINRA, and other regulators to determine which means of filing are still available to us, and use the means closest in speed and form (written or oral) to our previous filing method. In the event that we cannot contact our regulators, we will continue to file required reports using the communication means available to us.

Rule: FINRA Rule 3510(c)(8).

XIII. Disclosure of Business Continuity Plan

The firm discloses, in writing, a summary of its Business Continuity Plan to customers at account opening and annually. The firm also posts the summary on our web site and by U.S. postal mail, to customers upon request. The firm's BCP summary addresses the possibility of a future SBD and how we plan to respond to events of varying scope. In addressing the events of varying scope, the summary (1) provides specific scenarios of varying severity (e.g., a firm-only business disruption, a disruption to a single building, a disruption to a business district, a citywide business disruption, and a regional disruption); (2) states whether we plan to continue business during that scenario and, if so, our planned recovery time; and (3) provides general information on our intended response. The firm's BCP summary discloses the existence of back up facilities and arrangements.

Rule: FINRA Rule 3510(e).

XIV. Updates and Annual Review

Our firm will update this plan whenever we have a material change to our operations, structure, business or location or to those of our clearing firm. In addition, our firm will review this Business Continuity Plan annually, on June 30th, to modify it for any changes in our operations, structure, business, or location or those of our clearing firm.

Rule: FINRA Rule 3510(b).

XV. Senior Manager Approval

I have approved this Business Continuity Plan as reasonably designed to enable our firm to meet its obligations to customers in the event of a Significant Business Disruption.

Rule: FINRA Rule 3510(d).

McNally Financial Services Corporation

Signed: _____

Name: David D. McNally

Title: President

Date: December 10, 2008