



Date: January 28, 2011

# NIKKO CORDIAL SECURITIES INC.

URL: <http://www.nikko.co.jp/>

## Non-consolidated Financial Summary for the period ended December 31, 2010 (JGAAP)

### 1. Overall business performance for the 9 months ended December 31, 2010

#### (1) Operating results (from April 1, 2010 to December 31, 2010)

(Millions of Yen)

|                      | Operating revenue | Net operating revenue | Operating income | Ordinary income | Quarterly Net income |
|----------------------|-------------------|-----------------------|------------------|-----------------|----------------------|
| FY2010 3Q (9 months) | 168,068           | 157,906               | 34,479           | 33,395          | 21,983               |

#### Reference information

Comparison with operating results of combination of former Nikko Cordial Securities Inc. before the corporate de-merger (from April 1, 2009 to September 30, 2009) and current Nikko Cordial Securities Inc. (from October 1, 2009 to December 31, 2009) are as follows.

(% percentage change from the same period of the previous fiscal year)

(Millions of Yen)

|                      | Operating revenue | Net operating revenue | Operating income | Ordinary income | Quarterly Net income |
|----------------------|-------------------|-----------------------|------------------|-----------------|----------------------|
| FY2010 3Q (9 months) | 168,068 26.6%     | 157,906 21.7%         | 34,479 15.3%     | 33,395 8.8%     | 21,983 -41.7%        |
| FY2009 3Q (9 months) | 132,780 -0.6%     | 129,772 0.5%          | 29,905 43.7%     | 30,705 32.4%    | 37,693 —             |

Note: Current Nikko Cordial Securities Inc. succeeded all of the operations (excluding selected assets and liabilities) of former Nikko Cordial Securities Inc. and certain businesses, including the domestic debt and equity underwriting business, of Nikko Citigroup Ltd (currently Citigroup Global Markets Japan Inc.), through a corporate de-merger effective on October 1, 2009. Operating results for FY2009 3Q (9months) mentioned above are combination of those of former Nikko Cordial Securities Inc. (from April 1, 2009 to September 30, 2009) and those of current Nikko Cordial Securities Inc. (from October 1, 2009 to December 31, 2009).

#### (2) Financial conditions

(Millions of Yen except for percentages)

|           | Total assets | Net assets | Equity ratio | Regulatory Capital Adequacy Ratio |
|-----------|--------------|------------|--------------|-----------------------------------|
| FY2010 3Q | 7,798,798    | 437,542    | 5.6 %        | 537.4 %                           |
| FY2009    | 6,853,539    | 416,377    | 6.1 %        | 566.9 %                           |

Equity (Total of "Shareholder's equity" and "Valuation and translation adjustments")

FY 2010 3Q: 437,542 million yen

FY 2009: 416,377 million yen

**2. Others**

**(1) Adoption of Simplified and Particular Accounting Treatments** : None

**(2) Changes in Accounting Principles, Procedures and Presentations**

(i ) Changes due to revised accounting standard : Yes

(ii) Other than the above : None

**\*Other special matters**

There is no applicable information to be disclosed.

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## I. Operating Results and Financial Conditions

### 1. Operating Results

#### Financial Overview

Operating revenue for this period (from April 1, 2010 to December 31, 2010) totaled 168.0 billion yen. Net operating revenue, which subtracts financial expenses from operating revenue, was 157.9 billion yen, while selling, general and administrative expenses was 123.4 billion yen. Consequently, operating income was 34.4 billion yen, and ordinary income after adjustment for non-operating income/expenses was 33.3 billion yen. Quarterly net income, which incorporates factors such as extraordinary income (losses) and income taxes, was 21.9 billion yen.

#### (1) Commission received

Commission received was 104.6 billion yen. Following are summaries by category:

##### ***Commission to consignees***

Commission to consignees was 11.6 billion yen. Average daily trading values on the Tokyo Stock Exchange during the period were 1,452.7 billion yen. Given this situation of market conditions, commission to consignees on equities were 11.0 billion yen.

##### ***Commissions for underwriting, secondary distribution and solicitation for selling and others for professional investors***

Commissions for underwriting, secondary distribution and solicitation for selling and others for professional investors were 15.2 billion yen. Commission revenues on equities were 6.6 billion yen, and those on bonds were 8.5 billion yen.

##### ***Fees for offering, secondary distribution and solicitation for selling and others for professional investors***

Fees for offering, secondary distribution and solicitation for selling and others for professional investors were 50.0 billion yen. Fee revenues on investment trusts were 49.5 billion yen due to brisk sale of the Nikko Ashmore Emerging Markets Tri-Asset Fund (Monthly Dividend Payment Type) continued since the previous quarter.

##### ***Other fees received***

Other fees received were 27.6 billion yen. Agent commissions from investment trusts were 18.8 billion yen.

#### (2) Net Trading Income

Net trading income was 47.9 billion yen. Net trading income on equities was 0.3 billion yen and net trading income on bonds/foreign exchanges was 47.5 billion yen.

#### (3) Net Financial Revenue

Net financial revenue, 15.4 billion yen of financial revenue less 10.1 billion yen of financial expenses, was 5.3 billion yen.

#### (4) Selling, General and Administrative Expenses

Selling, general and administrative expenses were 123.4 billion yen, mainly consisted of personal expenses 59.4 billion yen, outsourcing and stationery expenses 21.2 billion yen, trading related expenses 15.9 billion yen and real estate expenses 13.3 billion yen.

#### (5) Extraordinary Income and Losses

Extraordinary income was 0.06 billion yen including gain on sales of investment securities and an affiliate's stock. Extraordinary losses were 2.7 billion yen. Loss on valuation of investment securities, Loss on adjustment for changes of accounting standard for asset retirement obligations and Loss on sales of investment securities were 1.2 billion yen, 0.7 billion yen and 0.4 billion yen, respectively.

## **(6) Income Taxes**

Income taxes-current were 0.4 billion yen. Income taxes-deferred were 8.2 billion yen due to a decrease in deferred tax assets.

## **2. Financial Conditions**

Net assets were 437.5 billion yen at the end of this period (as of December 31, 2010), an increase by 21.1 billion yen from the end of the previous fiscal year. Current assets were 7,563.7 billion yen, an increase by 956.3 billion yen. Noncurrent assets were 235.0 billion yen, a decrease by 11.0 billion yen, and the total assets were 7,798.7 billion yen. Current liabilities increased by 906.2 billion yen to 7,123.3 billion yen; noncurrent liabilities increased by 17.8 billion yen to 237.8 billion yen and the total liabilities were 7,361.2 billion yen.

Regulatory capital adequacy ratio was 537.4 % at the end of December 2010.

## **II. Others**

### **1. Summary of simplified and particular accounting treatments**

There is no applicable information to be disclosed.

### **2. Summary of changes in accounting principles, procedures and presentations**

#### **(1) Changes due to revised accounting standard**

Application of the Accounting Standard for Asset Retirement Obligations

Accounting Standard for Asset Retirement Obligations (Statement No.18, March 31<sup>st</sup> 2008) and the Guidance on Accounting Standard for Asset Retirement Obligations (Guidance No.21, March 31<sup>st</sup> 2008) have been applied since the first quarter of this fiscal year.

As a result, operating income and ordinary income increased by 23 million yen, and quarterly income before income taxes decreased by 777 million yen for the nine months ended December 31 2010.

#### **(2) Other than the above**

There is no applicable information to be disclosed.

## III. Financial Statements

## 1. Balance Sheet

( Millions of Yen)

|  | Dec. 31, 2010    | Mar. 31, 2010    |
|--|------------------|------------------|
| <b>(ASSETS)</b>  |                  |                  |
| <b>Current assets</b>  |                  |                  |
| Cash and deposits  | 55,293           | 174,868          |
| Cash segregated as deposits  | 115,285          | 119,553          |
| Trading products:  | 3,081,123        | 2,420,193        |
| <i>Trading securities and other</i>  | 2,925,660        | 2,296,182        |
| <i>Derivatives</i>   | 155,463          | 124,010          |
| Trade date accrual   | 30,098           | —                |
| Margin transaction assets:   | 30,093           | 39,401           |
| <i>Loans on margin transactions</i>  | 24,459           | 31,780           |
| <i>Cash collateral pledged for securities borrowing on margin transactions</i> | 5,633            | 7,621            |
| Loans secured by securities:   | 4,098,437        | 3,710,671        |
| <i>Cash collateral pledged for securities borrowed</i>                         | 4,098,437        | 3,710,671        |
| Advances paid  | 1,896            | 261              |
| Cash paid for offering   | 14,206           | 15,028           |
| Short-term guarantee deposits  | 90,701           | 75,478           |
| Deferred tax assets  | 25,278           | 24,936           |
| Other  | 21,339           | 27,063           |
| Allowance for doubtful accounts  | (25)             | (31)             |
| <b>Total current assets</b>  | <b>7,563,728</b> | <b>6,607,425</b> |
| <b>Noncurrent assets</b>   |                  |                  |
| Property and equipment   | 7,950            | 6,707            |
| Intangible assets  | 46,766           | 50,027           |
| Investments and other assets:  | 180,352          | 189,379          |
| <i>Investment securities</i>   | 58,284           | 59,155           |
| <i>Stocks of subsidiaries and affiliates</i>                                   | 39,588           | 39,081           |
| <i>Long-term loans receivable</i>  | 5,081            | 5,083            |
| <i>Long-term guarantee deposits</i>  | 15,760           | 15,500           |
| <i>Deferred tax assets</i>   | 55,403           | 64,309           |
| <i>Other</i>   | 12,930           | 13,098           |
| <i>Allowance for doubtful accounts</i>   | (6,697)          | (6,848)          |
| <b>Total noncurrent assets</b>   | <b>235,069</b>   | <b>246,113</b>   |
| <b>Total assets</b>  | <b>7,798,798</b> | <b>6,853,539</b> |

( Millions of Yen)

|  | Dec. 31, 2010    | Mar. 31, 2010    |
|--|------------------|------------------|
| <b>(LIABILITIES)</b>   |                  |                  |
| <b>Current liabilities</b>   |                  |                  |
| Trading products:  | 2,019,010        | 1,553,112        |
| <i>Trading securities and other</i>                                | 1,862,739        | 1,427,383        |
| <i>Derivatives</i>   | 156,271          | 125,729          |
| Trade date accrual   | —                | 78,214           |
| Margin transaction liabilities:                                    | 10,576           | 11,754           |
| <i>Borrowings on margin transactions</i>                           | 814              | 1,711            |
| <i>Cash received for securities lending on margin transactions</i> | 9,762            | 10,043           |
| Loans payable secured by securities:                               | 1,143,045        | 1,454,102        |
| <i>Cash received on debt credit transaction of securities</i>      | 947,208          | 836,659          |
| <i>Borrowings on Gensaki transaction</i>                           | 195,837          | 617,442          |
| Deposits received  | 124,313          | 152,005          |
| Guarantee deposits received  | 17,345           | 22,693           |
| Short-term loans payable   | 3,544,200        | 2,696,973        |
| Commercial papers  | 238,900          | 217,000          |
| Income taxes payable   | 377              | 2,647            |
| Other  | 25,584           | 28,600           |
| <b>Total Current Liabilities</b>                                   | <u>7,123,354</u> | <u>6,217,104</u> |
| <b>Noncurrent liabilities</b>                                      |                  |                  |
| Bonds payable  | 15,800           | —                |
| Long-term loans payable  | 216,000          | 216,000          |
| Provision for retirement benefits                                  | 3,481            | 3,078            |
| Asset retirement obligations                                       | 1,147            | —                |
| Other  | 1,439            | 945              |
| <b>Total noncurrent liabilities</b>                                | <u>237,869</u>   | <u>220,023</u>   |
| <b>Reserves under the special laws</b>                             |                  |                  |
| Reserve for financial products transaction liabilities             | 33               | 34               |
| <b>Total reserves under the special laws</b>                       | <u>33</u>        | <u>34</u>        |
| <b>Total liabilities</b>   | 7,361,256        | 6,437,162        |
| <b>(NET ASSETS)</b>  |                  |                  |
| <b>Shareholder's equity</b>  |                  |                  |
| Capital stock  | 10,000           | 10,000           |
| Capital surplus:   | 378,143          | 378,143          |
| <i>Other capital surplus</i>                                       | 378,143          | 378,143          |
| Retained earnings:   | 48,727           | 26,744           |
| <i>Other retained earnings</i>                                     | 48,727           | 26,744           |
| <i>Retained earnings brought forward</i>                           | 48,727           | 26,744           |
| <b>Total Shareholder's equity</b>                                  | <u>436,871</u>   | <u>414,888</u>   |
| <b>Valuation and translation adjustments</b>                       |                  |                  |
| Valuation difference on available-for-sale securities              | 670              | 1,489            |
| <b>Total valuation and translation adjustments</b>                 | 670              | 1,489            |
| <b>Net assets</b>  | 437,542          | 416,377          |
| <b>Total liabilities and net assets</b>                            | 7,798,798        | 6,853,539        |

**2. Income Statement**

( Millions of Yen)

|  | For the 9 months ended<br>Dec. 31, 2010 |
|--|---|
| <b>Operating revenue</b>   |   |
| Commission received  | 104,679                                 |
| Net trading income   | 47,925                                  |
| Other net gain on goods trading  | 0                                       |
| Financial revenue  | 15,462                                  |
| <b>Total operating revenue</b>   | <u>168,068</u>                          |
| Financial expenses   | <u>10,162</u>                           |
| <b>Net operating revenue</b>   | 157,906                                 |
| <b>Selling, general and administrative expenses</b>                                    | 123,427                                 |
| <i>Trading related expenses</i>  | 15,981                                  |
| <i>Personal expenses</i>   | 59,424                                  |
| <i>Real estate expenses</i>  | 13,361                                  |
| <i>Outsourcing and stationery expenses</i>   | 21,257                                  |
| <i>Depreciation</i>  | 4,991                                   |
| <i>Taxes and dues</i>  | 1,285                                   |
| <i>Other</i>   | 7,125                                   |
| <b>Operating income</b>  | 34,479                                  |
| <b>Non-operating income</b>  | 1,132                                   |
| <b>Non-operating expenses</b>  | 2,216                                   |
| <b>Ordinary income</b>   | 33,395                                  |
| <b>Extraordinary income</b>  |   |
| Gain on sales of investment securities   | 27                                      |
| Gain on sales of subsidiaries and affiliates' stocks                                   | 29                                      |
| Reversal of allowance for doubtful accounts  | 8                                       |
| Reversal of reserve for financial products transaction liabilities                     | 1                                       |
| <b>Total extraordinary income</b>  | <u>67</u>                               |
| <b>Extraordinary loss</b>  |   |
| Loss on retirement of noncurrent assets  | 271                                     |
| Loss on sales of investment securities   | 458                                     |
| Loss on valuation of investment securities and others                                  | 1,293                                   |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | 774                                     |
| <b>Total extraordinary losses</b>  | <u>2,797</u>                            |
| <b>Quarterly Income before income taxes</b>  | 30,665                                  |
| Income taxes-current   | 451                                     |
| Income taxes-deferred  | 8,231                                   |
| <b>Total income taxes</b>  | <u>8,682</u>                            |
| <b>Quarterly Net income</b>  | 21,983                                  |

\* The operating results for the corresponding period of the previous fiscal year are not presented above because current Nikko Cordial Securities Inc. began its operations as a financial instruments business operator effective on October 1, 2009, succeeding all of the operations (excluding selected assets and liabilities) of former Nikko Cordial Securities Inc and certain businesses, including the domestic debt and equity underwriting business, of Nikko Citigroup Ltd (currently Citigroup Global Markets Japan Inc.) through a corporate de-merger.



**3. Note on going concern**

There is no applicable information to be disclosed.

**4. Note to significant changes in the amount of shareholder's equity**

There is no applicable information to be disclosed.

**IV. Supplementary Information****1. Commission Received**

(A) Breakdown by Categories

( Millions of Yen )

|  | For the 9 months<br>ended Dec.31 2010 |
|--|---------------------------------------|
| Commission to consignees   | 11,650                                |
| < Equities >   | < 11,093 >                            |
| < Bonds >  | < 89 >                                |
| < Investment trusts >  | < 467 >                               |
| Commissions for underwriting, secondary distribution and solicitation<br>for selling and others for professional investors | 15,251                                |
| < Equities >   | < 6,674 >                             |
| < Bonds >  | < 8,510 >                             |
| Fees for offering, secondary distribution and solicitation for selling and<br>others for professional investors            | 50,083                                |
| < Investment trusts >  | < 49,593 >                            |
| Other fees received  | 27,694                                |
| < Investment trusts >  | < 18,899 >                            |
| Total  | 104,679                               |

(B) Breakdown by Products

( Millions of Yen )

|                   | For the 9 months<br>ended Dec.31 2010 |
|-------------------|---------------------------------------|
| Equities          | 19,494                                |
| Bonds             | 9,343                                 |
| Investment trusts | 68,960                                |
| Others            | 6,881                                 |
| Total             | 104,679                               |

**2. Net Trading Income**

( Millions of Yen )

|                    | For the 9 months<br>ended Dec.31 2010 |
|--------------------|---------------------------------------|
| Equities, etc.     | 396                                   |
| Bonds, forex, etc. | 47,528                                |
| < Bonds, etc. >    | < 41,160 >                            |
| < Forex, etc. >    | < 6,367 >                             |
| Total              | 47,925                                |

**3. Equity Trading Activity (excluding futures transactions)**

(Millions of Yen and shares)

|                 | For the 9 months<br>ended Dec.31 2010 |               |
|-----------------|---------------------------------------|---------------|
|                 | Number of shares                      | Amount        |
| Total           | 4,200                                 | 2,593,986     |
| < Proprietary > | < 616 >                               | < 459,313 >   |
| < Agency >      | < 3,584 >                             | < 2,134,672 > |
| Brokerage ratio | 85.3 %                                | 82.3 %        |
| TSE share       | 0.5 %                                 | 0.4 %         |

**4. Underwriting/Subscription / Distribution**

(Millions of Yen and shares )

|                                   |                               | For the 9 months<br>ended Dec.31 2010 |
|-----------------------------------|-------------------------------|---------------------------------------|
| Underwriting                      | Equities ( Number of shares ) | 142                                   |
|                                   | Equities ( Amounts )          | 165,703                               |
|                                   | Bonds ( Face value )          | 4,095,757                             |
|                                   | Others ( Amounts )            | 36,600                                |
| *Subscription<br>and distribution | Equities ( Number of shares ) | 162                                   |
|                                   | Equities ( Amounts )          | 191,025                               |
|                                   | Bonds ( Face value )          | 3,335,145                             |
|                                   | Invest. trusts ( Amounts )    | 4,344,047                             |
|                                   | Others ( Amounts )            | 44,423                                |

\* Include secondary offerings, private placement and solicitation for selling and others for professional investors

**5. Regulatory Capital Adequacy Ratio**

( Millions of Yen)

|                                 |  | Dec. 31, 2010 | Mar. 31, 2010 |
|---------------------------------|--|---------------|---------------|
| Basic items                     | Total capital (A)                        | 436,871       | 414,888       |
| Supplementary items             | Unrealized gain on investment securities | 670           | 1,489         |
|                                 | Reserves under the special laws          | 33            | 34            |
|                                 | Allowance for doubtful accounts          | 25            | 31            |
|                                 | Short-term subordinated borrowings       | 200,000       | 200,000       |
|                                 | Sub-total (B)                            | 200,728       | 201,554       |
| Deductible assets (C)           | 218,725                                  | 232,228       |               |
| Net capital (A) + (B) - (C) (D) | 418,874                                  | 384,214       |               |
| Risk total                      | Market Risk                              | 26,905        | 21,541        |
|                                 | Counterparty Risk                        | 12,569        | 12,385        |
|                                 | Basic Risk                               | 38,456        | 33,845        |
|                                 | Sub-total (E)                            | 77,930        | 67,772        |
| Net capital ratio (D) / (E)*100 | 537.4 %                                  | 566.9 %       |               |

Note: 1. The table above shows calculation of the capital adequacy ratio based on financial results in accordance with the provision set out in the Financial Instruments and Exchange Law.

2. "Short-term subordinated borrowings" at the end of the period is subordinated borrowings.

Amount : 50,000 millions of yen

Amount : 150,000 millions of yen

Contract date : October 1, 2009

Contract date : January 4, 2010

Maturity date : October 3, 2011

Maturity date : January 5, 2012

## 6. Trend Statement of Operations

(Millions of Yen)

|   | FY2009 3Q<br>10/01/09<br>12/31/09 | FY2009 4Q<br>01/01/10<br>03/31/10 | FY2010 1Q<br>04/01/10<br>06/30/10 | FY2010 2Q<br>07/01/10<br>09/30/10 | FY2010 3Q<br>10/01/10<br>12/31/10 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>Operating revenue</b>  | 47,148                            | 57,777                            | 58,251                            | 53,119                            | 56,697                            |
| Commission received   | 35,379                            | 41,555                            | 36,236                            | 32,277                            | 36,165                            |
| Commission to consignees  | 3,788                             | 5,097                             | 4,612                             | 2,928                             | 4,110                             |
| Commissions for underwriting, secondary distribution and solicitation for selling and others for professional investors | 5,052                             | 14,433                            | 4,595                             | 4,469                             | 6,187                             |
| Fees for offering, secondary distribution and solicitation for selling and others for professional investors            | 17,737                            | 9,612                             | 18,137                            | 15,299                            | 16,645                            |
| Other fees received   | 8,801                             | 12,412                            | 8,891                             | 9,580                             | 9,222                             |
| Net trading income  | 10,161                            | 13,602                            | 17,605                            | 14,853                            | 15,466                            |
| Other net gain on goods trading   | 0                                 | 0                                 | 0                                 | 0                                 | 0                                 |
| Financial revenue   | 1,607                             | 2,619                             | 4,408                             | 5,988                             | 5,065                             |
| Financial expenses  | 1,794                             | 2,620                             | 3,237                             | 3,471                             | 3,453                             |
| <b>Net operating revenue</b>  | 45,353                            | 55,157                            | 55,013                            | 49,647                            | 53,244                            |
| <b>Selling, general and administrative expenses</b>   | 36,377                            | 40,590                            | 40,543                            | 41,069                            | 41,814                            |
| <i>Trading related expenses</i>   | 3,966                             | 4,677                             | 4,590                             | 5,626                             | 5,764                             |
| <i>Personal expenses</i>  | 17,327                            | 20,366                            | 20,084                            | 18,863                            | 20,476                            |
| <i>Real estate expenses</i>   | 4,603                             | 4,421                             | 4,470                             | 4,468                             | 4,423                             |
| <i>Outsourcing and stationery expenses</i>  | 6,611                             | 6,912                             | 7,040                             | 7,356                             | 6,860                             |
| <i>Depreciation</i>   | 1,666                             | 1,663                             | 1,604                             | 1,641                             | 1,745                             |
| <i>Taxes and dues</i>   | 393                               | 370                               | 437                               | 421                               | 426                               |
| <i>Other</i>  | 1,809                             | 2,178                             | 2,316                             | 2,690                             | 2,117                             |
| <b>Operating income</b>   | 8,976                             | 14,566                            | 14,470                            | 8,578                             | 11,430                            |
| <b>Non-operating income</b>   | 603                               | 181                               | 212                               | 1,142                             | (221)                             |
| <b>Non-operating expenses</b>   | 65                                | 140                               | 1,337                             | 409                               | 469                               |
| <b>Ordinary income</b>  | 9,513                             | 14,607                            | 13,344                            | 9,311                             | 10,739                            |
| <b>Extraordinary income</b>   | 138                               | 13                                | 30                                | (3)                               | 40                                |
| <b>Extraordinary loss</b>   | 2,340                             | (625)                             | 2,359                             | 427                               | 10                                |
| <b>Net income before income taxes</b>   | 7,311                             | 15,247                            | 11,015                            | 8,880                             | 10,768                            |
| Income taxes-current  | 1,160                             | 1,894                             | 371                               | 40                                | 40                                |
| Income taxes-deferred   | —                                 | (7,272)                           | 399                               | 2,947                             | 4,884                             |
| <b>Net income</b>   | 6,150                             | 20,624                            | 10,245                            | 5,893                             | 5,844                             |