DIANA SHIPPING INC.
Form 20-F
February 17, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F
(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from____________to____________
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report : Not applicable

Commission file number 001-32458

DIANA SHIPPING INC.
(Exact name of Registrant as specified in its charter)
Diana Shipping Inc.

(Translation of Registrant's name into English)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

Pendelis 16, 175 64 Palaio Faliro, Athens, Greece

(Address of principal executive offices)

Mr. Ioannis Zafirakis
Tel: + 30-210-9470-100, Fax: + 30-210-9470-101
E-mail: izafirakis@dianashippinginc.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
8.875% Series B Cumulative Redeemable Perpetual Preferred Shares, $0.01 par value	New York Stock Exchange
8.500% Senior Notes due 2020	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.
None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2016, there were 84,696,017 shares of the registrant's common stock outstanding
Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No
If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes No
Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes No

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

Diana Shipping Inc., or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe", "except," "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect" and similar expressions identify forward-looking statements.

Please note in this annual report, "we", "us", "our" and "the Company" all refer to Diana Shipping Inc. and its subsidiaries, unless otherwise indicated.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein, including under the heading "Item 3.D.—Risk Factors," important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the dry-bulk shipping industry, changes in the supply of vessels, changes in the Company's operating expenses, including bunker prices, crew costs, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions or labor disruptions, potential disruption of shipping routes due to accidents or political events, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, or the SEC, and the New York Stock Exchange, or the NYSE. We caution readers of this annual report not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to update or revise any forward-looking statements.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following table sets forth our selected consolidated financial data and other operating data. The selected consolidated financial data in the table as of December 31, 2016, 2015, 2014, 2013 and 2012 are derived from our audited consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. The following data should be read in conjunction with Item 5. "Operating and Financial Review and Prospects", the consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

	As of and for the Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands of U.S. dollars, except for share and per share data, fleet data and average daily results)				
Statement of Operations Data:					
Time charter revenues	$114,259	$157,712	$175,576	$164,005	$220,785
Other revenues	-	-	-	447	2,447
Voyage expenses	13,826	15,528	10,665	8,119	8,274
Vessel operating expenses	85,955	88,272	86,923	77,211	66,293
Depreciation and amortization of deferred charges	81,578	76,333	70,503	64,741	62,010
General and administrative expenses	25,510	25,335	26,217	23,724	24,913
Management fees to related party	1,464	405	-	-	-
Gain on contract termination	(5,500)	-	-	-	-
Foreign currency gain	(253)	(984)	(528)	(690)	(1,374)
Operating income / (loss)	(88,321)	(47,177)	(18,204)	(8,653)	63,116
Interest and finance costs	(21,949)	(15,555)	(8,427)	(8,140)	(7,618)
Interest and other income	2,410	3,152	3,627	1,800	1,432
Gain / (loss) from derivative instruments	-	-	68	(118)	(518)
Gain / (loss) from equity method investments	(56,377)	(5,133)	12,668	(6,094)	(1,773)
Net income / (loss)	$(164,237)	$(64,713)	$(10,268)	$(21,205)	$54,639
Dividends on series B preferred shares	$(5,769)	$(5,769)	$(5,080)	$-	$-
Net income / (loss) attributed to common stockholders	$(170,006)	$(70,482)	$(15,348)	$(21,205)	$54,639
Earnings / (loss) per common share, basic and diluted	$(2.11)	$(0.89)	$(0.19)	$(0.26)	$0.67
Weighted average number of common shares, basic and diluted	80,441,517	79,518,009	81,292,290	81,328,390	81,083,485
Balance Sheet Data:					
Cash and cash equivalents*	$98,142	$171,718	$199,401	$222,633	$431,624
Compensating cash balance*	23,000	21,500	19,500	18,000	15,000
Total current assets*	115,316	193,513	218,734	233,868	451,986
Vessels' net book value	1,403,912	1,440,803	1,373,133	1,320,375	1,211,138

Property and equipment, net	23,114	23,489	23,887	22,826	22,774
Total assets	1,668,663	1,836,965	1,787,122	1,701,981	1,742,802
Total current liabilities	78,225	58,889	98,092	62,297	61,477
Long-term debt (including current portion), net of deferred financing costs	598,181	600,071	484,256	431,557	459,112
Total stockholders' equity	1,056,589	1,218,366	1,282,226	1,253,392	1,266,424

* Comparative amounts have been reclassified to present compensating cash balance in a separate line

Cash Flow Data:					
Net cash provided by/(used in) operating activities	$(20,998)	$23,945	$44,910	$67,400	$119,886
Net cash used in investing activities	(41,619)	(155,637)	(152,513)	(245,156)	(169,913)
Net cash provided by/(used in) financing activities*	(10,959)	104,009	84,371	(31,235)	74,977

* Comparative amounts have been reclassified due to current presentation of compensating cash balance in separate line.

Fleet Data:					
Average number of vessels (1)	45.2	40.8	37.9	33.0	27.6
Number of vessels at year-end	46.0	43.0	39.0	36.0	30.0
Weighted average age of vessels at year-end (in years)	8.2	7.4	7.1	6.6	6.0

	As of and for the Year Ended December 31,				
	2016	2015	2014	2013	2012
Ownership days (2)	16,542	14,900	13,822	12,049	10,119
Available days (3)	16,447	14,600	13,650	12,029	9,998
Operating days (4)	16,354	14,492	13,564	11,944	9,865
Fleet utilization (5)	99.4 %	99.3 %	99.4 %	99.3 %	98.7 %
Average Daily Results:					
Time charter equivalent (TCE) rate (6)	$6,106	$9,739	$12,081	$12,959	$21,255
Daily vessel operating expenses (7)	5,196	5,924	6,289	6,408	6,551

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(1) Average number of vessels is the number of vessels that constituted our fleet for the relevant period, as measured by the sum of the number of days each vessel was a part of our fleet during the period divided by the number of calendar days in the period.

(2) Ownership days are the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.

(3) Available days are the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels for such events. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

(4) Operating days are the number of available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

(5) We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning for such events.

(6) Time charter equivalent rates, or TCE rates, are defined as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel) expenses, canal charges and commissions. TCE rate is a non-GAAP measure, and management believes it is useful to investors because it is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters are generally expressed in such amounts. The following table reflects the calculation of our TCE rates for the periods presented.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands of U.S. dollars, except for				

	TCE rates, which are expressed in U.S. dollars, and available days)				
Time charter revenues	$114,259	$157,712	$175,576	$164,005	$220,785
Less: voyage expenses	(13,826)	(15,528)	(10,665)	(8,119)	(8,274)
Time charter equivalent revenues	$100,433	$142,184	$164,911	$155,886	$212,511
Available days	16,447	14,600	13,650	12,029	9,998
Time charter equivalent (TCE) rate	$6,106	$9,739	$12,081	$12,959	$21,255

(7) Daily vessel operating expenses, which include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, are calculated by dividing vessel operating expenses by ownership days for the relevant period.

6

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our securities, including our common stock, Series B Preferred Shares, and 8.5% Senior Notes due 2020, which we refer to as our Notes. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results, cash available for the payment of dividends on our shares and interest on our Notes, or the trading price of our securities.

Industry Specific Risk Factors

Charter hire rates for dry bulk carriers may remain at low levels or decrease in the future, which may adversely affect our earnings.

The dry bulk shipping industry is cyclical with attendant volatility in charter hire rates and profitability. The degree of charter hire rate volatility among different types of dry bulk carriers has varied widely, and charter hire rates for Panamax and Capesize dry bulk carriers have reached near historically low levels. Because we charter some of our vessels pursuant to short-term time charters, we are exposed to changes in spot market and short-term charter rates for dry bulk carriers and such changes may affect our earnings and the value of our dry bulk carriers at any given time. In addition, more than half of our vessels are scheduled to come off of their current charters in 2017, based on their earliest redelivery date, for which we may be seeking new employment. We cannot assure you that we will be able to successfully charter our vessels in the future or renew existing charters at rates sufficient to allow us to meet our obligations or pay any dividends in the future. Fluctuations in charter rates result from changes in the supply and demand for vessel capacity and changes in the supply and demand for the major commodities carried by water internationally. Because the factors affecting the supply of and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.

Factors that influence demand for vessel capacity include:

- supply and demand for energy resources, commodities, semi-finished and finished consumer and industrial products;
- changes in the exploration or production of energy resources, commodities, semi-finished and finished consumer and industrial products;
- the location of regional and global exploration, production and manufacturing facilities;
- the location of consuming regions for energy resources, commodities, semi-finished and finished consumer and industrial products;
- the globalization of production and manufacturing;
- global and regional economic and political conditions, including armed conflicts and terrorist activities; embargoes and strikes;
- natural disasters and other disruptions in international trade;

- developments in international trade;
- changes in seaborne and other transportation patterns, including the distance cargo is transported by sea;
- environmental and other regulatory developments;
- currency exchange rates; and
- weather.

Factors that influence the supply of vessel capacity include:

- the number of newbuilding orders and deliveries, including slippage in deliveries;
- the number of shipyards and ability of shipyards to deliver vessels;
- port and canal congestion;
- the scrapping rate of older vessels;
- vessel casualties; and
- the number of vessels that are out of service, namely those that are laid-up, drydocked, awaiting repairs or otherwise not available for hire.

In addition to the prevailing and anticipated freight rates, factors that affect the rate of newbuilding, scrapping and laying-up include newbuilding prices, secondhand vessel values in relation to scrap prices, costs of bunkers and other operating costs, costs associated with classification society surveys, normal maintenance and insurance coverage, the efficiency and age profile of the existing dry bulk fleet in the market and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. These factors influencing the supply of and demand for shipping capacity are outside of our control, and we may not be able to correctly assess the nature, timing and degree of changes in industry conditions.

Demand for our dry bulk carriers is dependent upon economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the global dry bulk carrier fleet and the sources and supply of dry bulk cargo transported by sea. While there has been a general decrease in new dry bulk carrier ordering since 2014, the capacity of the global dry bulk carrier fleet could increase and economic growth may not resume in areas that have experienced a recession or continue in other areas. Adverse economic, political, social or other developments could have a material adverse effect on our business and operating results.

The dry bulk carrier charter market remains significantly below its high in 2008, which has had and may continue to have an adverse effect on our revenues, earnings and profitability, and may affect our ability to comply with our loan covenants.

The abrupt and dramatic downturn in the dry bulk charter market, from which we derive substantially all of our revenues, has severely affected the dry bulk shipping industry and has adversely affected our business. The Baltic Dry Index, or the BDI, a daily average of charter rates for key dry bulk routes published by the Baltic Exchange Limited, has long been viewed as the main benchmark to monitor the movements of the dry bulk vessel charter market and the performance of the entire dry bulk shipping market. The BDI declined 94% in 2008 from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and has remained volatile since then. During 2016, the BDI ranged from a record low of 290 in February to a high of 1,257 in November. While the BDI showed improvement in 2016, it remains at low levels compared to historical highs and there can be no assurance that the dry bulk charter market will not decline further. The decline and volatility in charter rates is due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which has resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China, which has resulted in falling iron ore prices and increased stockpiles in Chinese ports. The decline and volatility in charter rates in the dry bulk market also affects the value of our dry bulk vessels, which follows the trends of dry bulk charter rates, and earnings on our charters, and similarly, affects our cash flows, liquidity and compliance with the covenants contained in our loan agreements.

The decline in the dry bulk carrier charter market has had and may continue to have additional adverse consequences for our industry, including an absence of financing for vessels, no active secondhand market for the sale of vessels, charterers seeking to renegotiate the rates for existing time charters, and widespread loan covenant defaults in the dry bulk shipping industry. Accordingly, the value of our common shares could be substantially reduced or eliminated.

Weak economic conditions throughout the world could negatively affect our earnings, financial condition and cash flows and may further adversely affect the market price of our common shares.

Negative trends in the global economy continue to adversely affect global economic conditions. In addition, the world economy continues to face a number of new challenges, including recent turmoil and hostilities in the Middle East and other geographic areas and countries and continuing economic weakness in the European Union and Asia Pacific Region. The weakness in the global economy has caused, and may continue to cause, a decrease in worldwide demand for certain goods and, thus, shipping. We cannot predict how long the current market conditions will last. However, recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, have had a material adverse effect on our earnings, financial condition and cash flows, have caused the price of our common shares to decline and could cause the price of our common shares to decline further.

The economies of the United States, the European Union and other parts of the world continue to experience relatively slow growth or remain in recession and exhibit weak economic trends. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws. Any such changes could adversely affect the market price of our common shares.

A significant economic slowdown in the Asia Pacific region could exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and earnings.

Continued economic slowdown in the Asia Pacific region, particularly in China, may exacerbate the effect on us of continued weakness in the rest of the world, as we anticipate a significant number of the port calls made by our vessels will continue to involve the loading or discharging of dry bulk commodities in ports in the Asia Pacific region. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. The growth rate of China's GDP is estimated to be around 6.7% for the year ended December 31, 2016, which is China's slowest growth rate in 25 years. China and other countries in the Asia Pacific region may continue to experience slowed or even negative economic growth in the future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. Our earnings and ability to grow our fleet would be impeded by a continuing or worsening economic downturn in any of these countries or geographic regions.

A decrease in the level of China's export of goods or an increase in trade protectionism could have a material adverse impact on our charterers' business and, in turn, could cause a material adverse impact on our earnings, financial condition and cash flows.

Our vessels may be deployed on routes involving trade in and out of emerging markets, and our charterers' shipping and business revenue may be derived from the shipment of goods from the Asia Pacific region to various overseas export markets including the United States and Europe. Any reduction in or hindrance to the output of China-based exporters could have a material adverse effect on the growth rate of China's exports and on our charterers' business.

For instance, the government of China has implemented economic policies aimed at increasing domestic consumption of Chinese-made goods and restricting currency exchanges within China. This may have the effect of reducing the supply of goods available for export and may, in turn, result in a decrease of demand for shipping. Additionally, though in China there is an increasing level of autonomy and a gradual shift in emphasis to a "market economy" and enterprise reform, many of the reforms, particularly some limited price reforms that result in the prices for certain commodities being principally determined by market forces, are unprecedented or experimental and may be subject to revision, change or abolition. The level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government.

Our operations expose us to the risk that increased trade protectionism will adversely affect our business. If the continuing global recovery is undermined by downside risks and the recent economic downturn is prolonged, governments may turn to trade barriers to protect their domestic industries against foreign imports, thereby depressing the demand for shipping. Specifically, increasing trade protectionism in the markets that our charterers serve has caused and may continue to cause an increase in: (i) the cost of goods exported from China, (ii) the length of time required to deliver goods from China and (iii) the risks associated with exporting goods from China, as well as a decrease in the quantity of goods to be shipped.

Any increased trade barriers or restrictions on trade, especially trade with China, would have an adverse impact on our charterers' business, operating results and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. This could have a material adverse effect on our business, earnings and financial condition and our ability to pay dividends to our shareholders and interest on our Notes.

The current state of global financial markets and current economic conditions may adversely impact our ability to obtain additional financing or refinance our existing loan and credit facilities on acceptable terms which may hinder or prevent us from expanding our business.

Global financial markets and economic conditions continue to be volatile. This volatility has negatively affected the general willingness of banks and other financial institutions to extend credit, particularly in the shipping industry, due to the historically volatile asset values of vessels. As the shipping industry is highly dependent on the availability of credit to finance and expand operations, it has been and may continue to be negatively affected by this decline in lending. The current state of global financial markets might adversely impact our ability to issue additional equity at prices which will not be dilutive to our existing shareholders or preclude us from issuing equity at all.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that additional financing will be available if needed and to the extent required, or that we will be able to refinance our existing loan and credit facilities, on acceptable terms or at all. If additional financing or refinancing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

The instability of the euro or the inability of countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position.

As a result of the credit crisis in Europe, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such support. In September 2012, the European Council established a permanent stability mechanism, the European Stability Mechanism, or the ESM, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for dry bulk cargoes and for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, earnings and cash flow.

An over-supply of dry bulk carrier capacity may prolong or further depress the current low charter rates and, in turn, adversely affect our profitability.

The market supply of dry bulk carriers has increased materially since 2009 due to a high level of new deliveries in the last few years. Although dry bulk newbuilding deliveries have been tapering off since 2014, newbuildings continued to be delivered in significant numbers through the end of 2016. While vessel supply will continue to be affected by the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or accidental losses, an over-supply of dry bulk carrier capacity could prolong the period during which low charter rates prevail. Currently, more than half of our vessels are scheduled to come off of their current charters in 2017, based on their earliest redelivery date, for which we may be seeking new employment.

Risks associated with operating ocean-going vessels could affect our business and reputation, which could adversely affect our revenues and stock price.

The operation of ocean-going vessels carries inherent risks. These risks include the possibility of:

· marine disaster;

· terrorism;

· environmental accidents;

· cargo and property losses or damage;

· business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions; and

· piracy.

These hazards may result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates, damage to our customer relationships, delay or rerouting. If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and may be substantial. We may have to pay drydocking costs that our insurance does not cover in full. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or our vessels may be forced to travel to a drydocking facility that is not conveniently located to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to steam to more distant drydocking facilities would decrease our earnings. The involvement of our vessels in an environmental disaster may also harm our reputation as a safe and reliable vessel owner and operator.

World events could affect our earnings and financial condition.

Continuing conflicts and recent developments in the Middle East, North Africa and Ukraine, and the presence of U.S. and other armed forces in the Middle East, may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea, the Gulf of Aden off the coast of Somalia and the Gulf of Guinea. Any of these occurrences could have a material adverse impact on our operating results.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide has generally decreased since 2013, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Sulu Sea and the Gulf of Guinea, with dry bulk vessels and tankers particularly vulnerable to such attacks. Acts of piracy could result in harm or danger to the crews that man our vessels. In addition, if these piracy attacks occur in regions in which our vessels are deployed that insurers characterized as "war risk" zones or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including due to employing onboard security guards, could increase in such circumstances. Furthermore, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charterhire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not "on-hire" for a certain number of days and is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability, of insurance for our vessels, could have a material adverse impact on our business, financial condition and earnings.

Our operating results are subject to seasonal fluctuations, which could affect our operating results.

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in quarter-to-quarter volatility in our operating results. The dry bulk carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, our revenues may be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, our revenues may be stronger in fiscal quarters ended December 31 and March 31. While this seasonality will not directly affect our operating results, it could materially affect our operating results to the extent our vessels are employed in the spot market in the future.

Fuel, or bunker prices, may adversely affect profits.

While we generally will not bear the cost of fuel, or bunkers for vessels operating on time charters, fuel is a significant factor in negotiating charter rates. As a result, an increase in the price of fuel beyond our expectations may adversely affect our profitability at the time of charter negotiation. Fuel is also a significant, if not the largest, expense in our shipping operations when vessels are under voyage charter. While the price of fuel is currently at very low levels due to the price of oil, the price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Further, fuel may become much more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, European Union Regulations, the United Nation's International Maritime Organization, or IMO, International Convention for the Prevention of Pollution from Ships of 1973, as modified by the Protocol of 1978 collectively referred to as MARPOL 73/78, or MARPOL, including the designation of Emission Control Areas, or ECAs, thereunder, the IMO International Convention for the Safety of Life at Sea of 1974, or SOLAS, the International Convention on Load Lines of 1966, or the LL Convention, the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, the U.S. Oil Pollution Act of 1990, or OPA, requirements of the U.S. Coast Guard, or the USCG, and the U.S. Environmental Protection Agency, or EPA, the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, the U.S. Clean Air Act, or the CAA, U.S. Clean Water Act, or the CWA, and the U.S. Marine Transportation Security Act of 2002. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions including greenhouse gases, the management of ballast and bilge waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, earnings, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. Furthermore, the 2010 explosion of the Deepwater Horizon and the subsequent release of oil into the Gulf of Mexico, or other events, may result in further regulation of the shipping industry, and modifications to statutory liability schemes, which could have a material adverse effect on our business, financial condition, earnings and cash flows. For example, in April 2015, it was announced that new regulations are expected to be imposed in the United States regarding offshore oil and gas drilling and the U.S. Bureau of Safety and Environmental Enforcement, or BSEE, announced a new Well Control Rule in April 2016. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although we have arranged insurance to cover certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, earnings, cash flows and financial condition and our ability to pay dividends to our shareholders and interest on our Notes.

We are subject to international safety regulations and requirements imposed by our classification societies and the failure to comply with these regulations and requirements may subject us to increased liability, may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports.

The operation of our vessels is affected by the requirements set forth in Chapter IX of the SOLAS, which sets forth the IMO's International Management Code for the Safe Operation of Ships and for Pollution Prevention, or the ISM Code. The ISM Code requires ship owners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System", or SMS, that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies.

The ISM Code requires that vessel operators obtain a safety management certificate, or SMC, for each vessel they operate. This certificate evidences compliance by a vessel's operators with the ISM Code requirements for a SMS. No vessel can obtain a SMC under the ISM Code unless its manager has been awarded a document of compliance, or DOC, issued in most instances by the vessel's flag state.

The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. Each of the vessels that has been delivered to us is ISM Code-certified and we expect that each other vessel that we have agreed to purchase will be ISM Code-certified when delivered to us. Moreover, our appointed ship managers have obtained DOCs for their offices and SMCs for all of our vessels for which the certificates are required by the IMO. The DOCs and the SMCs are renewed as required.

In addition, vessel classification societies also impose significant safety and other requirements on our vessels. In complying with current and future environmental requirements, vessel-owners and operators may also incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance.

The operation of our vessels is also affected by other government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country or countries of their registration. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates, and financial assurances with respect to our operations. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale prices or useful lives of our vessels. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations.

Increased inspection procedures, tighter import and export controls and new security regulations could increase costs and disrupt our business.

International shipping is subject to various security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. These security procedures can result in cargo seizure, delays in the loading, offloading, trans-shipment or delivery and the levying of customs duties, fines or other penalties against us.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have a material adverse effect on our business, financial condition and earnings.

The operation of dry bulk carriers has certain unique operational risks which could affect our earnings and cash flow.

The operation of vessels, such as dry bulk carriers, has certain unique risks. With a dry bulk carrier, the cargo itself and its interaction with the vessel can be an operational risk. By their nature, dry bulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, dry bulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold) and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach to the sea. Hull breaches in dry bulk carriers may lead to the flooding of the vessels' holds. If a dry bulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel's bulkheads leading to the loss of a vessel. If we are unable to adequately repair our vessels after such damages, we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition, earnings, and ability to pay dividends, if any, in the future, and interest on our Notes. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

If our vessels call on ports located in countries that are subject to sanctions and embargoes imposed by the U.S. or other governments, that could adversely affect our reputation and the market for our common stock.

From time to time on charterers' instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the U.S. government and countries identified by the U.S. government as state sponsors of terrorism, including Iran, Sudan and Syria. Since July 11, 2011, none of our vessels have called on ports in Sudan or Syria. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to companies such as ours and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, in 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years. In addition, the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA) and Executive Order 13645 went into effect on July 1, 2013. Pursuant to the IFCA, as implemented by Executive Order 13645, a person is subject to sanctions for the provision of material support to Iranian Specially Designated Nationals, members of the Iranian energy, shipping and shipbuilding sectors and Iranian port operators. The foregoing also expanded existing Iran sanctions against persons or foreign financial institutions relating to, among other things, the sale and transport of Iranian petroleum, petroleum products and petrochemicals.

On November 24, 2013, the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) entered into an interim agreement with Iran entitled the "Joint Plan of Action", or JPOA. Under the JPOA it was agreed that, in exchange for Iran taking certain voluntary measures to ensure that its nuclear program is used only for peaceful purposes, the U.S. and E.U. would voluntarily suspend certain sanctions for a period of six months.

On January 20, 2014, the U.S. and E.U. indicated that they would begin implementing the temporary relief measures provided for under the JPOA. These measures include, among other things, the suspension of certain sanctions on the Iranian petrochemicals, precious metals, and automotive industries from January 20, 2014 until July 20, 2014. The JPOA was extended twice.

On July 14, 2015, the P5+1 and the EU announced that they reached a landmark agreement with Iran titled the Joint Comprehensive Plan of Action Regarding the Islamic Republic of Iran's Nuclear Program, or the JCPOA, which is intended to significantly restrict Iran's ability to develop and produce nuclear weapons for 10 years while simultaneously easing sanctions directed toward non-U.S. persons for conduct involving Iran, but taking place outside of U.S. jurisdiction and does not involve U.S. persons. On January 16, 2016, or Implementation Day, the United States joined the EU and the UN in lifting a significant number of their nuclear-related sanctions on Iran following an announcement by the International Atomic Energy Agency, or IAEA, that Iran had satisfied its respective obligations under the JCPOA.

U.S. sanctions prohibiting certain conduct that is now permitted under the JCPOA have not actually been repealed or permanently terminated at this time. Rather, the U.S. government has implemented changes to the sanctions regime by: (1) issuing waivers of certain statutory sanctions provisions; (2) committing to refrain from exercising certain discretionary sanctions authorities; (3) removing certain individuals and entities from OFAC's sanctions lists; and (4) revoking certain Executive Orders and specified sections of Executive Orders. These sanctions will not be permanently "lifted" until the earlier of "Transition Day," set to occur on October 20, 2023, or upon a report from the IAEA stating that all nuclear material in Iran is being used for peaceful activities.

Although it is our intention to comply with the provisions of the JCPOA, there can be no assurance that we will be in compliance in the future as such regulations and U.S. Sanctions may be amended over time, and the U.S. retains the authority to revoke the aforementioned relief if Iran fails to meet its commitments under the JCPOA.

Certain of our charterers or other parties that we have entered into contracts with may be affiliated with persons or entities that are the subject of sanctions imposed by the Obama administration, and European Union and/or other international bodies as a result of the annexation of Crimea by Russia in March 2014. If we determine that such sanctions require us to terminate existing contracts or if we are found to be in violation of such applicable sanctions, our results of operations may be adversely affected or we may suffer reputational harm.

Although we believe that we have been in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines, penalties or other sanctions that could severely impact our ability to access U.S. capital markets and conduct our business, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in us. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in, or to divest from, our common stock may adversely affect the price at which our common stock trades. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. In addition, our reputation and the market for our securities may be adversely affected if we engage in certain other activities, such as entering into charters with individuals or entities in countries subject to U.S. sanctions and embargo laws that are not controlled by the governments of those countries, or engaging in operations associated with those countries pursuant to contracts with third parties that are unrelated to those countries or entities controlled by their governments. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Maritime claimants could arrest or attach one or more of our vessels, which could interrupt our cash flows.

Crew members, suppliers of goods and services to a vessel, shippers of cargo, lenders, and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting or attaching a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flows and require us to pay large sums of money to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could attempt to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our vessels.

We conduct business in China, where the legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to us.

Some of our vessels may be chartered to Chinese customers and from time to time on our charterers' instructions, our vessels may call on Chinese ports. Such charters and voyages may be subject to regulations in China that may require us to incur new or additional compliance or other administrative costs and may require that we pay to the Chinese government new taxes or other fees. Applicable laws and regulations in China may not be well publicized and may not be known to us or to our charterers in advance of us or our charterers becoming subject to them, and the implementation of such laws and regulations may be inconsistent. Changes in Chinese laws and regulations, including with regards to tax matters, or changes in their implementation by local authorities could affect our vessels if chartered to Chinese customers as well as our vessels calling to Chinese ports and could have a material adverse impact on our business, financial condition and results of operations.

Governments could requisition our vessels during a period of war or emergency, resulting in a loss of earnings.

A government could requisition one or more of our vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes her owner, while requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Although we would be entitled to compensation in the event of a requisition of one or more of our vessels, the amount and timing of payment would be uncertain. Government requisition of one or more of our vessels may negatively impact our revenues and reduce the amount of cash we may have available for distribution as dividends to our shareholders, if any such dividends are declared.

Failure to comply with the U.S. Foreign Corrupt Practices Act could result in fines, criminal penalties and an adverse effect on our business.

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt Practices Act of 1977, or the FCPA. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the FCPA. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, earnings or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

Company Specific Risk Factors

The market value of our vessels has declined and may further decline, which could limit the amount of funds that we can borrow and has triggered breaches of the security coverage ratio in one loan facility and could in the future trigger breaches of certain financial covenants and the security cover ratio contained in our current and future loan facilities and we may incur a loss if we sell vessels following a decline in their market values.

The market value of our vessels, which is related to prevailing freight charter rates, has declined significantly. While the market value of vessels and the freight charter market have a very close relationship as the charter market moves from trough to peak, the time lag between the effect of charter rates on market values of ships can vary.

The market value of our vessels has generally experienced high volatility, and you should expect the market value of our vessels to fluctuate depending on a number of factors including:

- the prevailing level of charter hire rates;

- general economic and market conditions affecting the shipping industry;

- competition from other shipping companies and other modes of transportation;

- the types, sizes and ages of vessels;

- the supply and demand for vessels;

- applicable governmental regulations;

- technological advances; and

- the cost of newbuildings.

If the market value of our vessels declines further, we may not be in compliance with certain covenants contained in our current and future loan facilities and we may not be able to refinance our debt or obtain additional financing or incur debt on terms that are acceptable to us or at all. If we are not able to comply with the covenants in our loan facilities, and are unable to remedy the relevant breach, our lenders could accelerate our debt and foreclose on our vessels. Furthermore, if we sell any of our owned vessels at a time when prices are depressed, our business, results of operations, cash flow and financial condition could be adversely affected. Moreover, if we sell vessels at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel's carrying amount in our financial statements, resulting in a loss and a reduction in earnings. In addition, if vessel values persist or decline further, we may have to record an impairment adjustment in our financial statements which could adversely affect our financial results.

The decrease in the market value of our vessels has caused us to breach covenants in our loan facilities, which could adversely affect our operating results.

The market values of our vessels are at low levels compared to historical averages. As at December 31, 2016, we were in compliance with all of the covenants of our loan facilities, or had obtained waivers for any non-compliance, except for the minimum hull cover ratio requirement contained in one facility for which, on November 30, 2016, we received a letter from the agent under the facility advising us that we were not in compliance with the loan to value covenant contained in the facility. Additional, in January 2017, we received a letter from another bank, which offered us a lower loan to value rate until June 30, 2017. If we are not in compliance with our loan facilities or are unable to obtain waivers, our lenders could accelerate our debt and foreclose on our fleet. In addition, if the book value of a vessel is impaired due to unfavorable market conditions or a vessel is sold at a price below its book value, we would incur a loss that could adversely affect our operating results.

We charter some of our vessels on short-term time charters in a volatile shipping industry and the decline in charter hire rates could affect our results of operations and our ability to pay dividends.

Although significant exposure to short-term time charters is not unusual in the dry bulk shipping industry, the short-term time charter market is highly competitive and spot market charter hire rates (which affect time charter rates) may fluctuate significantly based upon available charters and the supply of, and demand for, seaborne shipping capacity. While the short-term time charter market may enable us to benefit in periods of increasing charter hire rates, we must consistently renew our charters and this dependence makes us vulnerable to declining charter rates. As a result of the volatility in the dry bulk carrier charter market, we may not be able to employ our vessels upon the termination of their existing charters at their current charter hire rates or at all. The dry bulk carrier charter market is volatile, and in the recent past, short-term time charter and spot market charter rates for some dry bulk carriers declined below the operating costs of those vessels before rising. We cannot assure you that future charter hire rates will enable us to operate our vessels profitably, or to pay dividends.

Rising crew costs could adversely affect our results of operations.

Due to an increase in the size of the global shipping fleet, the limited supply of and increased demand for crew has created upward pressure on crew costs. Continued higher crew costs or further increases in crew costs could adversely affect our results of operations.

Diana Containerships Inc. may have going concern issues which if not addressed the value of our investment and our loan receivable may decline and may adversely affect our financial condition.

As at December 31, 2016, we had a $45.4 million outstanding balance of a loan facility plus accrued interest and owned approximately 25.73% of Diana Containerships Inc. (NASDAQ:DCIX), or Diana Containerships, which operates in the containership market. Through this investment, we are partially exposed to containership market risks such as the cyclicality and volatility of charterhire rates, the reduction in demand for container shipping due to the recent global economic recession, increased risk of charter counterparty risk due to financial pressure on liner companies as a result of a decline in global trade, and the risk of over-supply of containership capacity. As a result of the continuous decline in the containership market, at September 30, 2016, we impaired the value of our investment in Diana Containerships to its market value at that date. Containership market risks may further reduce the value of our investment in Diana Containerships. The consolidated financial statements of Diana Containerships as of and for the year ended December 31, 2016, disclose that certain conditions indicate that Diana Containerships may be unable to continue as a going concern. As at December 31, 2016, the carrying value of the investment was \$5.8 million, while its market value, based on Diana Containerships' closing price on NASDAQ of \$2.78, was \$6.7 million. The market value of the investment as at February 15, 2017 based on Diana Containerships' closing price on NASDAQ of \$2.72, was \$6.6 million. If the value of our investment declines further due to other than temporary reasons we will be required to recognize additional losses and we may be required to write off part or the entire amount due from Diana Containerships.

Our investment in Diana Wilhelmsen Management Limited may expose us to additional risks.

During 2015 we invested in a 50/50 joint venture with Wilhelmsen Ship Management to provide management services to a limited number of vessels in our fleet, but our eventual goal is to provide fleet management services to unaffiliated third party vessel operators. While this joint venture may provide us in the future with a potential revenue source, it may also expose us to risks such as low customer satisfaction, increased operating costs compared to those we would achieve for our vessels, and inability to adequately staff our vessels with crew that meets our expectations or to maintain our vessels according to our standards, which would adversely affect our financial condition.

The Greek crisis could adversely affect the operations of our fleet manager, which has offices in Greece.

As a result of the ongoing economic slump in Greece and the capital controls imposed by the government in June 2015, Diana Shipping Services S.A., our manager which has offices in Greece, may be subjected to new regulations that may require us to incur new or additional compliance or other administrative costs and may require that we pay to the Greek government new taxes or other fees. Furthermore, renewed political uncertainty and social unrest due to the worsening economic conditions and the growing refugee population in the country may undermine Greece's political and economic stability and may lead it to exit the Eurozone, which may adversely affect the operations of our manager located in Greece. We also face the risk that enhanced capital controls, strikes, work stoppages, civil unrest and violence within Greece may disrupt the operations of our manager located in Greece.

A cyber-attack could materially disrupt our business.

We rely on information technology systems and networks in our operations and administration of our business. Our business operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to unauthorized release of information or alteration of information in our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business and results of operations.

The Public Company Accounting Oversight Board inspection of our independent accounting firm, could lead to findings in our auditors' reports and challenge the accuracy of our published audited consolidated financial statements.

Auditors of U.S. public companies are required by law to undergo periodic Public Company Accounting Oversight Board, or PCAOB, inspections that assess their compliance with U.S. law and professional standards in connection with performance of audits of financial statements filed with the SEC. For several years certain European Union countries, including Greece, did not permit the PCAOB to conduct inspections of accounting firms established and operating in such European Union countries, even if they were part of major international firms. Accordingly, unlike for most U.S. public companies, the PCAOB was prevented from evaluating our auditor's performance of audits and its quality control procedures, and, unlike stockholders of most U.S. public companies, we and our stockholders were deprived of the possible benefits of such inspections. During 2015, Greece agreed to allow the PCAOB to conduct inspections of accounting firms operating in Greece. In the future, such PCAOB inspections could result in findings in our auditors' quality control procedures, question the validity of the auditor's reports on our published consolidated financial statements and the effectiveness of our internal control over financial reporting, and cast doubt upon the accuracy of our published audited financial statements.

Our earnings may be adversely affected if we are not able to take advantage of favorable charter rates.

We charter our dry bulk carriers to customers pursuant to short, medium or long-term time charters. However, as part of our business strategy, the majority of our vessels are currently fixed on short to medium-term time charters. We may extend the charter periods for additional vessels in our fleet, including additional dry bulk carriers that we may purchase in the future, to take advantage of the relatively stable cash flow and high utilization rates that are associated with long-term time charters. While we believe that long-term charters provide us with relatively stable cash flows and higher utilization rates than shorter-term charters, our vessels that are committed to long-term charters may not be available for employment on short-term charters during periods of increasing short-term charter hire rates when these charters may be more profitable than long-term charters.

Investment in derivative instruments such as forward freight agreements could result in losses.

From time to time, we may take positions in derivative instruments including forward freight agreements, or FFAs. FFAs and other derivative instruments may be used to hedge a vessel owner's exposure to the charter market by providing for the sale of a contracted charter rate along a specified route and period of time. Upon settlement, if the contracted charter rate is less than the average of the rates, as reported by an identified index, for the specified route and period, the seller of the FFA is required to pay the buyer an amount equal to the difference between the contracted rate and the settlement rate, multiplied by the number of days in the specified period. Conversely, if the contracted rate is greater than the settlement rate, the buyer is required to pay the seller the settlement sum. If we take positions in FFAs or other derivative instruments and do not correctly anticipate charter rate movements over the specified route and time period, we could suffer losses in the settling or termination of the FFA. This could adversely affect our results of operations and cash flows.

We may have difficulty effectively managing our planned growth, which may adversely affect our earnings.

Since the completion of our initial public offering in March 2005, we have increased our fleet to 48 vessels in operation, as of the date of this annual report. The significant increase in the size of our fleet has imposed significant additional responsibilities on our management and staff. We may grow our fleet further in the future and this may require us to increase the number of our personnel. We will also have to increase our customer base to provide continued employment for the new vessels.

Our future growth will primarily depend on our ability to:

- locate and acquire suitable vessels;
- identify and consummate acquisitions or joint ventures;
- enhance our customer base;
- manage our expansion; and
- obtain required financing on acceptable terms.

Growing any business by acquisition presents numerous risks, such as undisclosed liabilities and obligations, the possibility that indemnification agreements will be unenforceable or insufficient to cover potential losses and difficulties associated with imposing common standards, controls, procedures and policies, obtaining additional qualified personnel, managing relationships with customers and integrating newly acquired assets and operations into existing infrastructure. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with our future growth.

We cannot assure you that we will be able to borrow amounts under our loan facilities and restrictive covenants in our loan facilities may impose financial and other restrictions on us.

Since February 2005 we have entered into several loan agreements to finance vessel acquisitions and the construction of newbuildings. As of December 31, 2016, we had $602.7 million outstanding under our facilities and our Notes. Our ability to borrow amounts under our facilities is subject to the execution of customary documentation relating to the facility, including security documents, satisfaction of certain customary conditions precedent and compliance with terms and conditions included in the loan documents. Prior to each drawdown, we are required, among other things, to provide the lender with acceptable valuations of the vessels in our fleet confirming that the vessels in our fleet have a minimum value and that the vessels in our fleet that secure our obligations under the facilities are sufficient to satisfy minimum security requirements. To the extent that we are not able to satisfy these requirements, including as a result of a decline in the value of our vessels, we may not be able to draw down the full amount under the facilities without obtaining a waiver or consent from the lender. We will also not be permitted to borrow amounts under the facilities if we experience a change of control.

The loan facilities also impose operating and financial restrictions on us. These restrictions may limit our ability to, among other things:

- pay dividends if we do not repay amounts drawn under our loan facilities, if there is a default under the loan facilities or if the payment of the dividend would result in a default or breach of a loan covenant;
- incur additional indebtedness, including through the issuance of guarantees;
- change the flag, class or management of our vessels;
- create liens on our assets;
- sell our vessels;
- enter into a time charter or consecutive voyage charters that have a term that exceeds, or which by virtue of any optional extensions may exceed a certain period;
- merge or consolidate with, or transfer all or substantially all our assets to, another person; and
- enter into a new line of business.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may limit our ability to finance our future operations, make acquisitions or pursue business opportunities.

We cannot assure you that we will be able to refinance indebtedness incurred under our loan facilities.

We cannot assure you that we will be able to refinance indebtedness with equity offerings on terms that are acceptable to us or at all. If we are not able to refinance these amounts with the net proceeds of equity offerings on terms acceptable to us or at all, we will have to dedicate a greater portion of our cash flow from operations to pay the principal and interest of this indebtedness than if we were able to refinance such amounts. If we are not able to satisfy these obligations, we may have to undertake alternative financing plans. The actual or perceived credit quality of our charterers, any defaults by them, and the market value of our fleet, among other things, may materially affect our ability to obtain alternative financing. In addition, debt service payments under our loan facilities or alternative financing may limit funds otherwise available for working capital, capital expenditures and other purposes. If we are unable to meet our debt obligations, or if we otherwise default under our loan facilities or an alternative financing arrangement, our lenders could declare the debt, together with accrued interest and fees, to be immediately due and payable and foreclose on our fleet, which could result in the acceleration of other indebtedness that we may have at such time and the commencement of similar foreclosure proceedings by other lenders.

Purchasing and operating secondhand vessels may result in increased operating costs and reduced operating days.

While we have the right to inspect previously owned vessels prior to our purchase of them and we usually inspect secondhand vessels that we acquire, such inspections do not provide us with the same knowledge about their condition that we would have if these vessels had been built for, and operated exclusively by, us. A secondhand vessel may have conditions or defects that we were not aware of when we bought the vessel and which may require us to incur costly repairs to the vessel. These repairs may require us to put a vessel into drydock, which would reduce our operating days. Furthermore, we usually do not receive the benefit of warranties on secondhand vessels.

We are subject to certain risks with respect to our counterparties on contracts, and failure of such counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business.

We enter into, among other things, charter parties with our customers. Such agreements subject us to counterparty risks. The ability and willingness of each of our counterparties to perform its obligations under a contract with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the maritime and offshore industries, the overall financial condition of the counterparty, charter rates received for specific types of vessels, and various expenses. Should a counterparty fail to honor its obligations under agreements with us, we could sustain significant losses, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, in depressed market conditions, our charterers may no longer need a vessel that is currently under charter or may be able to obtain a comparable vessel at lower rates. As a result, charterers may seek to renegotiate the terms of their existing charter agreements or avoid their obligations under those contracts. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, it may be difficult to secure substitute employment for such vessels, and any new charter arrangements we secure may be at lower rates given currently decreased dry bulk carrier charter rate levels. As a result, we could sustain significant losses, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In the highly competitive international shipping industry, we may not be able to compete for charters with new entrants or established companies with greater resources, and as a result, we may be unable to employ our vessels profitably.

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than we do. Competition for the transportation of dry bulk cargo by sea is intense and depends on price, location, size, age, condition and the acceptability of the vessel and its operators to the charterers. Due in part to the highly fragmented market, competitors with greater resources than us could enter the dry bulk shipping industry and operate larger fleets through consolidations or acquisitions and may be able to offer lower charter rates and higher quality vessels than we are able to offer. If we are unable to successfully compete with other dry bulk shipping companies, our results of operations may be adversely impacted.

We may be unable to attract and retain key management personnel and other employees in the shipping industry, which may negatively impact the effectiveness of our management and results of operations.

Our success depends to a significant extent upon the abilities and efforts of our management team. We have entered into employment contracts with our Chief Executive Officer and Chairman of the Board, Mr. Simeon Palios; our President, Mr. Anastasios Margaronis; our Chief Financial Officer, Mr. Andreas Michalopoulos; and our Chief Operating Officer, Mr. Ioannis Zafirakis. Our success will depend upon our ability to retain key members of our management team and to hire new members as may be necessary. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining replacement personnel could have a similar effect. We do not currently, nor do we intend to, maintain "key man" life insurance on any of our officers or other members of our management team.

The fiduciary duties of our officers and directors may conflict with those of the officers and directors of Diana Containerships.

Certain of our officers and directors are officers and directors of Diana Containerships and have fiduciary duties to manage our business in a manner beneficial to us and our shareholders, as well as a duty to the shareholders of Diana Containerships. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Diana Containerships and to us are in conflict. The resolution of these conflicts may not always be in our best interest or that of our shareholders and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We may not have adequate insurance to compensate us if we lose our vessels or to compensate third parties.

We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our current insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We can give no assurance that we are adequately insured against all risks or that our insurers will pay a particular claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

Our vessels may suffer damage and we may face unexpected drydocking costs, which could adversely affect our cash flow and financial condition.

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. The loss of earnings while a vessel is being repaired and repositioned, as well as the actual cost of these repairs not covered by our insurance, would decrease our earnings and cash available for dividends, if declared. We may not have insurance that is sufficient to cover all or any of the costs or losses for damages to our vessels and may have to pay drydocking costs not covered by our insurance.

The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Currently, our fleet consists of 48 vessels in operation, having a combined carrying capacity of 5.7 million dead weight tons, or dwt, and a weighted average age of 7.7 years as of February 17, 2017. As our fleet ages, we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

We are exposed to U.S. dollar and foreign currency fluctuations and devaluations that could harm our reported revenue and results of operations.

We generate all of our revenues in U.S. dollars but incur around half of our operating expenses and our general and administrative expenses in currencies other than the U.S. dollar, primarily the Euro. Because a significant portion of our expenses is incurred in currencies other than the U.S. dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. dollar and the Euro, which could affect the amount of net income that we report in future periods. While we historically have not mitigated the risk associated with exchange rate fluctuations through the use of financial derivatives, we may employ such instruments from time to time in the future in order to minimize this risk. Our use of financial derivatives would involve certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results.

Volatility in the London Interbank Offered Rate, or LIBOR, could affect our profitability, earnings and cash flow.

LIBOR may be volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of disruptions in the international markets. Because the interest rates borne by our outstanding loan facilities fluctuate with changes in LIBOR, it would affect the amount of interest payable on our debt, which, in turn, could have an adverse effect on our profitability, earnings and cash flow.

We depend upon a few significant customers for a large part of our revenues and the loss of one or more of these customers could adversely affect our financial performance.

We have historically derived a significant part of our revenues from a small number of charterers. During 2016, 2015, and 2014, approximately 54%, 66% and 55%, respectively, of our revenues were derived from four charterers. If one or more of our charterers chooses not to charter our vessels or is unable to perform under one or more charters with us and we are not able to find a replacement charter, we could suffer a loss of revenues that could adversely affect our financial condition and results of operations.

We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial obligations.

We are a holding company and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our subsidiaries. As a result, our ability to satisfy our financial obligations depends on our subsidiaries and their ability to distribute funds to us. If we are unable to obtain funds from our subsidiaries, we may not be able to satisfy our financial obligations.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and substantially all of our assets are located outside of the United States. In addition, the majority of our directors and officers are non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible for someone to bring an action against us or against these individuals in the United States if they believe that their rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict them from enforcing a judgment against our assets or the assets of our directors or officers.

The international nature of our operations may make the outcome of any bankruptcy proceedings difficult to predict.

We are incorporated under the laws of the Republic of the Marshall Islands and we conduct operations in countries around the world. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving us or any of our subsidiaries, bankruptcy laws other than those of the United States could apply. If we become a debtor under U.S. bankruptcy law, bankruptcy courts in the United States may seek to assert jurisdiction over all of our assets, wherever located, including property situated in other countries. There can be no assurance, however, that we would become a debtor in the United States, or that a U.S. bankruptcy court would be entitled to, or accept, jurisdiction over such a bankruptcy case, or that courts in other countries that have jurisdiction over us and our operations would recognize a U.S. bankruptcy court's jurisdiction if any other bankruptcy court would determine it had jurisdiction.

As we expand our business, we may need to improve our operating and financial systems and will need to recruit suitable employees and crew for our vessels.

Our current operating and financial systems may not be adequate as we expand the size of our fleet and our attempts to improve those systems may be ineffective. In addition, as we expand our fleet, we will need to recruit suitable additional seafarers and shoreside administrative and management personnel. While we have not experienced any difficulty in recruiting to date, we cannot guarantee that we will be able to continue to hire suitable employees as we expand our fleet. If we or our crewing agents encounter business or financial difficulties, we may not be able to adequately staff our vessels. If we are unable to grow our financial and operating systems or to recruit suitable employees as we expand our fleet, our financial performance may be adversely affected, among other things.

We may have to pay tax on U.S. source income, which would reduce our earnings.

Under the U.S. Internal Revenue Code of 1986, as amended, or the Code, 50% of the gross shipping income of a vessel-owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S. source shipping income and such income is generally subject to a 4% U.S. federal income tax without allowance for deductions, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder.

We expect that we and each of our subsidiaries qualify for this statutory tax exemption for the 2016 taxable year and we will take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption in future years and thereby become subject to U.S. federal income tax on our U.S. source shipping income. For example, in certain circumstances we may no longer qualify for exemption under Code Section 883 for a particular taxable year if shareholders, other than "qualified shareholders", with a five percent or greater interest in our common shares owned, in the aggregate, 50% or more of our outstanding common shares for more than half the days during the taxable year. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to this exemption under Section 883 of the Code for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our gross U.S.-source shipping income. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders, although, for the 2016 taxable year, we estimate our maximum U.S. federal income tax liability to be immaterial if we were subject to this U.S. federal income tax. See Item 10.E "Taxation" for a more comprehensive discussion of U.S. federal income tax considerations.

U.S. federal tax authorities could treat us as a "passive foreign investment company", which could have adverse U.S. federal income tax consequences to U.S. shareholders.

A foreign corporation will be treated as a "passive foreign investment company", or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our current and proposed method of operation, we do not believe that we will be a PFIC with respect to any taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our time chartering activities does not constitute "passive income," and the assets that we own and operate in connection with the production of that income do not constitute assets that produce or are held for the production of "passive income".

There is substantial legal authority supporting this position consisting of case law and U.S. Internal Revenue Service, or "IRS", pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept this position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if the nature and extent of our operations changed.

If the IRS or a court of law were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders would face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders), such shareholders would be subject to U.S. federal income tax at the then prevailing U.S. federal income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common stock, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of our common stock. See Item 10.E "Taxation – United States Taxation of U.S. Holders – PFIC Status and Significant Tax Consequences" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. holders of our common stock if we are or were to be treated as a PFIC.

Risks Relating to Our Common Stock

Our board of directors decided to suspend the payment of cash dividends on our common stock. We cannot assure you that our board of directors will reinstate dividend payments in the future, or when such reinstatement might occur.

In order to position us to take advantage of market opportunities in a deteriorating market, our board of directors, beginning with the fourth quarter of 2008, has suspended our common stock dividend. Our dividend policy will be assessed by our board of directors from time to time. We believe that this suspension has enhanced our flexibility by permitting cash flow that would have been devoted to dividends to be used for opportunities that arise in the current marketplace, such as funding our operations, acquiring vessels or servicing our debt.

Our policy, historically, was to declare quarterly distributions to shareholders by each February, May, August and November substantially equal to our available cash from operations during the previous quarter after accounting for cash expenses and reserves for scheduled drydockings, intermediate and special surveys and other purposes as our board of directors may from time to time determine are required, and after taking into account contingent liabilities, the terms of our loan facilities, our growth strategy and other cash needs and the requirements of Marshall Islands law. The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things, our earnings, financial condition and cash requirements and availability, our ability to obtain debt and equity financing on acceptable terms as contemplated by our growth strategy and provisions of Marshall Islands law affecting the payment of dividends. In addition, other external factors, such as our lenders imposing restrictions on our ability to pay dividends under the terms of our loan facilities, may limit our ability to pay dividends. Further, under the terms of our loan agreements, we may not be permitted to pay dividends that would result in an event of default or if an event of default has occurred and is continuing.

Our growth strategy contemplates that we will finance the acquisition of additional vessels through a combination of debt and equity financing on terms acceptable to us. If financing is not available to us on acceptable terms, our board of directors may determine to finance or refinance acquisitions with cash from operations, which could also reduce or even eliminate the amount of cash available for the payment of dividends.

Marshall Islands law generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend. We may not have sufficient surplus in the future to pay dividends. We can give no assurance that we will reinstate our dividends in the future or when such reinstatement might occur.

In addition, our ability to pay dividends to holders of our common shares will be subject to the rights of holders of our Series B Preferred Shares, which rank prior to our common shares with respect to dividends, distributions and payments upon liquidation. No cash dividend may be paid on our common stock unless full cumulative dividends have been or contemporaneously are being paid or provided for on all outstanding Series B Preferred Shares for all prior and the then-ending dividend periods. Cumulative dividends on our Series B Preferred Shares accrue at a rate of 8.875% per annum per $25.00 stated liquidation preference per Series B Preferred Share, subject to increase upon the occurrence of certain events, and are payable, as and if declared by our board of directors, on January 15, April 15, July 15 and October 15 of each year, or, if any such dividend payment date otherwise would fall on a date that is not a business day, the immediately succeeding business day. For additional information about our Series B Preferred Shares, please see the section entitled "Description of Registrant's Securities to be Registered" of our registration statement on Form 8-A filed with the SEC on February 13, 2014 and incorporated by reference herein.

There is no guarantee that there will continue to be an active and liquid public market for you to resell our common stock in the future.

The price of our common stock may be volatile and may fluctuate due to factors such as:

- actual or anticipated fluctuations in our quarterly and annual results and those of other public companies in our industry;
- mergers and strategic alliances in the dry bulk shipping industry;
- market conditions in the dry bulk shipping industry;
- changes in government regulation;
- shortfalls in our operating results from levels forecast by securities analysts;
- announcements concerning us or our competitors; and
- the general state of the securities market.

The dry bulk shipping industry has been highly unpredictable and volatile. The market for common stock in this industry may be equally volatile.

Since we are incorporated in the Marshall Islands, which does not have a well-developed body of corporate law, you may have more difficulty protecting your interests than shareholders of a U.S. corporation.

Our corporate affairs are governed by our amended and restated articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or the BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the laws of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in the United States. The rights of shareholders of the Marshall Islands may differ from the rights of shareholders of companies incorporated in the United States. While the BCA provides that it is to be interpreted according to the laws of the State of Delaware and other states with substantially similar legislative provisions, there have been few, if any, court cases interpreting the BCA in the Marshall Islands and we cannot predict whether Marshall Islands courts would reach the same conclusions as U.S. courts. Thus, you may have more difficulty in protecting your interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a U.S. jurisdiction which has developed a relatively more substantial body of case law.

Certain existing shareholders will be able to exert considerable control over matters on which our shareholders are entitled to vote.

As of the date of this annual report, Mr. Simeon Palios, our Chief Executive Officer and Chairman of the Board, beneficially owns 19,524,163 shares, or approximately 22.7% of our outstanding common stock, which is held indirectly through entities over which he exercises sole voting power. Please see "Item 7.A. Major Shareholders." While Mr. Palios and the non-voting shareholders of these entities have no agreement, arrangement or understanding relating to the voting of their shares of our common stock, they are able to influence the outcome of matters on which our shareholders are entitled to vote, including the election of directors and other significant corporate actions. The interests of these shareholders may be different from your interests.

24

Future sales of our common stock could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, may depress the market price for our common stock. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future.

Our amended and restated articles of incorporation authorize us to issue up to 200,000,000 shares of common stock, of which as of December 31, 2016, 84,696,017 shares were outstanding. The number of shares of common stock available for sale in the public market is limited by restrictions applicable under securities laws and agreements that we and our executive officers, directors and principal shareholders have entered into.

Anti-takeover provisions in our organizational documents could make it difficult for our shareholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.

Several provisions of our amended and restated articles of incorporation and bylaws could make it difficult for our shareholders to change the composition of our board of directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable.

These provisions include:

- authorizing our board of directors to issue "blank check" preferred stock without shareholder approval;
- providing for a classified board of directors with staggered, three-year terms;
- prohibiting cumulative voting in the election of directors;
- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote for the directors;
- prohibiting shareholder action by written consent;
- limiting the persons who may call special meetings of shareholders; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

In addition, we have adopted a Stockholders Rights Agreement, dated January 15, 2016, pursuant to which our board of directors may cause the substantial dilution of any person that attempts to acquire us without the approval of our board of directors.

These anti-takeover provisions, including provisions of our Stockholders Rights Agreement, could substantially impede the ability of public shareholders to benefit from a change in control and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

Our Series B Preferred Shares are senior obligations of ours and rank prior to our common shares with respect to dividends, distributions and payments upon liquidation, which could have an adverse effect on the value of our common shares.

The rights of the holders of our Series B Preferred Shares rank senior to the obligations to holders of our common shares. Upon our liquidation, the holders of Series B Preferred Shares will be entitled to receive a liquidation preference of $25.00 per share, plus all accrued but unpaid dividends, prior and in preference to any distribution to the holders of any other class of our equity securities, including our common shares. The existence of the Series B Preferred Shares could have an adverse effect on the value of our common shares.

Risks Relating to Our Series B Preferred Stock

We may not have sufficient cash from our operations to enable us to pay dividends on our Series B Preferred Shares following the payment of expenses and the establishment of any reserves.

We pay quarterly dividends on our Series B Preferred Shares only from funds legally available for such purpose when, as and if declared by our board of directors. We may not have sufficient cash available each quarter to pay dividends. The amount of dividends we can pay on our Series B Preferred Shares depends upon the amount of cash we generate from and use in our operations, which may fluctuate.

The amount of cash we have available for dividends on our Series B Preferred Shares will not depend solely on our profitability. The actual amount of cash we have available to pay dividends on our Series B Preferred Shares depends on many factors, including the following:

- changes in our operating cash flow, capital expenditure requirements, working capital requirements and other cash needs;
- restrictions under our existing or future credit facilities or any future debt securities on our ability to pay dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default, or under certain facilities if it would result in the breach of certain financial covenants;
- the amount of any cash reserves established by our board of directors; and
- restrictions under Marshall Islands law, which generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which is affected by noncash items, and our board of directors in its discretion may elect not to declare any dividends. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

The Series B Preferred Shares represent perpetual equity interests.

The Series B Preferred Shares represent perpetual equity interests in us and, unlike our indebtedness, will not give rise to a claim for payment of a principal amount at a particular date. As a result, holders of the Series B Preferred Shares may be required to bear the financial risks of an investment in the Series B Preferred Shares for an indefinite period of time. In addition, the Series B Preferred Shares will rank junior to all our indebtedness and other liabilities, and to any other senior securities we may issue in the future with respect to assets available to satisfy claims against us.

Our Series B Preferred Shares are subordinate to our indebtedness, and your interests could be diluted by the issuance of additional preferred shares, including additional Series B Preferred Shares, and by other transactions.

Our Series B Preferred Shares are subordinated to all of our existing and future indebtedness. Therefore, our ability to pay dividends on, redeem or pay the liquidation preference on our Series B Preferred Shares in liquidation or otherwise may be subject to prior payments due to the holders of our indebtedness. Our existing indebtedness restricts, and our future indebtedness may include restrictions on, our ability to pay dividends on or redeem preferred shares. Our amended and restated articles of incorporation currently authorize the issuance of up to 25,000,000 preferred shares, par value $0.01 per share. Of these preferred shares, 1,000,000 shares have been designated Series A Participating Preferred Stock and 5,000,000 shares have been designated Series B Preferred Shares. The Series B Preferred Shares are senior in rank to the Series A Participating Preferred Shares. The issuance of additional Series B Preferred Shares or other preferred shares on a parity with or senior to the Series B Preferred Shares would dilute the interests of holders of our Series B Preferred Shares, and any issuance of preferred shares senior to our Series B Preferred Shares or of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on our Series B Preferred Shares. The Series B Preferred Shares do not contain any provisions affording the holders of our Series B Preferred Shares protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets or business, which might adversely affect the holders of our Series B Preferred Shares, so long as the rights of our Series B Preferred Shares are not directly materially and adversely affected.

We may redeem the Series B Preferred Shares, and you may not be able to reinvest the redemption price you receive in a similar security.

On or after February 14, 2019, we may, at our option, redeem Series B Preferred Shares, in whole or in part, at any time or from time to time. We may have an incentive to redeem Series B Preferred Shares voluntarily if market conditions allow us to issue other preferred shares or debt securities at a rate that is lower than the dividend on the Series B Preferred Shares. If we redeem Series B Preferred Shares, then from and after the redemption date, your dividends will cease to accrue on your Series B Preferred Shares, your Series B Preferred Shares shall no longer be deemed outstanding and all your rights as a holder of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If we redeem the Series B Preferred Shares for any reason, you may not be able to reinvest the redemption price you receive in a similar security.

Market interest rates may adversely affect the value of our Series B Preferred Shares.

One of the factors that may influence the price of our Series B Preferred Shares is the dividend yield on the Series B Preferred Shares (as a percentage of the price of our Series B Preferred Shares) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our Series B Preferred Shares to expect a higher dividend yield, and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Accordingly, higher market interest rates could cause the market price of our Series B Preferred Shares to decrease.

As a holder of Series B Preferred Shares you have extremely limited voting rights.

Your voting rights as a holder of Series B Preferred Shares are extremely limited. Our common shares are the only outstanding class or series of our shares carrying full voting rights. Holders of Series B Preferred Shares have no voting rights other than the ability, subject to certain exceptions, to elect one director if dividends for six quarterly dividend periods (whether or not consecutive) payable on our Series B Preferred Shares are in arrears and certain other limited protective voting rights.

Our ability to pay dividends on and to redeem our Series B Preferred Shares is limited by the requirements of Marshall Islands law.

Marshall Islands law provides that we may pay dividends on and redeem the Series B Preferred Shares only to the extent that assets are legally available for such purposes. Legally available assets generally are limited to our surplus, which essentially represents our retained earnings and the excess of consideration received by us for the sale of shares above the par value of the shares. In addition, under Marshall Islands law we may not pay dividends on or redeem Series B Preferred Shares if we are insolvent or would be rendered insolvent by the payment of such a dividend or the making of such redemption.

The amount of your liquidation preference is fixed and you will have no right to receive any greater payment regardless of the circumstances.

The payment due upon a liquidation is fixed at the redemption preference of $25.00 per share plus accumulated and unpaid dividends to the date of liquidation. If, in the case of our liquidation, there are remaining assets to be distributed after payment of this amount, you will have no right to receive or to participate in these amounts. Furthermore, if the market price for your Series B Preferred Shares is greater than the liquidation preference, you will have no right to receive the market price from us upon our liquidation.

Risks Relating to our Notes

The investment in our Notes is subject to our credit risk.

Our Notes are unsubordinated unsecured general obligations of ours and are not, either directly or indirectly, an obligation of any third party. Our Notes will rank equally with any senior and unsubordinated debt obligations that we may enter into in the future, except as such obligations may be preferred by operation of law. Any payment to be made on our Notes, including the return of the principal amount at maturity or any redemption date, as applicable, depends on our ability to satisfy our obligations as they come due. As a result, our actual and perceived creditworthiness may affect the market value of our Notes and, in the event we were to default on our obligations, holders of our Notes may not receive the amounts owed to them under the terms of our Notes.

Our subsidiaries conduct the substantial majority of our operations and own our operating assets, and the right to receive payments on our Notes is structurally subordinated to the rights of the lenders of our subsidiaries.

Our subsidiaries conduct the substantial majority of our operations and own our operating assets. As a result, our ability to make required payments on our Notes depends in part on the operations of our subsidiaries and our subsidiaries' ability to distribute funds to us. To the extent our subsidiaries are unable to distribute, or are restricted from distributing, funds to us, we may be unable to fulfill our obligations under our Notes. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay amounts due on our Notes or to make funds available for that purpose. Our Notes are not guaranteed by any of our subsidiaries or any other person.

The rights of holders of our Notes are structurally subordinated to the rights of our subsidiaries' lenders. A default by a subsidiary under its debt obligations would result in a block on distributions from the affected subsidiary to us. Our Notes will be effectively junior to all existing and future liabilities of our subsidiaries. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, creditors of our subsidiaries will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us.

Our Notes are unsecured obligations and are subordinated to our secured debt.

Our Notes are unsecured and therefore are effectively subordinated to any secured debt we maintain or may incur to the extent of the value of the assets securing the debt. In the event of a bankruptcy or similar proceeding involving us, the assets that serve as collateral will be available to satisfy the obligations under any secured debt before any payments are made on our Notes. We will continue to have the ability to incur additional secured debt, subject to limitations in our loan facilities and the indenture relating to our Notes.

We may not have the ability to raise the funds necessary to purchase our Notes as required upon a change of control, and our existing and future debt may contain limitations on our ability to purchase our Notes.

Following a change of control, holders of Notes will have the right to require us to purchase their Notes for cash. A change of control may also constitute an event of default or prepayment under, and result in the acceleration of the maturity of, our then existing indebtedness. We may not have sufficient financial resources, or be able to arrange financing, to pay the change of control purchase price in cash with respect to any Notes surrendered by holders for purchase upon a change of control. In addition, restrictions in our then existing loan facilities or other indebtedness, if any, may not allow us to purchase the Notes upon a change of control. Our failure to purchase the Notes upon a change of control when required would result in an event of default with respect to the Notes which could, in turn, constitute a default under the terms of our other indebtedness, if any. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and purchase the Notes.

Some significant restructuring transactions may not constitute a change of control, in which case we would not be obligated to offer to purchase the Notes.

The change of control provisions contained in the indenture governing our Notes will not afford protection to holders of Notes in the event of certain transactions that could adversely affect our Notes. For example, transactions such as leveraged recapitalizations, refinancing or certain restructurings would not constitute a change of control requiring us to repurchase the Notes. In the event of any such transaction, holders of the Notes would not have the right to require us to purchase their Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting holders of the Notes.

Our Notes have not been rated, and ratings of any of our other securities may affect the trading price of our Notes.

We have not sought to obtain a rating for our Notes, and our Notes may never be rated. It is possible, however, that one or more credit rating agencies might independently determine to assign a rating to our Notes or that we may elect to obtain a rating of our Notes in the future. In addition, we may elect to issue other securities for which we may seek to obtain a rating. If any ratings are assigned to our Notes in the future or if we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, or if ratings for such other securities would imply a lower relative value for our Notes, could adversely affect the market for, or the market value of, our Notes. Ratings only reflect the views of the issuing rating agency or agencies and such ratings could at any time be revised downward or withdrawn entirely at the discretion of the issuing rating agency. A rating is not a recommendation to purchase, sell or hold any particular security, including our Notes. Ratings do not reflect market prices or suitability of a security for a particular investor and any future rating of our Notes may not reflect all risks related to us and our business, or the structure or market value of our Notes.

We may redeem the Notes, at our option, on or after May 15, 2017.

We may redeem the Notes, at our option, in whole or in part on or after May 15, 2017, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to the date of redemption. Prior to May 15, 2017 we may redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus a make-whole premium and accrued and unpaid interest to the date of redemption. In the event we choose to redeem the Notes, the holders of our Notes may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on our Notes. Our redemption right also may adversely impact the holders' ability to sell our Notes as the optional redemption date or period approaches.

Item 4. Information on the Company
A. History and development of the Company

Diana Shipping Inc. is a holding company incorporated under the laws of Liberia in March 1999 as Diana Shipping Investments Corp. In February 2005, the Company's articles of incorporation were amended. Under the amended and restated articles of incorporation, the Company was renamed Diana Shipping Inc. and was re-domiciled from the Republic of Liberia to the Republic of the Marshall Islands. Our executive offices are located at Pendelis 16, 175 64 Palaio Faliro, Athens, Greece. Our telephone number at this address is +30-210-947-0100. Our agent and authorized representative in the United States is our wholly-owned subsidiary, Bulk Carriers (USA) LLC, established in September 2006, in the State of Delaware, which is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

Business Development and Capital Expenditures and Divestitures

In March 2012, we entered into, through two of our wholly owned subsidiaries, shipbuilding contracts with China Shipbuilding Trading Company, Limited and Jiangnan Shipyard (Group) Co., Ltd, for the construction of two ice class Panamax dry bulk carriers, the Crystalia and the Atalandi, for the contract price of $29.0 million each. The Crystalia, was delivered on February 20, 2014 and the Atalandi, was delivered on May 12, 2014.

On May 17, 2013, we entered, through two separate wholly owned subsidiaries, into two shipbuilding contracts with China Shipbuilding Trading Company, Limited and Jiangnan Shipyard (Group) Co., Ltd. for the construction of two Newcastlemax dry bulk vessels, Hull H2548, named San Francisco, and Hull H2549, named Newport News, for a contract price of $48.7 million each, reduced by $1.0 million each on December 20, 2016, pursuant to addenda signed with the sellers. Both vessels were delivered in January 2017.

On May 20, 2013, we entered into a loan agreement with Eluk Shipping Company Inc., a subsidiary of Diana Containerships, to provide to it an unsecured loan of up to $50.0 million, the drawdown of which was completed on August 20, 2013. The agreement was amended on July 28, 2014, and pursuant to a further amendment dated September 9, 2015, the loan matures on March 15, 2022; bears interest at LIBOR plus a margin of 3% per annum; the back-end fee, which accumulated up to and paid on the date of the amendment, was replaced by a fee of $200,000 payable by the borrower on the maturity date. In addition, the borrowers agreed to repay the principal amount of the loan on the last day of each interest period in amounts of $5.0 million per annum, but not to exceed $32.5 million in the aggregate. The loan is subordinated to Diana Containerships' loan with the Royal Bank of Scotland. On August 24, 2016, Diana Shipping Inc.'s Independent Committee of the Board of Directors and the Board of Directors approved another amendment to the loan, pursuant to which the repayment of all outstanding principal amounts are deferred until the later of (i) the repayment or prepayment in full by Diana Containerships of a deferred amount under its loan agreement with The Royal Bank of Scotland plc, whose repayment is scheduled to commence on March 15, 2019 and to be completed not later than June 15, 2021, and (ii) September 15, 2018. The amendment also changes the borrower under the loan to another wholly-owned subsidiary of Diana Containerships and provides for an increase of the interest rate for the period between September 12, 2016 (the effective date of the amendment) and December 31, 2018 to 3.35% per annum over LIBOR.

On May 24, 2013, we entered into, through two separate wholly-owned subsidiaries, a term loan facility for up to $30.0 million with The Export-Import Bank of China, or CEXIM Bank, having a majority interest and DNB Bank ASA, as agent, to partly finance, after delivery, the construction cost of our two newbuilding Ice Class Panamax dry bulk carriers, the Crystalia and the Atalandi, which we drew down on May 22, 2014.

On June 18, 2013, we signed, through two separate wholly-owned subsidiaries, a term loan facility for up to $18.0 million with Deutsche Bank Aktiengesellschaft Filiale Deutschlandgeschäft, or Deutsche Bank, and on June 20, 2013, we completed the drawdown of $18.0 million in order to partially finance the acquisition costs of the Myrto and the

Maia, both delivered earlier in 2013. On the same date, our wholly owned subsidiary, Bikini Shipping Company Inc., entered into a supplemental agreement with Deutsche Bank in order to amend the terms of its loan agreement dated October 8, 2009 with respect to the cross collateralization of the New York with Maia and Myrto. The agreement between Deutsche Bank and Bikini was terminated on March 10, 2015 following full repayment of the outstanding loan balance and on March 20, 2015, we prepaid the outstanding indebtedness under the loan agreement for Myrto and Maia, of $15.8 million.

On August 8, 2013, Diana Shipping Services S.A., or DSS, our wholly-owned subsidiary, was found guilty on felony counts and on December 5, 2013 was sentenced by the United States District Court in Norfolk, Virginia to a fine of $1.1 million, which was fully settled in two installments, and a period of probation of three years and six months, as a result of a conviction in which DSS was held vicariously liable for the actions of the chief engineer and second assistant engineer of the Thetis, who were found guilty by the Court of violating several U.S. statutes and regulations in failing to properly handle waste oils, maintain required records and for obstruction of justice. In addition, the sentence includes a requirement to maintain an enhanced system subject to independent audit for managing waste oils on vessels managed by DSS. The probation period is expected to end in June 2017.

On January 8, 2014, we entered, through a separate wholly-owned subsidiary, into a shipbuilding contract with Yangzhou Dayang Shipbuilding Co., Ltd. and Shanghai Sinopacific International Trade Co., Ltd., and since April 21, 2014 with Sumec Marine Co., Ltd., pursuant to an addendum, for the construction of a Kamsarmax dry bulk vessel, Hull DY6006, for a contract price of $28.8 million. On October 31, 2016, we provided a notice of cancellation of the shipbuilding contract pursuant to our right under the contract to cancel the contract due to a delay in delivery of 150 days after the original delivery date and to claim a refund of the pre-delivery installment payments together with interest at a rate of 5% per annum, amounting to $9.4 million, which was received in December 2016.

On January 9, 2014, we entered into, through two separate wholly-owned subsidiaries, a term loan facility for up to $18.0 million with Commonwealth Bank of Australia to partially finance the acquisition costs of two Panamax dry bulk vessels, the Melite and the Artemis, which were delivered on January 28, 2010 and August 26, 2013, respectively, and we completed the drawdown of $18.0 million on January 13, 2014.

On February 24, 2014, we completed a public offering of 2,600,000 shares of 8.875% Series B Cumulative Redeemable Perpetual Preferred Shares, par value $0.01 per share at $25.00 per share. We received net proceeds from the offering of $62.7 million, net of underwriting discount and offering expenses.

On May 22, 2014, our Board of Directors authorized a share repurchase plan for up to $100 million of our common shares of which, up to January 30, 2015, we repurchased and retired a total of 3,259,353 shares at the aggregate cost of $28.0 million and an average price of $8.6 per share. We have not repurchased any other shares since January 30, 2015.

In 2014, we, through two separate wholly-owned subsidiaries, acquired from unaffiliated third parties the G. P. Zafirakis, a new-building Capesize dry bulk vessel, for a purchase price of $58.0 million, which was delivered in August 2014 and the Santa Barbara, a new-building Capesize dry bulk vessel, for a purchase price of $50.0 million, which was delivered in January 2015.

On July 29, 2014, we invested $40.0 million to acquire common stock of Diana Containerships.

On December 18, 2014, we entered into, through two separate wholly-owned subsidiaries, a term loan facility for up to $55.0 million with BNP Paribas to finance part of the acquisition cost of the G. P. Zafirakis and the P. S. Palios. We completed the drawdown of $53.5 million on December 19, 2014.

In December 2014, DSS acquired jointly with two other related entities, from unrelated individuals, a plot of land for an aggregate purchase price of €2.0 million or $2.5 million (based on the exchange rate of U.S. Dollars to Euro as of the date of acquisition). DSS paid one third of the purchase price amounting to $0.9 million, including additional purchase costs incurred. The plot is under the common ownership of the joint purchasers.

On March 17, 2015, we entered into, through eight separate wholly-owned subsidiaries, a term loan facility of up to $110.0 million with Nordea Bank AB, London Branch, or Nordea, to refinance the existing agreements we had with the bank for working capital and general corporate purposes. We completed the drawdown of $93.1 million on March

19, 2015 and we fully repaid all outstanding indebtedness with the bank at that date.

On March 26, 2015, we entered into, through three wholly-owned subsidiaries, a loan agreement with ABN AMRO Bank N.V. for up to $53.0 million to refinance part of the acquisition cost of the vessels New York, Myrto and Maia. On March 30, 2015, we drew down the amount of $50.16 million under the loan facility.

On April 20, 2015, we entered into, through a wholly-owned subsidiary, an agreement to acquire from an unrelated third party a new-building Capesize dry bulk vessel, named New Orleans, for a purchase price of $43.0 million. The vessel was delivered on November 10, 2015.

On April 27, 2015, we entered into, through a wholly-owned subsidiary, a memorandum of agreement with an unrelated third party to acquire a Kamsarmax dry bulk vessel, renamed to Medusa, for a purchase price of $18.05 million. The vessel was delivered in June 2015.

On April 29, 2015, we entered into, through a wholly-owned subsidiary, a loan agreement with Danish Ship Finance A/S for a loan facility of $30.0 million, drawn on April 30, 2015 to partly finance the acquisition cost of the Santa Barbara.

On May 20, 2015, we offered $63.3 million aggregate principal amount of 8.5% Senior Notes due 2020 (the "Notes"), including an overallotment, at the price of $25.0 per Note. As part of the offering, the underwriters sold $12.8 million aggregate principal amount of the Notes to, or to entities affiliated with, the Company's chief executive officer, Mr. Simeon Palios, and other executive officers and certain directors of the Company at the public offering price. As of May 29, 2015, the Notes are trading on the NYSE under the ticker symbol "DSXN". The Notes bear interest from May 28, 2015 at a rate of 8.5% per year and will mature on May 15, 2020. Interest is payable quarterly in arrears on the 15th day of February, May, August and November of each year, commencing on August 15, 2015. The Company may redeem the Notes at its option, in whole or in part, at any time on or after May 15, 2017 at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. The Notes include financial and other covenants, including maximum net borrowings and minimum tangible net worth.

On May 7, 2015, our wholly owned subsidiary Diana Ship Management Inc. and Wilhelmsen Ship Management Holding Limited, an unaffiliated third party, established Diana Wilhelmsen Management Limited, or DWM, a 50/50 joint venture, with the purpose of providing management services to a number of vessels in our fleet. The DWM office is located in Limassol, Cyprus and currently it provides services to seven of our vessels.

On July 22, 2015, we entered into a loan agreement with BNP Paribas for a loan of $165.0 million, drawn on July 24, 2015 to refinance the revolving credit facility with the Royal Bank of Scotland. In this respect, the revolving credit facility, having an outstanding balance of $195.0 million, was voluntarily prepaid in full and the related agreement was terminated.

On September 30, 2015, we entered into, through two wholly-owned subsidiaries, a term loan agreement with ING Bank N.V. for a loan of up to $39.7 million, drawn in two tranches, one in October 2015 and one in November 2015, to finance part of the acquisition cost of the Medusa and the New Orleans, delivered in June and November 2015 respectively.

On November 2, 2015, we entered into, through a wholly-owned subsidiary, a memorandum of agreement with an unrelated third party to acquire a Capesize dry bulk vessel, named Seattle, for a purchase price of $28.5 million, which was delivered in November 2015.

On January 7, 2016, we entered into, through the three wholly-owned subsidiaries with vessels under construction, a loan agreement with the CEXIM Bank for a loan of up to $75.7 million to finance part of the construction cost of these vessels. On January 4, 2017, we drew down $57.24 million to finance part of the construction cost of the San

Francisco and the Newport News, both delivered on January 4, 2017. On February 6, 2017, we signed a Deed of Release with the bank, pursuant to which, the owner of Hull DY6006 was released from all of its obligations under the loan agreement as a borrower as a result of the cancellation of its shipbuilding contract with the yards.

On February 4, 2016, we entered into, through three separate wholly-owned subsidiaries, three Memoranda of Agreement to acquire from a related party three Panamax vessels for an aggregate purchase price of $39.8 million, reduced to $39.3 million pursuant to addendum agreements dated March 4, 2016. Two of the vessels were delivered in March 2016 and the third vessel was delivered in May 2016. The Company had agreed to acquire the vessels from entities affiliated with Mrs. Semiramis Paliou and Mrs. Aliki Paliou, each of whom is a family member of the Company's Chief Executive Officer and Chairman of the Board. Mrs. Semiramis Paliou is also a director of the Company. The transaction was approved unanimously by a committee of the Board of Directors established for the purpose of considering the transaction and consisting of the Company's independent directors and each of its executive directors other than Mrs. Semiramis Paliou and Mr. Simeon Palios. The agreed upon purchase price of the vessels was based, among other factors, on independent third party broker valuations obtained by the Company.

On March 29, 2016, we entered into, through two wholly-owned subsidiaries, a term loan agreement with ABN AMRO Bank N.V. for a loan of $25.755 million, drawn on March 30, 2016, to finance the acquisition cost of the Selina and the Ismene.

On May 10, 2016, we entered into, through one wholly-owned subsidiary, a term loan agreement with DNB Bank ASA and the CEXIM Bank for a loan of $13.51 million, drawn on the same date, being the purchase price of the Maera.

In December 2016, one of our wholly-owned subsidiaries, upon signing a settlement agreement with a former charterer, received an amount of $5.5 million as partial payment pursuant to an arbitration award. The partial payment of the arbitration award is without prejudice, and we intend to seek the recovery of the balance of the award.

Please see "Item 5.B Liquidity and Capital Resources" for a discussion of our loan facilities.

B. Business overview

We are a global provider of shipping transportation services. We specialize in the ownership of dry bulk vessels. Currently, our operating fleet consists of 48 dry bulk carriers, of which 23 are Panamax, four are Kamsarmax, three are Post-Panamax, 14 are Capesize and four are Newcastlemax vessels, having a combined carrying capacity of approximately 5.7 million dwt.

As of December 31, 2016, our fleet consisted of 46 dry bulk carriers, of which 23 were Panamax, four were Kamsarmax, three were Post-Panamax, 14 were Capesize and two were Newcastlemax vessels, having a combined carrying capacity of approximately 5.2 million dwt. In addition, we had two vessels under construction, which were delivered in January 2017.

As of December 31, 2015, our fleet consisted of 43 vessels of which 20 were Panamax, four were Kamsarmax, three were Post-Panamax, 14 were Capesize and two were Newcastlemax vessels, having a combined carrying capacity of approximately 5.0 million dwt, and a weighted average age of 7.4 years. In addition, we had three vessels under construction with expected delivery in 2016.

As of December 31, 2014, our fleet consisted of 39 vessels of which 20 were Panamax, three were Kamsarmax, three were Post-Panamax, eleven were Capesize and two were Newcastlemax vessels, having a combined carrying capacity of approximately 4.4 million dwt, and a weighted average age of 7.1 years. In addition, we had three vessels under construction with expected delivery in 2016 and we had agreed to acquire Santa Barbara, which was delivered in January 2015.

During 2016, 2015 and 2014, we had a fleet utilization of 99.4%, 99.3% and 99.4%, respectively, our vessels achieved daily time charter equivalent rates of $6,106, $9,739 and $12,081, respectively, and we generated revenues of $114.3

million, $157.7 million and $175.6 million, respectively.

The following table presents certain information concerning the dry bulk carriers in our fleet, as of February 16, 2017.

	Vessel BUILT DWT	Sister Ships*	Gross Rate (USD Per Day)	Com**	Charterers	Delivery Date to Charterers***	Redelivery Date to Owners****	Notes
	23 Panamax Bulk Carriers							
1	DANAE	A	$4,900	5.00%	Dampskibsselskabet Norden A/S, Copenhagen	9-Dec-15	11-Feb-17	1
	2001 75,106							
2	DIONE	A	$4,350	5.00%	Nidera S.P.A., Roma	4-Feb-16	28-Jan-17	
			$7,200	5.00%	Caravel Shipping Limited, Hong Kong	3-Feb-17	4-May-17	
			$7,050	5.00%		4-May-17	3-Nov-17 - 18-Feb-18	
	2001 75,172							
3	NIREFS	A	$4,600	5.00%	Transgrain Shipping B.V., Rotterdam	15-Jan-16	14-Feb-17	
			$6,500	5.00%	Raffles Shipping International Pte Ltd, Singapore	14-Feb-17	31-Mar-17	2
	2001 75,311							
4	ALCYON	A	$5,000	5.00%	Dampskibsselskabet Norden A/S, Copenhagen	4-May-16	4-May-17 - 4-Sep-17	
	2001 75,247							
5	TRITON	A	$6,300	5.00%	Windrose SPS Shipping and Trading S.A., Geneva	25-Oct-16	25-Mar-17 - 9-Jun-17	
	2001 75,336							
6	OCEANIS	A	$5,200	5.00%	Nidera S.P.A., Roma	30-Jun-16	30-Mar-17 - 30-May-17	
	2001 75,211							
7	THETIS	B	$5,150	5.00%	Transgrain Shipping B.V., Rotterdam	19-Jun-16	19-Apr-17 - 3-Aug-17	
	2004 73,583							
8	PROTEFS	B	$4,500	5.00%	Transgrain Shipping B.V., Rotterdam	23-Feb-16	25-Feb-17 - 23-Jun-17	3
	2004 73,630							
9	CALIPSO	B	$6,020	5.00%	Windrose SPS Shipping and Trading S.A., Geneva	24-Aug-16	24-Feb-17 - 8-Apr-17	3
	2005 73,691							
10	CLIO	B	$5,350	5.00%	Transgrain Shipping B.V., Rotterdam	22-May-16	22-Apr-17 - 22-Jul-17	
	2005 73,691							
11	NAIAS	B	$7,500	5.00%	Glencore Agriculture B.V., Rotterdam	27-Dec-16	12-Jul-17 - 11-Nov-17	
	2006 73,546							
12	ARETHUSA	B	$5,000	5.00%	United Bulk Carriers International S.A., Luxembourg	10-Jun-16	23-Jan-17	4
			$7,200	5.00%	Noble Resources International Pte. Ltd.,	23-Jan-17	23-Nov-17 - 23-Mar-18	

					Singapore			
	2007 73,593							
13	ERATO	C	$4,650	5.00%	Glencore Grain B.V., Rotterdam	26-Mar-16	25-Feb-17 - 26-May-17	3
	2004 74,444							
14	CORONIS	C	$4,750	5.00%	Narina Maritime Ltd	19-Mar-16	24-Feb-17 - 19-May-17	3
	2006 74,381							
15	MELITE	D	$8,000	5.00%	Uniper Global Commodities SE, Düsseldorf	6-Dec-16	6-Jul-17 - 6-Oct-17	
	2004 76,436							
16	MELIA	D	$7,200	5.00%	Nidera S.P.A., Roma	24-Oct-15	20-Feb-17 - 24-Feb-17	3
	2005 76,225							
17	ARTEMIS		$5,350	5.00%	Bunge S.A., Geneva	7-Jun-16	7-Apr-17 22-Jul-17	
	2006 76,942							
18	LETO		$7,750	5.00%	Glencore Agriculture B.V., Rotterdam	29-Dec-16	29-Sep-17 - 29-Jan-18	
	2010 81,297							
19	SELINA	E	$5,800	5.00%	Dampskibsselskabet Norden A/S, Copenhagen	24-Mar-16	24-Jan-17	
			$4,500	5.00%	BG Shipping Co., Limited,	24-Jan-17	23-Feb-17	
			$7,100	5.00%	Hong Kong	23-Feb-17	24-Oct-17 - 8-Feb-18	
	2010 75,700							
20	MAERA	E	$4,500	5.00%	United Bulk Carriers International S.A., Luxembourg	10-May-16	23-Feb-17 - 28-Apr-17	3
	2013 75,403							
21	ISMENE		$5,850	5.00%	Glencore Grain B.V., Rotterdam	7-Aug-16	23-May-17 - 22-Sep-17	
	2013 77,901							
22	CRYSTALIA	F	$6,250	5.00%	SwissMarine Services S.A., Geneva	28-Jun-16	28-May-17 28-Aug-17	
	2014 77,525							
23	ATALANDI	F	$5,300	5.00%	Glencore Grain B.V., Rotterdam	26-Mar-16	26-Nov-17 - 26-Apr-18	
	2014 77,529							

	4 Kamsarmax Bulk Carriers							
24	MAIA	G	$7,500	5.00%	RWE Supply & Trading GmbH, Essen	13-Nov-15	13-Apr-17 - 13-Jul-17	
	2009 82,193							
25	MYRSINI	G	$5,550	5.00%	RWE Supply & Trading GmbH, Essen	9-Mar-16	9-Mar-17 - 24-Jun-17	
	2010 82,117							
26	MEDUSA	G	$6,300	5.00%	Quadra Commodities S.A., Geneva	7-Apr-16	15-Mar-17 - 30-Jul-17	
	2010 82,194							
27	MYRTO	G	$6,000	4.75%	Cargill International S.A., Geneva	24-Dec-15	17-Jan-17	
			$8,000	4.75%		17-Jan-17	17-Jan-18 - 17-Apr-18	
	2013 82,131							
	3 Post-Panamax Bulk Carriers							
28	ALCMENE		$6,750	5.00%	ADM International Sarl, Rolle, Switzerland	13-May-15	25-Feb-17 - 2-Jun-17	3
	2010 93,193							
29	AMPHITRITE	H	$7,700	5.00%	Bunge S.A., Geneva	15-Jul-15	30-Apr-17 - 30-Aug-17	
	2012 98,697							
30	POLYMNIA	H	$5,650	4.75%	Cargill International S.A., Geneva	15-Dec-15	25-Feb-17 - 15-Mar-17	3
	2012 98,704							
	14 Capesize Bulk Carriers							
31	NORFOLK		$4,350	5.00%	SwissMarine Services S.A., Geneva	28-Mar-16	23-Feb-17 - 28-Mar-17	3
	2002 164,218							
32	ALIKI		$5,300	5.00%	SwissMarine Services S.A., Geneva	16-Jan-16	14-Feb-17	
			$10,300	5.00%		14-Feb-17	30-Dec-17 - 14-Apr-18	
	2005 180,235							
33	BALTIMORE		$7,750	4.75%	Cargill International S.A., Geneva	29-Jul-16	16-Feb-17	5
			$11,300	4.75%		16-Feb-17	16-Mar-18 - 1-Jul-18	
	2005 177,243							
34	SALT LAKE CITY		BCI 4TCs AVG + 3.5%	5.00%	K Noble Hong Kong Ltd., Hong Kong	7-Feb-15	20-Jan-17	
			$9,000	5.00%	Uniper Global Commodities SE, Düsseldorf	20-Jan-17	20-Jan-18 - 20-May-18	
	2005 171,810							
35	SIDERIS GS	I	$6,500	5.00%	Rio Tinto Shipping (Asia) Pte., Ltd., Singapore	22-Dec-15	23-Feb-17 - 7-Jul-17	3,6
	2006 174,186							
36	SEMIRIO	I	$4,800	5.00%	SwissMarine Services S.A., Geneva	6-Feb-16	25-Feb-17 - 6-May-17	3
	2007 174,261							
37	BOSTON	I	$13,000	4.75%	Clearlake Shipping Pte. Ltd., Singapore	9-Aug-15	25-May-17 - 24-Oct-17	7
	2007 177,828							

38	HOUSTON		I	$5,150	5.00%	SwissMarine Services S.A., Geneva	29-Jan-16	17-Feb-17	5,8
				$10,000	5.00%		17-Feb-17	2-Mar-18 - 17-May-18	
	2009	177,729							
39	NEW YORK		I	$5,200	5.00%	Rio Tinto Shipping (Asia) Pte., Ltd., Singapore	3-Feb-16	24-Feb-17 - 18-May-17	3
	2010	177,773							
40	SEATTLE		J	$7,300	4.75%	SwissMarine Services S.A., Geneva	9-Dec-15	8-Feb-17	
				$11,700	5.00%	Koch Shipping Pte. Ltd., Singapore	8-Feb-17	8-Apr-18 - 23-Jul-18	
	2011	179,362							
41	P. S. PALIOS		J	$13,000	5.00%	RWE Supply & Trading GmbH, Essen	18-Sep-15	27-Jan-17	
				$10,550	5.00%	Koch Shipping Pte. Ltd., Singapore	27-Jan-17	27-Jan-18 - 11-Jun-18	
	2013	179,134							
42	G. P. ZAFIRAKIS		K	$6,500	5.00%	RWE Supply & Trading GmbH, Essen	14-Feb-16	14-May-17 - 14-Aug-17	
	2014	179,492							
43	SANTA BARBARA		K	$7,500	5.00%	RWE Supply & Trading GmbH, Essen	18-Dec-15	24-Jan-17	
				$12,000	4.75%	Cargill International S.A., Geneva	24-Jan-17	9-Jan-18 - 24-Apr-18	
	2015	179,426							
44	NEW ORLEANS			$11,250	5.00%	Koch Shipping Pte. Ltd., Singapore	10-Dec-16	10-Dec-17 - 10-Apr-18	
	2015	180,960							

34

	4 Newcastlemax Bulk Carriers							
45	LOS ANGELES	L	$7,750	5.00%	SwissMarine Services S.A., Geneva	9-Dec-15	14-Jan-17	9
			BCI_2014 5TCs AVG + 14%	5.00%		22-Jan-17	7-Feb-18 - 22-Apr-18	
	2012 206,104							
46	PHILADELPHIA	L	$6,450	5.00%	RWE Supply & Trading GmbH, Essen	20-Jan-16	22-Feb-17 - 1-Mar-17	3
	2012 206,040							
47	SAN FRANCISCO	M	$11,750	5.00%	Koch Shipping Pte. Ltd., Singapore	5-Jan-17	5-Jan-18 - 20-May-18	
	2017 208,006							
48	NEWPORT NEWS	M	BCI_2014 5TCs AVG + 24%	5.00%	SwissMarine Services S.A., Geneva	10-Jan-17	10-Nov-18 - 10-Mar-19	
	2017 208,021							

* Each dry bulk carrier is a "sister ship", or closely similar, to other dry bulk carriers that have the same letter.
** Total commission percentage paid to third parties.
*** In case of newly acquired vessel with time charter attached, this date refers to the expected/actual date of delivery of the vessel to the Company.
**** Range of redelivery dates, with the actual date of redelivery being at the Charterers' option, but subject to the terms, conditions, and exceptions of the particular charterparty.

1 Currently without an active charterparty.
2 Redelivery date based on an estimated time charter trip duration of about 45 days.
3 Based on latest information.
4 As per addendum dated January 2, 2017, charterers exercised their option to extend the initially agreed maximum redelivery date, i.e. January 10, 2017 and pay US$7,000 per day.
5 Estimated date.
6 Vessel off-hire for drydocking from October 24, 2016 to November 11, 2016.
7 Clearlake Shipping Pte. Ltd., Singapore is a member of the Gunvor Group.
8 Charterers will pay US$5,150 per day for the first 15 days of the charter period.
9 Vessel on scheduled drydocking from January 14, 2017 to January 22, 2017.

Each of our vessels is owned through a separate wholly-owned subsidiary.

Management of Our Fleet

The business of Diana Shipping Inc. is the ownership of dry bulk vessels. The parent holding company wholly owns, directly or indirectly, the subsidiaries which own the vessels that comprise our fleet. The holding company sets general overall direction for the company and interfaces with various financial markets. The commercial and technical management of our fleet, as well as the provision of administrative services relating to the fleet's operations, are carried out by our wholly-owned subsidiary, Diana Shipping Services S.A., which we refer to as DSS, and Diana Wilhelmsen Management Limited, a 50/50 joint venture with Wilhelmsen Ship Management, which we refer to as DWM. In exchange for providing us with commercial and technical services, personnel and office space, we pay DSS a commission, which is a percentage of the managed vessels' gross revenues, a fixed monthly fee per managed vessel and an additional monthly fee for the administrative services provided to Diana Shipping Inc. Such services may include budgeting, reporting, monitoring of bank accounts, compliance with banks, payroll services and any other possible service that Diana Shipping Inc. would require to perform its operations. Similarly, in exchange for providing us with commercial and technical services, we pay DWM a commission which is a percentage of the managed vessels' gross revenues and a fixed management monthly fee for each managed vessel. The amounts deriving from the agreements with DSS are considered inter-company transactions and, therefore, are eliminated from our consolidated financial statements. The management fees deriving from the agreements with DWM are included in our statement of operations as "Management fees to related party", whereas commercial fees are included in "Voyage expenses".

On June 1, 2010, Diana Enterprises Inc., or Diana Enterprises, a related party controlled by our Chief Executive Officer and Chairman of the Board, Mr. Simeon Palios, was appointed to act as broker to assist in providing services to us. Brokerage fees are included in "General and Administrative expenses" in our statement of operations. The terms of this relationship are currently governed by a Brokerage Services Agreement dated April 1, 2016.

Our Customers

Our customers include national, regional and international companies, such as Cargill International S.A., EDF Trading Ltd, RWE Supply and Trading Gmbh, Clearlake Shipping Pte Ltd. During 2016, four of our charterers accounted for 54% of our revenues: RWE Supply (19%), Swissmarine Services S.A. (15%), Cargill (10%), and Glencore (10%). During 2015, four of our charterers accounted for 66% of our revenues: EDF Trading (10%), Glencore (20%), RWE Supply (24%) and Clearlake (12%). During 2014, four of our charterers accounted for 55% of our revenues: EDF Trading (15%), Cargill International S.A. (18%), RWE Supply (10%) and Clearlake (12%).

We charter our dry bulk carriers to customers primarily pursuant to time charters. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and canal and port charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel. In 2016, we paid commissions that ranged from 4.75% to 5.0% of the total daily charter hire rate of each charter to unaffiliated ship brokers and to in-house brokers associated with the charterer, depending on the number of brokers involved with arranging the charter.

We strategically monitor developments in the dry bulk shipping industry on a regular basis and, subject to market demand, seek to adjust the charter hire periods for our vessels according to prevailing market conditions. In order to take advantage of relatively stable cash flow and high utilization rates, we fix some of our vessels on long-term time charters. Currently, the majority of our vessels are employed on short to medium-term time charters, which provides us with flexibility in responding to market developments. We continuously evaluate our balance of short- and long-term charters and extend or reduce the charter hire periods of the vessels in our fleet according to the developments in the dry bulk shipping industry.

The Dry Bulk Shipping Industry

The global dry bulk carrier fleet could be divided into seven categories based on a vessel's carrying capacity. These categories consist of:

- Very Large Ore Carriers. Very large ore carriers, or VLOCs, have a carrying capacity of more than 200,000 dwt and are a comparatively new sector of the dry bulk carrier fleet. VLOCs are built to exploit economies of scale on long-haul iron ore routes.

- Capesize. Capesize vessels have a carrying capacity of 110,000-199,999 dwt. Only the largest ports around the world possess the infrastructure to accommodate vessels of this size. Capesize vessels are primarily used to transport iron ore or coal and, to a much lesser extent, grains, primarily on long-haul routes.

- Post-Panamax. Post-Panamax vessels have a carrying capacity of 80,000-109,999 dwt. These vessels tend to have a shallower draft and larger beam than a standard Panamax vessel with a higher cargo capacity. These vessels have been designed specifically for loading high cubic cargoes from draught restricted ports, although they cannot transit the Panama Canal.

- Panamax. Panamax vessels have a carrying capacity of 60,000-79,999 dwt. These vessels carry coal, iron ore, grains, and, to a lesser extent, minor bulks, including steel products, cement and fertilizers. Panamax vessels are able to pass through the Panama Canal, making them more versatile than larger vessels with regard to accessing different trade routes. Most Panamax and Post-Panamax vessels are "gearless," and therefore must be served by shore-based cargo handling equipment. However, there are a small number of geared vessels with onboard cranes, a feature that enhances trading flexibility and enables operation in ports which have poor infrastructure in terms of loading and unloading facilities.

- Handymax/Supramax. Handymax vessels have a carrying capacity of 40,000-59,999 dwt. These vessels operate in a large number of geographically dispersed global trade routes, carrying primarily grains and minor bulks. Within the Handymax category there is also a sub-sector known as Supramax. Supramax bulk carriers are ships between 50,000 to 59,999 dwt, normally offering cargo loading and unloading flexibility with on-board cranes, or "gear," while at the same time possessing the cargo carrying capability approaching conventional Panamax bulk carriers.

- Handysize. Handysize vessels have a carrying capacity of up to 39,999 dwt. These vessels are primarily involved in carrying minor bulk cargoes. Increasingly, ships of this type operate within regional trading routes, and may serve as trans-shipment feeders for larger vessels. Handysize vessels are well suited for small ports with length and draft restrictions. Their cargo gear enables them to service ports lacking the infrastructure for cargo loading and unloading.

Other size categories occur in regional trade, such as Kamsarmax, with a maximum length of 229 meters, the maximum length that can load in the port of Kamsar in the Republic of Guinea. Other terms such as Seawaymax, Setouchmax, Dunkirkmax, and Newcastlemax also appear in regional trade.

The supply of dry bulk carriers is dependent on the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or loss. The level of scrapping activity is generally a function of scrapping prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs. The average age at which a vessel is scrapped dropped to 23 years in 2016 from 25 years in 2015 and 27 years in 2014.

The demand for dry bulk carrier capacity is determined by the underlying demand for commodities transported in dry bulk carriers, which in turn is influenced by trends in the global economy. Demand for dry bulk carrier capacity is also affected by the operating efficiency of the global fleet, along with port congestion, which has been a feature of the market since 2004, absorbing tonnage and therefore leading to a tighter balance between supply and demand. In evaluating demand factors for dry bulk carrier capacity, the Company believes that dry bulk carriers can be the most versatile element of the global shipping fleets in terms of employment alternatives.

Charter Hire Rates

Charter hire rates fluctuate by varying degrees among dry bulk carrier size categories. The volume and pattern of trade in a small number of commodities (major bulks) affect demand for larger vessels. Therefore, charter rates and vessel values of larger vessels often show greater volatility. Conversely, trade in a greater number of commodities (minor bulks) drives demand for smaller dry bulk carriers. Accordingly, charter rates and vessel values for those vessels are usually subject to less volatility.

Charter hire rates paid for dry bulk carriers are primarily a function of the underlying balance between vessel supply and demand, although at times other factors may play a role. Furthermore, the pattern seen in charter rates is broadly mirrored across the different charter types and the different dry bulk carrier categories. In the time charter market, rates vary depending on the length of the charter period and vessel-specific factors such as age, speed and fuel consumption.

In the voyage charter market, rates are, among other things, influenced by cargo size, commodity, port dues and canal transit fees, as well as commencement and termination regions. In general, a larger cargo size is quoted at a lower rate per ton than a smaller cargo size. Routes with costly ports or canals generally command higher rates than routes with low port dues and no canals to transit. Voyages with a load port within a region that includes ports where vessels usually discharge cargo or a discharge port within a region with ports where vessels load cargo also are generally quoted at lower rates, because such voyages generally increase vessel utilization by reducing the unloaded portion (or ballast leg) that is included in the calculation of the return charter to a loading area.

Within the dry bulk shipping industry, the charter hire rate references most likely to be monitored are the freight rate indices issued by the Baltic Exchange. These references are based on actual charter hire rates under charters entered into by market participants as well as daily assessments provided to the Baltic Exchange by a panel of major shipbrokers. The Baltic Panamax Index is the index with the longest history. The Baltic Capesize Index and Baltic Handymax Index are of more recent origin.

The Baltic Dry Index, or BDI, a daily average of charter rates in 20 shipping routes measured on a time charter and voyage basis and covering Capesize, Panamax, Supramax, and Handysize dry bulk carriers declined from a high of 11,793 in May 2008 to a low of 663 in December 2008. In 2014, the BDI ranged from a high of 2,113 in January to a low of 723 in July. In 2015, the BDI ranged from a high of 1,222 in August to a low of 471 in December. In 2016, the BDI ranged from a record low of 290 in February to a high of 1,257 in November.

Vessel Prices

As of the end of 2016, dry bulk vessel values increased as compared to 2015. Consistent with these trends, the market value of our dry bulk carriers had also increased. As charter rates and vessel values remain at relatively low levels, there can be no assurance as to how long charter rates and vessel values will remain at their current levels or whether they will decrease or improve to any significant degree in the near future.

Competition

Our business fluctuates in line with the main patterns of trade of the major dry bulk cargoes and varies according to changes in the supply and demand for these items. We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation as an owner and operator. We compete with other owners of dry bulk carriers in the Panamax, Post-Panamax and smaller class sectors and with owners of Capesize and Newcastlemax dry bulk carriers. Ownership of dry bulk carriers is highly fragmented.

We believe that we possess a number of strengths that provide us with a competitive advantage in the dry bulk shipping industry:

- We own a modern, high quality fleet of dry bulk carriers. We believe that owning a modern, high quality fleet reduces operating costs, improves safety and provides us with a competitive advantage in securing favorable time charters. We maintain the quality of our vessels by carrying out regular inspections, both while in port and at sea, and adopting a comprehensive maintenance program for each vessel.
- Our fleet includes thirteen groups of sister ships. We believe that maintaining a fleet that includes sister ships enhances the revenue generating potential of our fleet by providing us with operational and scheduling flexibility. The uniform nature of sister ships also improves our operating efficiency by allowing our fleet manager to apply the technical knowledge of one vessel to all vessels of the same series and creates economies of scale that enable us to realize cost savings when maintaining, supplying and crewing our vessels.
- We have an experienced management team. Our management team consists of experienced executives who have, on average, more than 30 years of operating experience in the shipping industry and has demonstrated ability in managing the commercial, technical and financial areas of our business. Our management team is led by Mr. Simeon Palios, a qualified naval architect and engineer who has more than 40 years of experience in the shipping industry.
- We benefit from the experience and reputation of Diana Shipping Services S.A. and the relationship with Wilhelmsen Ship Management through the Diana Wilhelmsen Management Limited joint venture.
- We benefit from strong relationships with members of the shipping and financial industries. We have developed strong relationships with major international charterers, shipbuilders and financial institutions that we believe are the result of the quality of our operations, the strength of our management team and our reputation for dependability.
- We have a strong balance sheet and a relatively low level of indebtedness. We believe that our strong balance sheet and relatively low level of indebtedness provide us with the flexibility to increase the amount of funds that we may draw under our loan facilities in connection with future acquisitions and enable us to use cash flow that would otherwise be dedicated to debt service for other purposes.

Permits and Authorizations

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our vessels. The kinds of permits, licenses and certificates required depend upon several factors, including the commodity transported, the waters in which the vessel operates the nationality of the vessel's crew and the age of a vessel. We have been able to obtain all permits, licenses and certificates currently required to permit our vessels to operate. Additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of us doing business.

38

Disclosure Pursuant to Section 219 of the Iran Threat Reduction And Syrian Human Rights Act

Section 219 of the U.S. Iran Threat Reduction and Syria Human Rights Act of 2012, or the ITRA, added new Section 13(r) to the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, requiring each SEC reporting issuer to disclose in its annual and, if applicable, quarterly reports whether it or any of its affiliates have knowingly engaged in certain activities, transactions or dealings relating to Iran or with the Government of Iran or certain designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the report.

Pursuant to Section 13(r) of the Exchange Act, we note that for the period covered by this annual report, four of our vessels made one port call each to Iran in 2016.

The vessel Amphitrite made a call to the port of Bandar Imam Khomeini on February 24, 2016, discharging corn, and remained in the port of Bandar Imam Khomeini during 2016 for seven days. During this time the Amphitrite was on time charter to Bunge S.A. at a gross rate of $7,700 per day.

The vessel Artemis made a call to the port of Bandar Imam Khomeini on October 4, 2016, discharging sugar, and remained in the port of Bandar Imam Khomeini for 20 days. During this time the Artemis was on time charter to Bunge S.A. at a gross rate of $5,350 per day.

The vessel Melite made a call to the port of Bandar Imam Khomeini on March 4, 2016, discharging corn, and remained in the port of Bandar Imam Khomeini for eight days. During this time the Melite was on time charter to Cargill International S.A. at a gross rate of $7,250 per day.

The vessel Myrto made a call to the port of Bandar Imam Khomeini on March 3, 2016, discharging soya bean meal and pellets, and remained in the port of Bandar Imam Khomeini for 34 days. During this time the Myrto was on time charter to Cargill International S.A. at a gross rate of $6,000 per day.

The aggregate gross revenue attributable to these 69 days that our vessels remained in the port of Bandar Imam Khomeini was approximately $0.4 million. As we do not attribute profits to specific voyages under a time charter, we have not attributed any profits to the voyages which included these port calls. Our charter party agreements for our vessels restrict the charterers from calling in Iran in violation of U.S. sanctions, or carrying any cargo to Iran which is subject to U.S. sanctions. However, there can be no assurance that the four vessels referenced above or another of our vessels will not, from time to time in the future on charterer's instructions, perform voyages which would require disclosure pursuant to Exchange Act Section 13(r).

Environmental and Other Regulations

Government regulation significantly affects the ownership and operation of our vessels. We are subject to international conventions and treaties, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered relating to safety and health and environmental protection including the storage, handling, emission, transportation and discharge of hazardous and non-hazardous materials, and the remediation of contamination and liability for damage to natural resources. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of government and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (such as the USCG, harbor master or equivalent), classification societies; flag state administrations (countries of registry) and charterers, particularly terminal operators. Certain of these entities require us to obtain permits, licenses, certificates or approvals for the operation of our vessels. Failure to maintain necessary permits, licenses, certificates or approvals could require us to incur substantial costs or temporarily suspend the operation of one or more of our vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the dry bulk shipping industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with U.S. and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other approvals necessary for the conduct of our operations. However, because such laws and regulations are frequently changed and may impose increasingly strict requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident, such as the 2010 Deepwater Horizon oil spill, that results in significant oil pollution, release of hazardous substances, loss of life, or otherwise causes significant adverse environmental impact could result in additional legislation, regulation, or other requirements that could negatively affect our profitability.

The laws and regulations discussed below may not constitute a comprehensive list of all such laws and regulations that are applicable to the operation of our vessels.

International Maritime Organization

The IMO has adopted MARPOL and it entered into force on October 2, 1983. MARPOL has been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate. MARPOL sets forth pollution-prevention requirements applicable to dry bulk carriers, among other vessels, and is broken into six Annexes, each of which regulates a different source of pollution. Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, lastly, relates to air emissions. Annex VI, separately adopted by the IMO in September of 1997, related to air emissions, which entered into force on 19 May 2005.

In 2013, the IMO's Marine Environment Protection Committee, or MEPC, adopted by resolution amendments to the MARPOL Annex I Conditional Assessment Scheme, or CAS. The amendments, which became effective on October 1, 2014, pertain to revising references to the inspections of bulk carriers and tankers after the 2011 ESP Code, which enhances the programs of inspections, becomes mandatory.
Air Emissions

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits "deliberate emissions" of "ozone depleting substances," defined to include certain halons and chlorofluorocarbons. "Deliberate emissions" are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship's repair and maintenance. Emissions of "volatile organic compounds" from the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions, known as ECAs, (see below).

MEPC adopted amendments to Annex VI on October 10, 2008, which amendments were entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulfur contained in any fuel oil used on board ships. As of January 1, 2012, the amended Annex VI required that fuel oil contain no more than 3.50% sulfur. On October 27, 2016, at its 70th session, or MEPC 70, MEPC announced its decision concerning the implementation of regulations mandating a reduction is sulfur emissions from the current 3.50% to 0.5% as of the beginning of 2020 rather than pushing the deadline back to 2025. By 2020 ships will now have to either remove sulfur from emissions through the use of emission scrubbers or buy fuel with low sulfur content.

Sulfur content standards are even stricter within certain ECAs. As of January 1, 2015, ships operating within an ECA may not use fuel with sulfur content in excess of 0.1%. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea, the North Sea and certain coastal areas of North America have been so designated. Furthermore as of January 1, 2014 the applicable areas of the U.S. Caribbean Sea adjacent to Puerto Rico and the U.S. Virgin Islands were designated ECAs. Ocean-going vessels in these areas will be subject to stringent emissions controls and may cause us to incur additional costs. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures, operational changes, or otherwise increase the costs of our operations.

As of January 1, 2013, MARPOL made mandatory certain measures relating to energy efficiency for ships in part to address greenhouse gas emissions MEPC has given extensive consideration to control of greenhouse gas emissions from ships and finalized in July 2009 a package of specific technical and operational reduction measures. In March 2010 MEPC started the consideration of making the technical and operational measures mandatory for all ships irrespective of flag and ownership. This work was completed in July 2011 with the breakthrough adoption of technical measures for new ships and operational reduction measures for all ships, which are, consequently, the first ever mandatory global greenhouse gas reduction regime for an entire industry sector. The adopted measures add to MARPOL Annex VI a new Chapter 4 entitled "Regulations on energy efficiency for ships". Currently operating ships will be required to develop Ship Energy Efficiency Plans, or SEEMPs, and minimum energy efficiency levels per capacity mile, outlined in the Efficiency Design Index, or EEDI, will apply to new ships. By 2025, all new ships built will be 30% more energy efficient than those built in 2014. The regulations apply to all ships over 400 gross tonnage and above and entered into force through the tacit acceptance procedure on 1 January 2013.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation with a "Tier II" emission limit for engines installed on or after January 1, 2011; then with a more stringent "Tier III" emission limit for engines installed on or after January 1, 2016 operating in ECAs. Marine diesel engines installed on or after January 1, 1990 but prior to January 1, 2000 are required to comply with "Tier I" emission limits.

At MEPC 70, MEPC approved the North Sea and Baltic Sea as ECAs for nitrogen oxides, effective January 1, 2021. It is expected that these areas will be formally designated after the draft amendments are presented at MEPC's next session. The EPA promulgated equivalent (and in some senses stricter) emissions standards in late 2009.

Safety Management System Requirements

The IMO also adopted SOLAS and the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. May 2012 SOLAS Convention amendments entered into force as of January 1, 2014. The Convention on Limitation of Liability for Maritime Claims of 1976, as amended, or the LLMC, was also recently amended and the amendments went into effect on June 8, 2015. The amendments alter the limits of liability for loss of life or personal injury claims and property claims against ship-owners.

International Labor Organization

The International Labor Organization, or ILO, is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006, or MLC 2006. A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 entered into force on August 20, 2013. Amendments to MLC 2006 were adopted in 2014 and came into force in 2016. The MLC 2006 amendments require us to develop new procedures to ensure full compliance.

Pollution Control and Liability Requirements

The IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatories to such conventions. IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. All ships will also have to carry a ballast water record book and an International Ballast Water Management Certificate. The BWM Convention enters into force 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. On September 8, 2016, this threshold was met (with 52 countries making up 35.14%). Thus, the BWM Convention will enter into force on September 8, 2017. Many of the implementation dates originally written in the BWM Convention have already passed, so that once the BWM Convention enters into force, the period for installation of mandatory ballast water exchange requirements would be extremely short, with several thousand ships a year needing to install ballast water management systems, or BWMS. For this reason, on December 4, 2013, the IMO Assembly passed a resolution revising the application dates of BWM Convention so that they are triggered by the entry into force date and not the dates originally in the BWM Convention. This in effect makes all vessels constructed before the entry into force date 'existing' vessels, and allows for the installation of a BWMS on such vessels at the first renewal survey following entry into force of the Convention. At MEPC 70, MEPC adopted updated "guidelines for approval of ballast water management systems (G8)." G8 updates previous guidelines concerning procedures to approve BWMS. Once mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers and the costs of ballast water treatments may be material. However, many countries already regulate the discharge of ballast water carried by vessels from country to country to prevent the introduction of invasive and harmful species via such discharges. The United States for example, requires vessels entering its waters from another country to conduct mid-ocean ballast exchange, or undertake some alternate measure, and to comply with certain reporting requirements. We believe that the costs of such compliance would be material; however it is difficult to predict the overall impact of such a requirement on our operations

The IMO adopted the Bunker Convention to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the LLMC). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In March 2006, the IMO amended Annex I to MARPOL, including a new regulation relating to oil fuel tank protection, which became effective August 1, 2007. The new regulation applies to various ships delivered on or after August 1, 2010. It includes requirements for the protected location of the fuel tanks, performance standards for accidental oil fuel outflow, a tank capacity limit and certain other maintenance, inspection and engineering standards.

Noncompliance with the ISM Code or other IMO regulations may subject the ship owner or bareboat charterer to increased liability, lead to decreases in available insurance coverage for affected vessels or result in the denial of access to, or detention in, some ports.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

The U.S. Oil Pollution Act of 1990 and Comprehensive Environmental Response, Compensation and Liability Act

OPA established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all "owners and operators" whose vessels trade with the United States, its territories and possessions or whose vessels operate in U.S. waters, which includes the United States' territorial sea and its 200 nautical mile exclusive economic zone around the United States. The United States has also enacted CERCLA, which applies to the discharge of hazardous substances other than oil, except in limited circumstances, whether on land or at sea. OPA and CERCLA both define "owner and operator" "in the case of a vessel, as any person owning, operating or chartering by demise, the vessel."

Under OPA, vessel owners and operators are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. OPA defines these other damages broadly to include:

(i) injury to, destruction or loss of, or loss of use of, natural resources and related assessment costs;

(ii) injury to, or economic losses resulting from, the destruction of real and personal property;

(iii) net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal property, or natural resources;

(iv) loss of subsistence use of natural resources that are injured, destroyed or lost;

(v) lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and

(vi) net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective December 21, 2015, the USCG adjusted the limits of OPA liability for non-tank vessels (e.g. dry bulk), edible oil tank vessels, and any oil spill response vessels, to the greater of $1,100 per gross ton or $939,800 (subject to periodic adjustment for inflation). These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsibility party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of $300 per gross ton or $5.0 million for vessels carrying a hazardous substance as cargo and the greater of $300 per gross ton or $500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the USCG evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. For example, on August 15, 2012, the BSEE implemented a final drilling safety rule for offshore oil and gas operations that strengthens the requirements for safety equipment, well control systems, and blowout prevention practices. A new rule issued by the U.S. Bureau of Ocean Energy Management, or BOEM, that increased the limits of liability of damages for offshore facilities under OPA based on inflation took effect in January 2015. In December 2015, the BSEE announced a new pilot inspection program for offshore facilities. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation, regulations, or other requirements applicable to the operation of our vessels that may be implemented in the future could adversely affect our business.

We currently maintain pollution liability coverage insurance in the amount of $1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage it could have an adverse effect on our business and results of operation.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states which have enacted such legislation have not yet issued implementing regulations defining vessel owners' responsibilities under these laws.

Other Environmental Initiatives

The CWA prohibits the discharge of oil, hazardous substances and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA. Furthermore, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The EPA regulates the discharge of ballast and bilge water and other substances in U.S. waters under the CWA. EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP, authorizing ballast and bilge water discharges and other discharges incidental to the operation of vessels. For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent at least 30 days before the vessel operates in U.S. waters. The VGP imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. On March 28, 2013, the EPA re-issued the VGP for another five years; this VGP took effect of December 19, 2013. The new VGP focuses on authorizing discharges incidental to operations of commercial vessels. The VGP also contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

USCG regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters. As of June 21, 2012, the USCG implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships in U.S. waters. The revised ballast water standards are consistent with those adopted by the IMO in 2004. Compliance with the EPA and the USCG regulations could require the installation of certain engineering equipment and water treatment systems to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters.

As of January 1, 2014, vessels are technically subject to the phasing-in of these standards. As a result, the USCG has provided waivers to vessels which cannot install the as-yet unapproved technology. The EPA, on the other hand, has taken a different approach to enforcing ballast discharge standards under the VGP. On December 27, 2013, the EPA issued an enforcement response policy in connection with the new VGP in which the EPA indicated that it would take into account the reasons why vessels do not have the requisite technology installed, but will not grant any waivers.

It should also be noted that in October 2015, the Second Circuit Court of Appeals issued a ruling that directed the EPA to redraft the sections of the 2013 VGP that address ballast water. However, the Second Circuit stated that 2013 VGP will remains in effect until the EPA issues a new VGP.

Compliance with the EPA and the USCG regulations could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters. In addition, certain states have enacted more stringent discharge standards as conditions to their required certification of the VGP. It presently remains unclear how the ballast water requirements set forth by the EPA, the USCG, and IMO BWM Convention, some of which are in effect and some which are pending, will co-exist.

The CAA requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in each state. Although state-specific, SIPs may include regulations concerning emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment.

European Union Regulations

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims. The directive applies to all types of vessels, irrespective of their flag, but certain exceptions apply to warships or where human safety or that of the ship is in danger.

The European Union has adopted several regulations and directives requiring, among other things, more frequent inspections of high-risk ships, as determined by type, age, and flag as well as the number of times the ship has been detained. The European Union also adopted and then extended a ban on substandard ships and enacted a minimum ban period and a definitive ban for repeated offenses. The regulation also provided the European Union with greater authority and control over classification societies, by imposing more requirements on classification societies and providing for fines or penalty payments for organizations that failed to comply.

With effect from January 1, 2010, the Directive 2005/33/EC of the European Parliament and of the Council of July 6, 2005, amending Directive 1999/32/EC came into force. The objective of the directive is to reduce emission of sulfur dioxide and particulate matter caused by the combustion of certain petroleum derived fuels. The directive imposes limits on the sulfur content of such fuels as a condition of their use within a Member State territory. The maximum sulfur content for marine fuels used by inland waterway vessels and ships at berth in ports in EU countries after January 1, 2010, is 0.10% by mass. As of January 1, 2015, all vessels operating within ECAs worldwide, which includes the North Sea, the Baltic Sea, and the English Channel, must comply with 0.10% sulfur requirements. In 2012, the European Commission also adopted amendments to Directive 1999/32/EC, which aligns requirements with those imposed by the revised MARPOL Annex VI that introduced stricter sulfur limits.

Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. The 2015 United Nations Convention on Climate Change Conference in Paris resulted in the Paris Agreement, which entered into force on November 4, 2016. The Paris Agreement does not directly limit greenhouse gas emissions from ships.

The IMO is planning to implement market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships.

In April 2013, the European Parliament rejected proposed changes to the European Union Emissions Law regarding carbon trading. In June 2013, the European Commission developed a strategy to integrate maritime emissions into the overall European Union Strategy to reduced greenhouse gas emissions. Furthermore, in December 2013, the European Union environmental ministers discussed draft rules to implement monitoring and reporting of carbon dioxide emissions from ships. In April 2015, a regulation was adopted requiring that large ships (over 5,000 gross tons) calling at European Union ports from January 2018 collect and publish data on carbon dioxide emissions and other information.

In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has received petitions from the California Attorney General and various environmental groups seeking such regulation. Furthermore, in the United States, individual states can also enact environmental regulations. For example, California has introduced caps for greenhouse gas emissions and, in the end of 2016, signaled it might take additional action regarding climate change.

Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures, including capital expenditures to upgrade our vessels, which we cannot predict with certainty at this time.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001 in the United States, there have been a variety of initiatives intended to enhance vessel security such as the Maritime Transportation Security Act of 2002, or MTSA. To implement certain portions of the MTSA, in July 2003, the USCG issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the EPA.

Similarly, in December 2002, amendments to the SOLAS Convention created a new chapter of the convention dealing specifically with maritime security. The new Chapter XI-2 became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. The following are among the various requirements, some of which are found in SOLAS:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;

- a continuous synopsis record kept onboard showing a vessel's history including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

Ships operating without a valid certificate may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

45

The USCG regulations, intended to be aligned with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid ISSC that attests to the vessel's compliance with the SOLAS Convention security requirements and the ISPS Code.

Inspection by Classification Societies

Every oceangoing vessel must be "classed" by a classification society. The classification society certifies that the vessel is "in class," signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class certification, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

- Annual Surveys: For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.

- Intermediate Surveys: Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys are to be carried out at or between the occasion of the second or third annual survey.

- Class Renewal Surveys: Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a shipowner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle. Upon a shipowner's request, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most vessels are also dry-docked for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a recommendation which must be rectified by the ship owner within prescribed time limits.

Insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society which is a member of the International Association of Classification Societies, or IACS. All our vessels are certified as being "in class" either by Lloyd's Register of Shipping, American Bureau of Shipping, DNV-GL, or Bureau Veritas, or Class NK. All new and second hand vessels that we purchase must be certified prior to their delivery under our standard purchase contracts and memorandum of agreement. For the second hand vessels same is verified by a Class Maintenance Certificate issued within 72 hours prior to delivery, including full certification delivered at the time of closing. If the vessel is not certified on the date of closing, we have the option to cancel the agreement due to Seller's default and not take delivery of the vessel.

Risk of Loss and Liability Insurance

General

The operation of any dry bulk vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage, and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of vessels trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the U.S. market.

While we maintain hull and machinery insurance, war risks insurance, protection and indemnity cover and freight, demurrage and defense cover for our operating fleet in amounts that we believe to be prudent to cover normal risks in our operations, we may not be able to achieve or maintain this level of coverage throughout a vessel's useful life. Furthermore, while we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

Hull & Machinery and War Risks Insurance

We maintain marine hull and machinery and war risks insurance, which cover, among other marine risks, the risk of actual or constructive total loss, for all of our vessels. Our vessels are each covered up to at least fair market value with deductibles ranging to a maximum of $100,000 per vessel per incident for Panamax, Kamsarmax and Post-Panamax vessels and $150,000 per vessel per incident for Capesize and Newcastlemax vessels.

Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which insure our third party liabilities in connection with our shipping activities. This includes third-party liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or "clubs."

Our current protection and indemnity insurance coverage for pollution is $1 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. As a member of a P&I Association, which is a member of the International Group, we are subject to calls payable to the associations based on the group's claim records as well as the claim records of all other members of the individual associations and members of the pool of P&I Associations comprising the International Group. Our vessels may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to.

C. Organizational structure

Diana Shipping Inc. is the sole owner of all of the issued and outstanding shares of the subsidiaries listed in exhibit 8.1 to this annual report.

D. Property, plants and equipment

Since October 8, 2010, DSS owns the land and the building where we have our principal offices in Athens, Greece and in December 2014, DSS acquired a plot of land jointly with two other related entities from unrelated individuals. Other than this interest in real property, our only material properties are the vessels in our fleet.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following management's discussion and analysis should be read in conjunction with our historical consolidated financial statements and their notes included elsewhere in this annual report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk Factors" and elsewhere in this annual report.

A. Operating results

We charter our vessels to customers pursuant to short-term, medium-term and long-term time charters. Currently, the majority of our vessels are employed on short-term and medium-term time charters. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and port and canal charges. However, our voyage results may be affected by differences in bunker prices. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, and we also pay commissions to one or more unaffiliated ship brokers and to in-house brokers associated with the charterer for the arrangement of the relevant charter.

Factors Affecting Our Results of Operations

We believe that the important measures for analyzing trends in our results of operations consist of the following:

- Ownership days. We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.

- Available days. We define available days as the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels for such events. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

- Operating days. We define operating days as the number of our available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

- Fleet utilization. We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning for such events.

- TCE rates. We define Time Charter Equivalent, or TCE rates as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. TCE rate is a non-GAAP measure and is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters generally are expressed in such amounts.

The following table reflects our ownership days, available days, operating days, fleet utilization and TCE rates for the periods indicated.

	Year Ended December 31,		
	2016	2015	2014
Ownership days	16,542	14,900	13,822
Available days	16,447	14,600	13,650
Operating days	16,354	14,492	13,564
Fleet utilization	99.4 %	99.3 %	99.4 %
Time charter equivalent (TCE) rate (1)	$6,106	$9,739	$12,081

(1) Please see Item 3.A for a reconciliation of TCE to GAAP measures.

Time Charter Revenues

Our revenues are driven primarily by the number of vessels in our fleet, the number of days during which our vessels operate and the amount of daily charter hire rates that our vessels earn under charters, which, in turn, are affected by a number of factors, including:

- the duration of our charters;
- our decisions relating to vessel acquisitions and disposals;
- the amount of time that we spend positioning our vessels;
- the amount of time that our vessels spend in drydock undergoing repairs;
- maintenance and upgrade work;
- the age, condition and specifications of our vessels;
- levels of supply and demand in the dry bulk shipping industry; and
- other factors affecting spot market charter rates for dry bulk carriers.

Vessels operating on time charters for a certain period of time provide more predictable cash flows over that period of time, but can yield lower profit margins than vessels operating in the spot charter market during periods characterized by favorable market conditions. Vessels operating in the spot charter market generate revenues that are less predictable but may enable their owners to capture increased profit margins during periods of improvements in charter rates although their owners would be exposed to the risk of declining charter rates, which may have a materially adverse impact on financial performance. As we employ vessels on period charters, future spot charter rates may be higher or lower than the rates at which we have employed our vessels on period charters. Our time charter agreements subject us to counterparty risk. In depressed market conditions, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor their obligations under agreements with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Since 2010, our revenues have decreased due to the decrease in the charter rates. In 2014, although charter rates continued to decline, revenue increased due to the enlargement of our fleet. For 2017, we expect our revenues to remain at current levels, or increase compared to the very low time charter rate levels witnessed in 2016.

Voyage Expenses

We incur voyage expenses that mainly include commissions because all of our vessels are employed under time charters that require the charterer to bear voyage expenses such as bunkers (fuel oil), port and canal charges. Although the charterer bears the cost of bunkers, we also have bunker expenses or income deriving from the price differences of bunkers. When a vessel is delivered to a charterer, bunkers are purchased by the charterer and sold back to us on the redelivery of the vessel. Bunker expenses, or income, result when a vessel is redelivered by her charterer and delivered to the next charterer at different bunker prices, or quantities.

We currently pay commissions ranging from 4.75% to 5.00% of the total daily charter hire rate of each charter to unaffiliated ship brokers, in-house brokers associated with the charterers, depending on the number of brokers involved with arranging the charter. In addition we pay a commission to DWM and to DSS for those vessels for which they provide commercial management services. The commissions paid to DSS are eliminated from our consolidated financial statements as intercompany transactions. For 2017, we expect our voyage expenses to remain at the same levels as 2016, or increase if revenues and therefore commissions increase, or decrease if bunker prices increase compared to 2016.

Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the cost of spares and consumable stores, tonnage taxes, environmental plan costs and other operating expenses. Our vessel operating expenses, which generally represent fixed costs, have historically increased as a result of the enlargement of our fleet with the exception of 2016 when operating expenses decreased despite the enlargement of our fleet, as a result of our efforts to decrease costs without compromising the quality and seaworthiness of our vessels. For 2017, we expect our operating expenses to remain at the same levels as in 2016 or decrease despite the enlargement of our fleet as a result of our continued effort to reduce expenses due to the depressed market conditions.

Vessel Depreciation

The cost of our vessels is depreciated on a straight-line basis over the estimated useful life of each vessel. Depreciation is based on the cost of the vessel less its estimated salvage value. We estimate the useful life of our dry bulk vessels to be 25 years from the date of initial delivery from the shipyard, which we believe is common in the dry bulk shipping industry. Furthermore, we estimate the salvage values of our vessels based on historical average prices of the cost of the light-weight ton of vessels being scrapped. The salvage value of all of our vessels is $250 per lightweight ton. Our depreciation charges have increased in recent periods due to the enlargement of our fleet. For 2017, we expect depreciation expense to increase as a result of the enlargement of our fleet.

General and Administrative Expenses

We incur general and administrative expenses which include our onshore related expenses such as payroll expenses of employees, executive officers, directors and consultants, compensation cost of restricted stock awarded to senior management and non-executive directors, traveling, promotional and other expenses of the public company, such as legal and professional expenses and other general expenses. For 2017, we expect our general and administrative expenses to remain at current levels.

Interest and Finance Costs

We have historically incurred interest expense and financing costs in connection with vessel-specific debt and since May 2015 in connection with our Notes. As at December 31, 2016 our debt amounted to $602.7 million, including our Notes issued in May 2015 at a fixed rate of 8.5%, and we have incurred additional debt in 2017. We expect to manage any exposure in interest rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. For 2017, we expect interest and finance expenses to increase as a result of increased indebtedness and increased interest rates.

Lack of Historical Operating Data for Vessels before Their Acquisition

Although vessels are generally acquired free of charter, we have acquired (and may in the future acquire) some vessels with time charters. Where a vessel has been under a voyage charter, the vessel is usually delivered to the buyer free of charter. It is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer entering into a separate direct agreement (called a "novation agreement") with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter because it is a separate service agreement between the vessel owner and the charterer.

Where we identify any intangible assets or liabilities associated with the acquisition of a vessel, we record all identified assets or liabilities at fair value. Fair value is determined by reference to market data. We value any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. When the present value of the time charter assumed is greater than the current fair market value of such charter, the difference is recorded as prepaid charter revenue. When the opposite situation occurs, any difference, capped to the vessel's fair value on a charter-free basis, is recorded as deferred revenue. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed.

When we purchase a vessel and assume or renegotiate a related time charter, among others, we must take the following steps before the vessel will be ready to commence operations:

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- in some cases, obtain the charterer's consent to a new flag for the vessel;
- arrange for a new crew for the vessel, and where the vessel is on charter, in some cases, the crew must be approved by the charterer;
- replace all hired equipment on board, such as gas cylinders and communication equipment;
- negotiate and enter into new insurance contracts for the vessel through our own insurance brokers;
- register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state;
- implement a new planned maintenance program for the vessel; and
- ensure that the new technical manager obtains new certificates for compliance with the safety and vessel security regulations of the flag state.

When we charter a vessel pursuant to a long-term time charter agreement with varying rates, we recognize revenue on a straight line basis, equal to the average revenue during the term of the charter.

The following discussion is intended to help you understand how acquisitions of vessels affect our business and results of operations.

Our business is mainly comprised of the following elements:

- employment and operation of our vessels; and
- management of the financial, general and administrative elements involved in the conduct of our business and ownership of our vessels.

The employment and operation of our vessels mainly require the following components:

- vessel maintenance and repair;

- crew selection and training;
- vessel spares and stores supply;
- contingency response planning;
- onboard safety procedures auditing;

- accounting;
- vessel insurance arrangement;
- vessel chartering;
- vessel security training and security response plans (ISPS);
- obtaining of ISM certification and audit for each vessel within the six months of taking over a vessel;
- vessel hiring management;
- vessel surveying; and
- vessel performance monitoring.

The management of financial, general and administrative elements involved in the conduct of our business and ownership of our vessels mainly requires the following components:

- management of our financial resources, including banking relationships, i.e., administration of bank loans and bank accounts;
- management of our accounting system and records and financial reporting;
- administration of the legal and regulatory requirements affecting our business and assets; and
- management of the relationships with our service providers and customers.

The principal factors that affect our profitability, cash flows and shareholders' return on investment include:

- rates and periods of charter hire;
- levels of vessel operating expenses;
- depreciation expenses;
- financing costs; and
- fluctuations in foreign exchange rates.

Our Fleet – Illustrative Comparison of Possible Excess of Carrying Value Over Estimated Charter-Free Market Value of Certain Vessels

In "Critical Accounting Policies – Impairment of long-lived assets," we discuss our policy for impairing the carrying values of our vessels. Historically, the market values of vessels have experienced volatility, which from time to time may be substantial. As a result, the charter-free market value of certain of our vessels may have declined below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting impairment policy.

Based on: (i) the carrying value of each of our vessels as of December 31, 2016 and 2015, consisting of the net book value of the vessels and the unamortized value of deferred dry-dock and special surveys cost and (ii) what we believe the charter-free market value of each of our vessels was as of December 31, 2016 and 2015, the aggregate carrying value of 43 and 42 of the vessels in our fleet as of December 31, 2016 and 2015, respectively, exceeded their aggregate charter-free market value by approximately $728 million and $762 million, respectively, as noted in the table below. This aggregate difference represents the approximate analysis of the amount by which we believe we would have to increase our loss or reduce our net income if we sold all of such vessels at December 31, 2016 and 2015, on a charter-free basis, on industry standard terms, in cash transactions, and to a willing buyer where we were not under any compulsion to sell, and where the buyer was not under any compulsion to buy. For purposes of this calculation, we have assumed that these 43 and 42 vessels would be sold at a price that reflects our estimate of their charter-free market values as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and as of the date of this annual report, we were not and are not holding any of our vessels for sale.

Our estimates of charter-free market value assume that our vessels were all in good and seaworthy condition without need for repair and if inspected would be certified in class without notations of any kind. Our estimates are based on information available from various industry sources, including:

- reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;
- news and industry reports of similar vessel sales;
- news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;
- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and
- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

As we obtain information from various industry and other sources, our estimates of charter-free market value are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future charter-free market value of our vessels or prices that we could achieve if we were to sell them. We also refer you to the risk factors entitled "The market value of our vessels has declined and may further decline, which could limit the amount of funds that we can borrow and has triggered breaches of the security coverage ratio in one loan facility and could in the future trigger breaches of certain financial covenants and the security cover ratio contained in our current and future loan facilities and we may incur a loss if we sell vessels following a decline in their market values", "A decrease in the market values of our vessels could cause us to breach covenants in our loan facilities and adversely affect our operating results" and the discussion herein under the heading "Item 4.B. Business overview – Vessel Prices".

	Vessel	Dwt	Year Built	Carrying Value (in millions of US dollars)	
				2016	2015
1	Alcmene	93,193	2010	31.6*	33.3*
2	Alcyon	75,247	2001	9.1*	9.9*
3	Aliki	180,235	2005	65.5*	70.3*
4	Amphitrite	98,697	2012	21.3*	22.2*
5	Arethusa	73,593	2007	23.1*	24.5*
6	Artemis	76,942	2006	17.3*	18.4*
7	Atalandi	77,529	2014	28.4*	29.5*
8	Baltimore	177,243	2005	23.2*	24.8*
9	Boston	177,828	2007	71.8*	76.0*
10	Calipso	73,691	2005	12.4*	13.3*
11	Clio	73,691	2005	12.6*	13.3*
12	Coronis	74,381	2006	25.0*	26.6*
13	Crystalia	77,525	2014	28.0*	29.1*
14	Danae	75,106	2001	10.6*	11.6*
15	Dione	75,172	2001	10.5*	11.0*
16	Erato	74,444	2004	22.0*	23.7*
17	G. P. Zafirakis	179,492	2014	53.4*	55.5*
18	Houston	177,729	2009	46.3*	48.8*
19	Ismene	77,901	2013	13.7	
20	Leto	81,297	2010	26.1*	27.5*

21	Los Angeles	206,104	2012	49.5*	51.6*
22	Maera	75,403	2013	13.3	
23	Maia	82,193	2009	17.4*	18.4*
24	Medusa	82,194	2010	17.0*	17.7*
25	Melia	76,225	2005	16.1*	17.3*
26	Melite	76,436	2004	23.6*	25.4*
27	Myrsini	82,117	2010	20.0*	21.1*
28	Myrto	82,131	2013	23.0*	23.9*
29	Naias	73,546	2006	24.4*	25.6*
30	New Orleans	180,960	2015	41.7*	43.1*
31	New York	177,773	2010	47.4*	49.8*
32	Nirefs	75,311	2001	9.1*	9.9*
33	Norfolk	164,218	2002	76.2*	83.1*
34	Oceanis	75,211	2001	9.7*	9.9*
38	P. S. Palios	179,134	2013	46.3*	48.2*
35	Philadelphia	206,040	2012	50.3*	52.4*
36	Polymnia	98,704	2012	21.2*	22.1*
37	Protefs	73,630	2004	12.0*	12.9*
39	Salt Lake City	171,810	2005	101.9*	109.1*
40	Santa Barbara	179,426	2015	46.8*	48.5*
41	Seattle	179,362	2011	27.8*	29.0
42	Selina	75,700	2010	11.5	
43	Semirio	174,261	2007	62.5*	66.2*
44	Sideris GS	174,186	2006	56.9*	59.6*
45	Thetis	73,583	2004	21.8*	23.5*
46	Triton	75,336	2001	9.3*	10.1*
	Total	5,241,930		1,408.6	1,447.7

*Indicates dry bulk vessels for which we believe, as of December 31, 2016 and 2015, the charter-free market value was lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeded their aggregate charter-free market value by approximately $728 million and $762 million, respectively.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of those financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are those that reflect significant judgments of uncertainties and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies, because they generally involve a comparatively higher degree of judgment in their application. For a description of all our significant accounting policies, see Note 2 to our consolidated financial statements included in this annual report.

Accounts Receivable, Trade

Accounts receivable, trade, at each balance sheet date, include receivables from charterers for hire, ballast bonus billings, if any, hold cleanings and extra voyage insurance, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts.

Accounting for Revenues and Expenses

Revenues are generated from time charter agreements and are usually paid 15 days in advance. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Time charter revenues are recorded over the term of the charter as service is provided when they become fixed and determinable. Revenues from time charter agreements providing for varying annual rates over their term are accounted for on a straight line basis. Income representing ballast bonus payments and compensation paid by the charterer due to earlier than agreed redelivery of the vessel to the owner are recognized in the period earned. Deferred revenue includes cash received prior to the balance sheet date for which all criteria for recognition as revenue have not been met. Deferred revenue may also include deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis, or the unamortized balance of the liability associated with the acquisition of second-hand vessels with time charters attached which were acquired at values below fair market value at the date the acquisition agreement is consummated.

Voyage expenses, primarily consisting of commissions, are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are due as the Company's revenues are earned. All vessel operating expenses are expensed as incurred.

Vessel Depreciation

We record the value of our vessels at their cost less accumulated depreciation. We depreciate our dry bulk vessels on a straight-line basis over their estimated useful lives, estimated to be 25 years from the date of initial delivery from the shipyard which we believe is common in the dry bulk shipping industry. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. Depreciation is based on cost less the estimated salvage value. Each vessel's salvage value is equal to the product of its lightweight tonnage and estimated scrap rate. Furthermore, we estimate the salvage values of our vessels based on historical average prices, which we believe is common in the dry bulk shipping industry. A decrease in the useful life of a vessel or in its salvage value would have the effect of increasing the annual depreciation charge. When regulations place limitations on the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations are adopted.

Deferred Drydock Cost

Our vessels are required to be drydocked approximately every 30 to 36 months for major repairs and maintenance that cannot be performed while the vessels are operating. We defer the costs associated with drydockings as they occur and amortize these costs on a straight-line basis over the period through the date the next dry-docking is scheduled to become due. Unamortized drydocking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale. Costs deferred as part of the drydocking include actual costs incurred at the yard and parts used in the drydocking.

Equity method investments

Investments in common stock in entities over which the Company exercises significant influence, but does not exercise control are accounted for by the equity method of accounting. Under this method, we record such an investment at cost and adjust the carrying amount for our share of the earnings or losses of the entity subsequent to the date of investment and report the recognized earnings or losses in income. Dividends received reduce the carrying amount of the investment. When our share of losses in an entity accounted for by the equity method equals or exceeds our interest in the entity, we do not recognize further losses, unless we have made advances, incurred obligations and made payments on behalf of the entity. Equity method investments are evaluated to determine if a loss in value that is other than temporary should be recognized. Evidence of a loss in value might include absence of an ability to recover the carrying amount of the investment, inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment, or other investors ceasing to provide support or reduce their financial commitment to the investee. On September 30, 2016, we wrote down the value of our investment in Diana Containerships to its fair value based on the market value of Diana Containerships' share price on Nasdaq on that day resulting in an impairment of $17.6 million.

Loan Receivable from Related Parties

Our loan receivable from related parties is with Diana Containerships and is presented net of any provision for credit losses. Interest income and fees deriving from the agreement are recorded as incurred. At each balance sheet date, amounts due under the receivable loan agreement are assessed for purposes of determining the appropriate provision for credit losses. We have assessed the ability of Diana Containerships to meet its obligations under the loan agreement by taking into consideration existing economic conditions, the current financial condition of Diana Containerships' historical losses, and other risks/factors that may affect its future financial condition and its ability to meet its obligations. As a result of this assessment, we did not record any provision for credit losses, as we determined that Diana Containerships will be able to meet its obligations under the loan in the near future.

Impairment of Long-lived Assets

Long-lived assets (vessels, land, and building) held and used by an entity are reviewed for impairment whenever events or changes in circumstances (such as market conditions, obsolesce or damage to the asset, potential sales and other business plans) indicate that the carrying amount of the assets may not be recoverable or that their useful lives require modification. When the estimate of undiscounted projected net operating cash flows, excluding interest charges, expected to be generated by the use of the asset over its remaining useful life and its eventual disposition is less than its carrying amount, we should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. We determine the fair value of our assets based on management estimates and assumptions and by making use of available market data and taking into consideration third party valuations.

With respect to the vessels, the current conditions in the dry bulk market with decreased charter rates and decreased vessel market values are conditions that the Company considers indicators of a potential impairment. We determine undiscounted projected net operating cash flows for each vessel and compare it to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical and estimated vessels' performance and utilization, assuming (i) future revenues calculated for the fixed days, using the fixed charter rate of each vessel from existing time charters and for the unfixed days, the most recent 10 year average historical one-year time charter rates available for each type of vessel over the remaining estimated life of each vessel, net of brokerage commissions; (ii) expected outflows for scheduled vessels' maintenance; (iii) vessel operating expenses increasing annually by an annual inflation rate of 3%; (iv) effective fleet utilization of 98% taking into account the period each vessel is expected to remain off hire for scheduled maintenance (dry docking and special surveys) and 1% off hire days (other than for dry docking and special surveys) each year. Historical ten-year blended average one-year time charter rates used in our impairment test exercise are in line with our overall chartering strategy, especially in periods/years of depressed charter rates; they reflect the full operating history of vessels of the same type and particulars with our operating fleet (Panamax/Post-Panamax/Kamsarmax and Capesize/Newcastlemax vessels) and they cover at least a full business cycle. The average annual inflation rate applied on vessels' maintenance and operating costs approximates current projections for global inflation rate for the remaining useful life of our vessels. Effective fleet utilization assumed is in line with the Company's historical performance and our expectations for future fleet utilization under our current fleet deployment strategy.

A comparison of the average estimated daily time charter equivalent rate used in our impairment analysis with the average "break even rate" for each major class of vessels is presented below:

	Average estimated daily time charter equivalent rate used	Average break even rate
Panamax/Kamsarmax/Post-Panamax	$ 21,091	$ 10,405
Capesize/Newcastlemax	$ 37,024	$ 16,870

Our impairment test exercise is sensitive to variances in the time charter rates and fleet effective utilization. Our current analysis, which also involved a sensitivity analysis by assigning possible alternative values to these two significant inputs, indicated a reduction of approximately 24% in the time charter rates or 19% of off hire days (other than for dry docking and special surveys) to result to an impairment of individual long lived assets. However, there can be no assurance as to how long charter rates and vessel values will remain at their current low levels or whether they will improve by any significant degree. Charter rates may remain at depressed levels for some time which could adversely affect our revenue and profitability, and future assessments of vessel impairment.

For the purpose of presenting our investors with additional information to determine how the Company's future results of operations may be impacted in the event that daily time charter rates do not improve from their current levels in future periods, we set forth below an analysis that shows the 1-year, 3-year and 5-year average blended rates and the effect of the use of each of these rates would have on the Company's impairment analysis.

	1-year (period)	Impairment charge (in USD million)	3-year (period)	Impairment charge (in USD million)	5-year (period)	Impairment charge (in USD million)
Panamax/Kamsarmax/Post-Panamax	$ 6,263	221	$ 8,594	221	$ 9,118	217
Capesize/Newcastlemax	$ 7,342	507	$ 13,056	485	$ 13,723	485

Results of Operations

Year ended December 31, 2016 compared to the year ended December 31, 2015

Time Charter Revenues. Time charter revenues decreased by $43.4 million, or 28%, to $114.3 million in 2016, compared to $157.7 million in 2015. The decrease was due to decreased time charter rates which resulted in a 37% decrease of our average charter rates from $9,739 in 2015 to $6,106 in 2016. This decrease was partly offset by increased revenues due to an 11% increase of our ownership days resulting from the delivery of the Santa Barbara in January 2015; the Medusa in June 2015; the New Orleans and the Seattle in November 2015; the Ismene and the Selina in March 2016 and the Maera in May 2016; and the decreased drydock days, for which our vessels did not earn revenue as they were not available for charter, compared to last year. In 2016 we had total operating days of 16,354 and fleet utilization of 99.4%, compared to 14,492 total operating days and a fleet utilization of 99.3% in 2015.

Voyage Expenses. Voyage expenses decreased by $1.7 million, or 11%, to $13.8 million in 2016 compared to $15.5 million in 2015. This decrease in voyage expenses is primarily attributable to the decrease in commissions due to the decrease in revenues.

Vessel Operating Expenses. Vessel operating expenses decreased by $2.3 million, or 3%, to $86.0 million in 2016 compared to $88.3 million in 2015. The decrease in operating expenses is primarily attributable to decreased operating expenses for insurances, stores and spares, repairs and environmental costs and was a result of our efforts to minimize costs due to the depressed market conditions without compromising the vessels' operations and safety. This decrease was partly offset by increased costs due to the 11% increase in ownership days resulting from the delivery of the new vessels to our fleet in 2016. The increase was also due to increased tonnage taxes and other operating expenses. Daily operating expenses were $5,196 in 2016 compared to $5,924 in 2015, representing a 12% decrease.

Depreciation and Amortization of Deferred Charges. Depreciation and amortization of deferred charges increased by $5.3 million, or 7%, to $81.6 million in 2016, compared to $76.3 million in 2015. This increase was due to the enlargement of our fleet. Additionally, the increase in depreciation and amortization was due to increased amortization of deferred drydocking costs compared to 2015.

General and Administrative Expenses. General and Administrative Expenses increased by $0.2 million, or 1%, to $25.5 million in 2016 compared to $25.3 million in 2015. The increase is mainly attributable to increased payroll taxes which increased payroll cost and was partly offset by decreased professional fees.

Management fees to related party. Management fees to a related party amounted to $1.5 million compared to $0.4 million in 2015 and represent management fees paid to DWM for the technical management of six vessels gradually transferred to DWM from DSS after August 2015 until November 2016 and seven thereafter.

Gain on contract termination. Gain on contract termination represented an amount received during the year by former charterers as partial reimbursement for early redelivery during 2013 of one of our vessels.

Interest and Finance Costs. Interest and finance costs increased by $6.3 million, or 40%, to $21.9 million in 2016 compared to $15.6 million in 2015. The increase is primarily attributable to higher average interest rates, especially after the issuance of our Notes in May 2015 at a fixed rate of 8.5% and on increased average long term debt outstanding during 2016 compared to 2015. Interest expense in 2016 amounted to $19.5 million compared to $13.9 million 2015.

Interest and Other Income. Interest and other income decreased by $0.8 million, or 25%, to $2.4 million in 2016 compared to $3.2 million in 2015. The decrease is attributable to decreased interest income which derived from our loan agreement with Diana Containerships, dated May 20, 2013, and as amended on July 28, 2014, September 9, 2015, December 3, 2015 and September 12, 2016, since after the September 9, 2015 amendment the interest rate was reduced from 5% over LIBOR to 3% over LIBOR and there were principal repayments of $5.0 million per annum, while, after the September 12, 2016 amendment, the interest rate increased to 3.35% as the annual repayments were deferred.

Gain/(Loss) from Equity Method Investments. Loss from our investment in Diana Containerships amounted to $56.5 million in 2016 and was due to loss incurred by Diana Containerships, our dilution from the decrease in our share ownership from 26.08% as at December 31, 2015 to 25.73% as at December 31, 2016 and an impairment charge of $17.6 million recognized on September 30, 2016 calculated on the fair value of the investment on that date. This compared to a loss of $5.0 million in 2015. Additionally, loss from equity method investments was partly offset by a $0.1 million gain from DWM, our 50% owned joint venture established in 2015.

Year ended December 31, 2015 compared to the year ended December 31, 2014

Time Charter Revenues. Time charter revenues decreased by $17.9 million, or 10%, to $157.7 million in 2015, compared to $175.6 million in 2014. The decrease was due to decreased time charter rates which resulted in a 19% decrease of our average charter rates from $12,081 in 2014 to $9,739 in 2015 and was also due to increased drydock days during the year for which our vessels did not earn revenue as they were not available for charter. This decrease was partly offset by increased revenues due to an 8% increase of our ownership days resulting from the delivery of the Crystalia, in February 2014; the Atalandi, in May 2014; the G. P. Zafirakis in August 2014; the Santa Barbara in January 2015; the Medusa in June 2015; and the New Orleans and the Seattle in November 2015. In 2015 we had total operating days of 14,492 and fleet utilization of 99.3%, compared to 13,564 total operating days and a fleet utilization of 99.4% in 2014.

Voyage Expenses. Voyage expenses increased by $4.8 million, or 45%, to $15.5 million in 2015 compared to $10.7 million in 2014. This increase in voyage expenses is primarily attributable to the increase in loss from bunkers which amounted to $7.5 million in 2015, compared to a loss of $2.0 million in 2014. This was the result of the different prices of the bunkers purchased at redelivery and sold to the new charterers for those vessels that entered into new charters during the year. This increase was partly offset by decreased commissions due to the decrease in revenues.

Vessel Operating Expenses. Vessel operating expenses increased by $1.4 million, or 2%, to $88.3 million in 2015 compared to $86.9 million in 2014. The increase in operating expenses is primarily attributable to the 8% increase in ownership days resulting from the delivery of the new vessels to our fleet in 2015. The increase was also due to increased repairs and maintenance, other operating expenses and environmental expenses and was partly offset by decreases in crew costs, insurances, stores and spares and taxes. Daily operating expenses were $5,924 in 2015 compared to $6,289 in 2014, representing a 6% decrease.

Depreciation and Amortization of Deferred Charges. Depreciation and amortization of deferred charges increased by $5.8 million, or 8%, to $76.3 million in 2015, compared to $70.5 million 2014. This increase was due to the enlargement of our fleet. Additionally, the increase in depreciation and amortization was due to increased amortization of deferred drydocking costs, mainly due to additional vessels which went under drydock surveys compared to 2014.

General and Administrative Expenses. General and Administrative Expenses decreased by $0.9 million, or 3%, to $25.3 million in 2015 compared to $26.2 million in 2014. The decrease is mainly attributable to decreased salaries and the exchange rate between the U.S. dollar and the Euro and was partly offset by increased board of directors fees, legal and other professional fees.

Management fees to related party. Management fees to a related party amounted to $0.4 million and represent management fees paid to DWM for the technical management of six vessels of our fleet gradually transferred to DWM from DSS during the year.

Interest and Finance Costs. Interest and finance costs increased by $7.2 million, or 86%, to $15.6 million in 2015 compared to $8.4 million in 2014. The increase is primarily attributable to higher average interest rates, especially after the issuance of our Notes in May 2015 at a fixed rate of 8.5% and on increased average long term debt outstanding during 2015 compared to 2014. Interest expense in 2015 amounted to $13.9 million compared to $7.8 million 2014.

Interest and Other Income. Interest and other income decreased by $0.4 million, or 11%, to $3.2 million in 2015 compared to $3.6 million in 2014. The decrease is attributable to decreased interest income which derived from our loan agreement with Diana Containerships, dated May 20, 2013, and as amended on July 28, 2014, September 9, 2015 and December 3, 2015, as since September 9, 2015, the outstanding balance of the loan is being reduced by an amount of $5.0 million per annum, the margin was reduced to 3% from 5% and the accrued, up to the date of the amendment, back end fee was paid in full and seized from being accrued.

Gain / (loss) from Equity Method Investments. Loss from our investment in Diana Containerships amounted to $5.0 million in 2015 and was due to loss incurred by Diana Containerships and our dilution from the decrease in our share ownership from 26.34% as at December 31, 2014 to 26.08% as at December 31, 2015. This compared to a gain of $12.7 million in 2014. Additionally, loss from equity method investments included $0.2 million loss from DWM, our 50% owned joint venture established in 2015 that as of December 31, 2015 provided management services to six vessels of our fleet.

Inflation

Inflation does not have a material effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, administrative and financing costs.

B. Liquidity and Capital Resources

We have historically financed our capital requirements with cash flow from operations, equity contributions from shareholders, long-term bank debt and since May 2015 with our Notes. Our main uses of funds have been capital expenditures for the acquisition and construction of new vessels, expenditures incurred in connection with ensuring that our vessels comply with international and regulatory standards and repayments of bank loans. We will require capital to fund ongoing operations, vessel improvements to meet requirements under new regulations, debt service and the payment of our preferred dividends. As at December 31, 2016 and 2015, working capital, which is current assets minus current liabilities, including the current portion of long-term debt, amounted to $37.1 million and $134.6 million, respectively. The significant decrease in working capital was due to the significant decline in the charter rates that we achieved for our vessels during 2016, resulting in operating losses. For 2017, we believe that anticipated improved charter rates compared to 2016 will result in internally generated cash flows along with cash on hand which will be sufficient to fund our capital requirements. However, we may also incur additional debt or issue additional equity, if deemed necessary to fund our capital requirements in the next twelve months.

Cash Flow

Cash and cash equivalents, including compensating cash balance, was $121.1 million as at December 31, 2016 and $193.2 million as at December 31, 2015. Compensating cash balance is the amount kept against the Company's loan facilities which in 2016 was reclassified to non-current assets as it was considered material and as such the respective cash and cash equivalents balance of the comparative years was similarly adjusted to reflect this change. As at December 31, 2016 and 2015, compensating cash balance amounted to $23.0 million and $21.5 million, respectively. We consider highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in U.S. dollars.

Net Cash Provided By/(Used In) Operating Activities

Net cash used in operating activities was $21.0 million in 2016 compared to net cash provided by operating activities of $23.9 million in 2015. This decrease in cash from operating activities was mainly attributable to the decrease in charter rates during the year.

Net cash provided by operating activities decreased by $21.0 million, or 47%, to $23.9 million in 2015 compared to $44.9 million in 2014. The decrease was mainly attributable to the decrease in charter rates during the year, the increase in drydock and off-hire days during which our vessels could not earn revenue and the increase in expenses due to the enlargement of the fleet.

Net Cash Used In Investing Activities

Net cash used in investing activities was $41.6 million for 2016, which consists of $50.9 million paid for predelivery installments for our vessels under construction and the acquisition of three vessels during the year; $9.4 million of proceeds received due to the cancellation of a shipbuilding contract consisting of predelivery installments paid until then and interest; $0.1 million of dividends received from Diana Containerships during the year; and $0.2 million relating to the acquisition of property and equipment.

Net cash used in investing activities was $155.6 million for 2015, which consists of $155.4 million paid for predelivery installments for our three vessels under construction, the balance price for the acquisition of the Santa Barbara, delivered in January 2015 and the acquisition of three vessels during the year; $0.2 million of dividends received from Diana Containerships during the year; a $0.3 million investment in DWM; and $0.2 million relating to the acquisition of property and equipment.

Net cash used in investing activities was $152.5 million for 2014, which consists of $111.7 million paid for predelivery installments for our three vessels under construction and the Crystalia and Atalandi, which were delivered in 2014, the acquisition of the G. P. Zafirakis during the year, and the advance for the acquisition of the Santa Barbara, delivered in January 2015; $40.0 million for the acquisition of additional interest in Diana Containerships in a private offering; $0.8 million of dividends received from Diana Containerships during the year; and $1.6 million relating to the acquisition of property and equipment.

Net Cash Provided By / (Used In) Financing Activities

Net cash used in financing activities was $11.0 million for 2016, which consists of $39.3 million of proceeds drawn under new loan facilities; $42.5 million of indebtedness that we repaid; $0.5 million of financing costs we paid relating to our new loan agreements; $5.8 million of dividends paid on our Series B Preferred Shares; and $1.5 million of additional compensating cash balance.

Net cash provided by financing activities was $104.0 million for 2015, which consists of $441.2 million of proceeds drawn under new loan facilities and our Notes; $321.2 million of indebtedness that we repaid; $5.5 million of financing costs we paid relating to our new loan agreements and our Notes; $5.8 million of dividends paid on our Series B Preferred Shares; $2.7 million of payments to repurchase common stock; and $2.0 million of additional compensating cash balance.

Net cash provided by financing activities was $84.4 million for 2014, which consists of $101.5 million of proceeds drawn under new loan facilities; $48.6 million of indebtedness that we repaid; $0.5 million of financing costs we paid relating to our new loan agreements; $62.7 million of proceeds from issuance of preferred stock, net of expenses; $3.9 million of dividends paid on our Series B Preferred Shares; $25.3 million of payments to repurchase common stock; and $1.5 million of additional compensating cash balance.

Loan Facilities and Senior Unsecured Notes

As at December 31, 2016, we had $602.7 million of long term debt outstanding under our facilities and Notes, which as of the date of this annual report increased to $654.8 million, and consists of the agreements described below.

Revolving credit facility

In February 2005, we entered into a $230.0 million secured revolving credit facility with the Royal Bank of Scotland, which was amended on May 24, 2006, to increase the facility amount to $300.0 million. The $300.0 million revolving credit facility was available in full until May 24, 2012. Since that date the available amount was reduced in semi-annual amounts of $15.0 million with a final reduction of $165.0 million together with the last semi-annual reduction on May 24, 2016. The credit facility bore interest ranging from 0.75% to 0.85% per annum over LIBOR. On July 24, 2015, the outstanding balance of the revolving credit facility amounting to $195.0 million was voluntarily prepaid in full and the related agreement was then terminated.

Secured Term Loans:

On October 8, 2009, our wholly-owned subsidiary Bikini Shipping Company Inc. ("Bikini") entered into a $40.0 million loan agreement with Deutsche Bank to partly finance the acquisition cost of the New York. The loan was repaid in full on March 10, 2015.

On October 22, 2009, our wholly-owned subsidiary Gala Properties Inc. entered into a $40.0 million loan agreement with Bremer Landesbank ("Bremer") to partly finance the acquisition cost of the Houston. The loan is repayable in 40 quarterly installments of $0.9 million plus one balloon installment of $4.0 million to be paid together with the last installment on November 19, 2019. The loan bears interest at LIBOR plus a margin of 2.15% per annum.

On October 2, 2010, our wholly-owned subsidiaries Lae Shipping Company Inc. ("Lae") and Namu Shipping Company Inc., ("Namu") entered into a loan agreement with Export-Import Bank of China ("CEXIM Bank") and DnB NOR Bank ASA ("DnB") to finance part of the construction cost of the Los Angeles, and the Philadelphia, for an amount of up to $82.6 million, of which $72.1 million was drawn, being 70% of the vessels' market value on delivery. The Lae advance is repayable in 40 quarterly installments of approximately $0.6 million and a balloon of $12.3 million payable together with the last installment on February 15, 2022. The Namu advance is repayable in 40 quarterly installments of approximately $0.6 million and a balloon of $11.4 million payable together with the last installment on May 18, 2022. Each of CEXIM Bank and DnB has the right to demand prepayment of the outstanding balance of any advance in the first half of 2018, subject to a written notification to be made latest by May 2017. The loan bears interest at LIBOR plus a margin of 2.50% per annum.

On September 13, 2011, our wholly-owned subsidiary Bikar Shipping Company Inc. ("Bikar") entered into a loan agreement with Emporiki Bank of Greece S.A. ("Emporiki") for a loan of up to $15.0 million to refinance part of the acquisition cost of the Arethusa. On December 13, 2012, Bikar, the Company, DSS and Credit Agricole Corporate and Investment Bank ("Credit Agricole") entered into a supplemental loan agreement to transfer the outstanding loan balance, the ISDA master swap agreement and the existing security documents from Emporiki to Credit Agricole. The loan is repayable in 20 equal semiannual installments of $0.5 million each and a balloon payment of $5.0 million to be paid together with the last installment on September 15, 2021. The loan bears interest at LIBOR plus a margin of 2.5% per annum, or 1% for such loan amount that is equivalently secured by cash pledge in favor of the bank.

On February 7, 2012, our wholly-owned subsidiary Jemo Shipping Company Inc. ("Jemo") entered into an agreement with Nordea Bank Finland Plc, which in December 2014 was replaced by Nordea Bank AB, London Branch, or Nordea, for a loan facility of $16.1 million drawn down in February 2012, to partly finance the acquisition cost of the Leto. On June 21, 2012, the agreement between Jemo and Nordea Bank Finland Plc, was restated and amended by a supplemental agreement in order to include Mandaringina Inc. as a new borrower and increase the loan amount to up to $26.5 million for the purpose of financing part of the acquisition cost of the Melia. On March 19, 2015, we prepaid in full all outstanding indebtedness under the loan facility, which was refinanced with a new agreement mentioned below.

On December 20, 2012, our wholly-owned subsidiaries Palau Shipping Company Inc. ("Palau") and Guam Shipping Company Inc. ("Guam") entered into a loan agreement with Nordea Bank Finland Plc, replaced in December 2014 by Nordea, for an amount of $20.0 million, drawn down on December 21, 2012, to finance part of the acquisition cost of the Amphitrite and the Polymnia. On March 19, 2015, we prepaid in full all outstanding indebtedness under the loan facility, which was refinanced with a new agreement mentioned below.

On May 24, 2013, our wholly-owned subsidiaries Erikub Shipping Company Inc. ("Erikub") and Wotho Shipping Company Inc. ("Wotho") entered into a loan agreement with CEXIM Bank and DnB to finance part of the construction cost of Crystalia and Atalandi for an amount of up to $15.0 million for each vessel, drawn on May 22, 2014. Each advance is repayable in 19 quarterly installments of $250,000 and a balloon of $10.3 million payable together with the last installment on February 22, 2019. The loan bears interest at LIBOR plus a margin of 3.0% per annum.

On June 18, 2013, our wholly-owned subsidiaries Tuvalu Shipping Company Inc. ("Tuvalu"), and Jabat Shipping Company Inc. ("Jabat") entered into a loan agreement with Deutsche Bank for a loan facility of up to $18.0 million to finance part of the acquisition cost of the Maia and the Myrto which were cross-collateralized with the New York. The loan was prepaid in full on March 20, 2015.

On January 9, 2014, our wholly-owned subsidiaries Taka Shipping Company Inc. ("Taka") and Fayo Shipping Company Inc. ("Fayo") entered into a loan agreement with Commonwealth Bank of Australia, London Branch ("CBA"), for a loan facility of up to $18.0 million to finance part of the acquisition cost of the Melite and Artemis. The loan bears interest at LIBOR plus a margin of 2.25%. The loan was drawn in two tranches, one of $8.5 million assigned to Melite and one of $9.5 million assigned to Artemis. Tranche A is repayable in 24 equal consecutive quarterly installments of $195,833 each; and a balloon of $3.8 million payable January 13, 2020. Tranche B is repayable in 32 equal consecutive quarterly installments of $156,250 each and a balloon of $4.5 million payable on January 13, 2022.

On December 18, 2014, our wholly-owned subsidiaries Weno Shipping Company Inc. ("Weno") and Pulap Shipping Company Inc. ("Pulap") entered into a loan agreement with BNP Paribas ("BNP"), for a loan facility of up to $55.0 million to finance part of the acquisition cost of the G. P. Zafirakis and the P. S. Palios, of which $53.5 million was drawn. The loan bears interest at LIBOR plus a margin of 2%, and is repayable in 14 equal semi-annual installments of approximately $1.6 million and a balloon of $31.5 million, payable on November 30, 2021.

On March 17, 2015, eight of our wholly-owned subsidiaries entered into a loan facility with Nordea to refinance the existing agreements with the bank, described above, and to add additional vessels. On March 19, 2015, after repaying in full all outstanding indebtedness under the previous loan facilities with the bank, mentioned above, we drew down the amount of $93.1 million. The loan is repayable in 24 equal consecutive quarterly installments of approximately $1.9 million and a balloon of $48.4 million payable together with the last installment on March 19, 2021. The loan bears interest plus a margin of 2.1% of LIBOR.

On March 26, 2015, three of our wholly-owned subsidiaries entered into a loan agreement with ABN AMRO Bank N.V. for a secured term loan facility of up to $53.0 million, to refinance part of the acquisition cost of the vessels New York, Myrto and Maia of which $50.2 million was drawn on March 30, 2015. The loan is repayable in 24 equal consecutive quarterly installments of about $1.0 million and a balloon of $26.3 million payable together with the last installment on March 30, 2021. The loan bears interest at LIBOR plus a margin of 2.0%.

On April 29, 2015, our wholly-owned subsidiary Lelu Shipping Company Inc. ("Lelu") entered into a term loan agreement with Danish Ship Finance for a loan facility of $30.0 million, drawn on April 30, 2015 to partly finance the acquisition cost of the Santa Barbara, which was delivered in January 2015. The loan is repayable in 28 equal consecutive quarterly installments of $0.5 million each and a balloon of $16.0 million payable together with the last installment on April 30, 2022. The loan bears interest at LIBOR plus a margin of 2.15%.

On July 22, 2015, we entered into a term loan agreement with BNP Paribas for a loan of $165.0 million drawn on July 24, 2015. The loan is repayable in 20 consecutive quarterly installments, the first eight installments in an amount of $2.5 million, followed by four installments in an amount of $5.0 million; eight installments in an amount of $7.0 million; and a balloon installment of $69.0 million payable together with the last installment on July 24, 2020. The loan bears interest at LIBOR plus a margin of 2.35% per annum for the first two years; 2.3% per annum for the third year and 2.25% per annum until the final maturity of the loan.

On September 30, 2015, our wholly-owned subsidiaries, Ujae Shipping Company Inc. ("Ujae") and Rairok Shipping Company Inc. ("Rairok") entered into a term loan agreement with ING Bank N.V. for a loan of up to $39.7 million, available in two advances to finance part of the acquisition cost of the New Orleans and the Medusa. Advance A of about $28.0 million was drawn on November 19, 2015 and is repayable in 28 consecutive quarterly installments of about $0.5 million and a balloon installment of about $15.0 million payable together with the last installment on November 19, 2022. Advance B of about $11.7 million was drawn on October 6, 2015 and is repayable in 28 consecutive quarterly installments of about $0.3 million and a balloon installment of about $3.5 million payable together with the last installment on October 6, 2022. The loan bears interest at LIBOR plus a margin of 1.65%.

On January 7, 2016, three of our wholly-owned subsidiaries entered into a secured loan agreement with the CEXIM Bank for a loan of up to $75.7 million in order to finance part of the construction cost of the vessels. On January 4, 2017, we drew down $57.24 million to finance part of the construction cost of Hull H2548, named San Francisco, and Hull H2549, named Newport News, both delivered on January 4, 2017. The balance of the committed loan amount, including the tranche for Hull DY6006 whose shipbuilding contract was cancelled on October 31, 2016, was cancelled. On February 6, 2017, we also entered into a Deed of Release with the CEXIM Bank in order to release the owner of Hull DY6006 of all of its obligations under the loan agreement as borrower. The loan is payable in 60 equal quarterly installments of $954,000 each, the last of which is payable by March 12, 2032, and bears interest at LIBOR plus a margin of 2.3%.

On March 29, 2016, two of our wholly-owned subsidiaries entered into a term loan agreement with ABN AMRO Bank N.V. for a loan of $25.755 million, drawn on March 30, 2016, to finance the acquisition cost of the Selina and the Ismene. The loan is payable in eight consecutive quarterly installments of $855,000 each and a balloon installment of $18.9 million payable together with the last installment by June 30, 2019. The first repayment installment shall be repaid on September 30, 2017. The loan bears interest at LIBOR plus a margin of 3%.

On May 10, 2016, one of our wholly-owned subsidiaries entered into a term loan agreement with DNB Bank ASA and the CEXIM Bank for a loan of $13.51 million, drawn on the same date, being the purchase price of the Maera. The loan is payable in seven equal consecutive quarterly installments of $19,775 each, four equal consecutive quarterly installments of $282,500 each and a balloon of about $12.2 million payable together with the last installment on January 4, 2019. The loan bears interest at LIBOR plus a margin of 3% per annum.

Under the secured term loans outstanding as of December 31, 2016, 45 vessels of the Company's fleet were mortgaged with first preferred or priority ship mortgages. Additional securities required by the banks include first priority assignment of all earnings, insurances, first assignment of time charter contracts with duration that exceeds a certain period, pledge over the shares of the borrowers, manager's undertaking and subordination and requisition compensation and either a corporate guarantee by Diana Shipping Inc. (the "Guarantor") or a guarantee by the ship owning companies (where applicable), financial covenants, as well as operating account assignments. The lenders may also require additional security in the future in the event the borrowers breach certain covenants under the loan agreements. The secured term loans generally include restrictions as to changes in management and ownership of the vessels, additional indebtedness, as well as minimum requirements regarding hull cover ratio and minimum liquidity per vessel owned by the borrowers, or the guarantor, maintained in the bank accounts of the borrowers, or the guarantor. Furthermore, the secured term loans contain cross default provisions and additionally the Company is not permitted to pay any dividends from the earnings of the vessel following the occurrence of an event of default.

On August 26, 2016, we announced that we had engaged a financial advisor and had entered into negotiations with certain of our lenders to amend our outstanding loan facilities. In connection with these negotiations, we reached an agreement in principle with certain lenders, including our largest lender, for terms that included, among other provisions, the deferral of amortization payments and amending financial covenants. This agreement in principle was subject to us reaching similar deferral and covenant terms with our other lenders. On November 17, 2016, we announced that we had concluded, without agreement, these discussions with our lenders and had terminated our financial advisor engagement. We do not currently anticipate resuming such discussions with our lenders.

On November 30, 2016, we received a letter from BNP Paribas advising us that we were not in compliance with the loan to value covenant contained in the $165.0 million loan agreement, creating a shortfall of $39.6 million. Similarly, as at December 31, 2016, we were not in compliance with the same minimum security cover requirement. We estimated the shortfall to be $25.7 million and as such an amount of $19.7 million, representing the amount which would have to be paid to the bank, was reclassified as current in the consolidated balance sheet as at December 31, 2016. In addition, we received a waiver from the Commonwealth Bank, valid until December 31, 2016, for the non-compliance with the minimum required security cover, which was amended to a lower level than the one stated in the loan agreement. On January 13, 2017, the bank extended its consent for the use of the lower minimum required security cover until June 30, 2017.

Currently, all of our vessels, except for one, have been provided as collateral to secure our loan facilities.

Senior Notes due 2020

On May 28, 2015, we issued $55.0 million aggregate principal amount of our 8.5% senior unsecured notes due 2020, or our Notes, in a registered public offering and on June 5, 2015, we issued an additional $8.25 million aggregate principal amount of the Notes, pursuant to the underwriters' option to purchase additional Notes. The Notes will mature on May 15, 2020, and may be redeemed in whole or in part at any time on or after May 15, 2017 at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Prior to May 15, 2017, we may redeem the Notes, in whole or in part, at a price equal to 100% of the principal amount plus a make-whole premium and accrued interest to, but excluding, the date of redemption. The Notes bear interest at a rate of 8.500% per annum, payable quarterly on each February 15, May 15, August 15 and November 15, commencing on August 15, 2015. The Notes commenced trading on the NYSE on May 29, 2015 under the symbol "DSXN."

For additional information about our Notes, please see the section entitled "Description of Notes" in the final prospectus supplement related to the offering, filed with the SEC on May 22, 2015 and incorporated by reference herein.

As of December 31, 2016, 2015 and 2014 and as of the date of this annual report, we did not and have not designated any financial instruments as accounting hedging instruments.

Capital Expenditures

We make capital expenditures from time to time in connection with vessel acquisitions and constructions, which we finance with cash from operations, debt under loan facilities at terms acceptable to us, with funds from equity issuances and we have also issued senior notes. Currently, we do not have capital expenditures for vessel acquisitions or constructions, but we incur capital expenditures when our vessels undergo surveys. This process of recertification may require us to reposition these vessels from a discharging port to shipyard facilities, which will reduce our operating days during the period. The loss of earnings associated with the decrease in operating days together with the capital needs for repairs and upgrades result in increased cash flow needs. We expect to cover such capital expenditures and cash flow needs with cash from operations and cash on hand.

C. Research and development, patents and licenses

We incur from time to time expenditures relating to inspections for acquiring new vessels that meet our standards. Such expenditures are insignificant and they are expensed as they incur.

D. Trend information

Our results of operations depend primarily on the charter hire rates that we are able to realize, and the demand for dry bulk vessel services. The Baltic Dry Index, or the BDI, has long been viewed as the main benchmark to monitor the movements of the dry bulk vessel charter market and the performance of the entire dry bulk shipping market. The BDI declined 94% in 2008 from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and has remained volatile since then. In 2014, the BDI ranged from a high of 2,113 in January to a low of 723 in July. In 2015, the BDI ranged from a high of 1,222 in August to a low of 471 in December. In 2016, the BDI ranged from a record low of 290 in February to a high of 1,257 in November. On February 15, 2017, the BDI was 688.

The decline and volatility in charter rates in the dry bulk market reflects in part the fact that the supply of dry bulk vessels in the market has been increasing, and the number of newbuilding dry bulk vessels on order is high. Demand for dry bulk vessel services is influenced by global financial conditions. The recovery in China and India positively influenced the charter rates; however, global financial conditions remain volatile and demand for dry bulk services may decrease in the future. The combination of increasing dry bulk capacity (both current and expected) and decreasing demand or demand which is not offset by the increase in dry bulk capacity may result in reductions in charter hire rates and, as a consequence, adversely affect our operating results.

Additionally, we believe we have structured our capital expenditure requirements, debt commitments and liquidity resources in a way that will provide us with financial flexibility (see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources" for more information).

E. Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, in thousands of U.S. dollars, and their maturity dates as of December 31, 2016:

Contractual Obligations	Total Amount	Less than 1 year	2-3 years	4-5 years	More than 5 years
	Payments due by period (in thousands of US dollars)				
Loan Agreements and Notes (1)	$602,717	$66,470	$175,336	$292,259	$68,652
Estimated Interest Payments on Loan Agreements and Notes (1)	67,409	20,726	34,529	11,575	579
Construction contracts (2)	52,440	52,440	-	-	-
Broker services agreement (3)	450	450	-	-	-
Preferred dividends (4)	13,461	5,769	7,692	-	-
Total	$736,477	$145,855	$217,557	$303,834	$69,231

(1) As of December 31, 2016, we had an aggregate principal amount of $602.7 million of indebtedness outstanding under our loan facilities and our Notes. On November 30, 2016, we received a letter from BNP Paribas advising us that we were not in compliance with the loan to value covenant contained in the $165.0 million loan agreement, creating a shortfall of $39.6 million. Similarly, as at December 31, 2016, we were not in compliance with the same minimum security cover requirement. We estimated the shortfall to be $25.7 million and as such an amount of $19.7 million, representing the amount which would have to be paid to the bank, was reclassified to current portion of long term debt. Estimated interest payments represent projected interest payments on our long term debt, which are based on the weighted average LIBOR rate in 2016 plus the margin of our loan agreements in 2016 and the fixed interest rate of our Notes.

(2) On January 4, 2017, we took delivery of Hull H2548, named San Francisco, and Hull H2549, named Newport News, and we paid the balance of the contract price. On the same date, we also drew down a loan of $57.24 million under our loan agreement with CEXIM Bank, to finance part of the construction cost of the vessels.

(3) Our agreement with Diana Enterprises dated April 1, 2016, expires on March 31, 2017.

(4) On February 24, 2014 we completed an offering of 2,600,000 shares of Series B Perpetual Preferred Stock, at the price of $25.0 per share, and dividends are payable at a rate equal to 8.875% per annum. At any time on or after February 14, 2019, the Series B Preferred Shares may be redeemed, in whole or in part, at a redemption price of $25.00 per share, plus an amount equal to all accumulated and unpaid dividends thereon to the date of redemption, whether or not declared. The table above presents our obligations for dividend payments until February 14, 2019. The table above does not include the payment for the redemption, which is at our option.

G. Safe Harbor

See the section entitled "Forward-Looking Statements" at the beginning of this annual report.

Item 6. Directors, Senior Management and Employees
A. Directors and Senior Management

Set forth below are the names, ages and positions of our directors and executive officers. Effective March 4, 2015, our Board of Directors increased its size from seven to nine members and Mr. Kyriacos Riris and Mrs. Semiramis Paliou were appointed to fill the resulting vacancies. Our board of directors is elected annually on a staggered basis, and each director elected holds office for a three-year term. Officers are appointed from time to time by our board of directors and hold office until a successor is appointed or their employment is terminated.

Name	Age	Position
Simeon Palios	75	Class I Director, Chief Executive Officer and Chairman
Anastasios Margaronis	61	Class I Director and President
Ioannis Zafirakis	45	Class I Director, Chief Operating Officer and Secretary
Andreas Michalopoulos	45	Chief Financial Officer and Treasurer
Maria Dede	44	Chief Accounting Officer
William (Bill) Lawes	73	Class II Director
Konstantinos Psaltis	78	Class II Director
Kyriacos Riris	67	Class II Director
Boris Nachamkin	83	Class III Director
Apostolos Kontoyannis	68	Class III Director
Semiramis Paliou	42	Class III Director

The term of our Class III directors expires in 2017, the term of our Class I directors expires in 2018, and the term of our Class II directors expires in 2019.

The business address of each officer and director is the address of our principal executive offices, which are located at Pendelis 16, 175 64 Palaio Faliro, Athens, Greece.

Biographical information with respect to each of our directors and executive officers is set forth below.

Simeon P. Palios has served as the Chief Executive Officer and Chairman of Diana Shipping Inc. since February 21, 2005 and as a Director since March 9, 1999 and has served as the Chief Executive Officer and Chairman of Diana Containerships Inc. since January 13, 2010. Mr. Palios also serves currently as the President of Diana Shipping Services S.A., our management company. Prior to November 12, 2004, Mr. Palios was the Managing Director of Diana Shipping Agencies S.A. Since 1972, when he formed Diana Shipping Agencies S.A., Mr. Palios has had overall responsibility for its activities. Mr. Palios has experience in the shipping industry since 1969 and expertise in technical and operational issues. He has served as an ensign in the Greek Navy for the inspection of passenger boats on behalf of Ministry of Merchant Marine and is qualified as a naval architect and marine engineer. Mr. Palios is a member of various leading classification societies worldwide and he is a member of the board of directors of the United Kingdom Freight Demurrage and Defense Association Limited. He holds a bachelor's degree in Marine Engineering from Durham University.

Anastasios C. Margaronis has served as our President and as a Director since February 21, 2005 and has served as the Director and President of Diana Containerships Inc. since January 13, 2010. Mr. Margaronis also serves as a Deputy-President of Diana Shipping Services S.A. Prior to February 21, 2005, Mr. Margaronis was employed by Diana Shipping Agencies S.A. and performed on our behalf the services he now performs as President. He joined Diana Shipping Agencies S.A. in 1979 and has been responsible for overseeing our insurance matters, including hull and machinery, protection and indemnity and war risks cover. Mr. Margaronis has experience in the shipping industry, including in ship finance and insurance, since 1980. He is a member of the Greek National Committee of the American Bureau of Shipping and a member of the board of directors of the United Kingdom Mutual Steam Ship

Assurance Association (Bermuda) Limited. He holds a bachelor's degree in Economics from the University of Warwick and a master's of science degree in Maritime Law from the Wales Institute of Science and Technology.

Ioannis G. Zafirakis serves as our Director, Chief Operating Officer and Secretary. He also serves as Director, Chief Operating Officer and Secretary of Diana Containerships Inc. In addition, he is the Chief Operating Officer of Diana Shipping Services S.A., where he also serves as Director and Treasurer. From June 1997 to February 2005, Mr. Zafirakis was employed by Diana Shipping Agencies S.A. where he held a number of positions in its finance and accounting department. Mr. Zafirakis is also a member of the Business Advisory Committee of the MSc in International Shipping and Finance at ICMA Centre, Henley Business School, University of Reading. He holds a bachelor's degree in Business Studies from City University Business School in London and a master's degree in International Transport from the University of Wales in Cardiff.

Andreas Michalopoulos has served as our Chief Financial Officer and Treasurer since March 8, 2006 and has served in these positions with Diana Containerships Inc. since January 13, 2010. Mr. Michalopoulos started his career in 1993 when he joined Merrill Lynch Private Banking in Paris. In 1995, he became an International Corporate Auditor with Nestle SA based in Vevey, Switzerland and moved in 1998 to the position of Trade Marketing and Merchandising Manager. From 2000 to 2002, he worked for McKinsey and Company in Paris, France as an Associate Generalist Consultant before joining a major Greek Pharmaceutical Group with U.S. R&D activity as a Vice President of International Business Development and Member of the Executive Committee in 2002 where he remained until 2005. From 2005 to 2006, he joined Diana Shipping Agencies S.A. as a Project Manager. Mr. Michalopoulos graduated from Paris IX Dauphine University with Honors in 1993 obtaining an MSc in Economics and a master's degree in Management Sciences specialized in Finance. In 1995, he also obtained a master's degree in Business Administration from Imperial College, University of London. Mr. Andreas Michalopoulos is married to the youngest daughter of Mr. Simeon Palios.

Maria Dede has served as our Chief Accounting Officer since September 1, 2005 during which time she has been responsible for all financial reporting requirements. Mrs. Dede has also served as an employee of Diana Shipping Services S.A. since March 2005. In 2000 Mrs. Dede joined the Athens branch of Arthur Andersen, which merged with Ernst and Young (Hellas) in 2002, where she served as an external auditor of shipping companies until 2005. From 1996 to 2000 Mrs. Dede was employed by Venus Enterprises S.A., a ship-management company, where she held a number of positions primarily in accounting and supplies. Mrs. Dede holds a Bachelor's degree in Maritime Studies from the University of Piraeus and a Master's degree in Business Administration from the ALBA Graduate Business School.

William (Bill) Lawes has served as a Director and the Chairman of our Audit Committee since March 2005. Mr. Lawes served as a Managing Director and a member of the Regional Senior Management Board of JPMorgan Chase and its predecessor banks from 1987 until 2002. Prior to joining JPMorgan Chase, he was Global Head of Shipping Finance at Grindlays Bank. Since December 2007, he has served as an independent member of the Board of Directors and Chairman of the Audit Committee of Teekay Tankers Ltd. In January 2014, Mr. Lawes also joined the board as Chairman of the Audit Committee of Tanker Investments Ltd. Mr. Lawes is qualified as a member of the Institute of Chartered Accountants of Scotland.

Konstantinos Psaltis has served as a Director since March 2005. From 1981 to 2006, Mr. Psaltis served as Managing Director of Ormos Compania Naviera S.A., a company that specializes in operating and managing multipurpose container vessels and from 2006 until today as a President of the same company. Prior to joining Ormos Compania Naviera S.A., Mr. Psaltis simultaneously served as a technical manager in the textile manufacturing industry and as a shareholder of shipping companies managed by M.J. Lemos. From 1961 to 1964, he served as ensign in the Royal Hellenic Navy. Mr. Psaltis is a member of the Germanischer Lloyds Hellas Committee. He holds a degree in Mechanical Engineering from Technische Hochschule Reutlingen & Wuppertal and a bachelor's degree in Business Administration from Tubingen University in Germany.

Kyriacos Riris has served as a Director since March 2015. Commencing in 1998, Mr. Riris served in a series of positions in PricewaterhouseCoopers (PwC), Greece, including Senior Partner, Managing Partner of the Audit and the Advisory/Consulting Lines of Service. From 2009 to 2014, Mr. Riris served as Chairman of the Board of Directors of PricewaterhouseCoopers (PwC), Greece. Prior to its merger with PwC, Mr. Riris was employed at Grant Thornton, Greece, where in 1984 he became a Partner. From 1976 to 1982, Mr. Riris was employed at Arthur Young, Greece. Mr. Riris holds a degree from Birmingham Polytechnic (presently Birmingham City University) and completed his professional qualifications with the Association of Certified Chartered Accountants (ACCA) in the UK in 1975, becoming a Fellow of the Association of Certified Accountants in 1985.

Boris Nachamkin has served as a Director and as a member of our Compensation Committee since March 2005. Mr. Nachamkin was with Bankers Trust Company, New York, for 37 years, from 1956 to 1993 and was posted to London in 1968. Upon retirement in 1993, he acted as Managing Director and Global Head of Shipping at Bankers Trust. Mr. Nachamkin was also the UK Representative of Deutsche Bank Shipping from 1996 to 1998 and Senior Executive and Head of Shipping for Credit Agricole Indosuez, based in Paris, between 1998 and 2000. Previously, he was a Director of Mercur Tankers, a company which was listed on the Oslo Stock Exchange, and Ugland International, a shipping company. He also serves as Managing Director of Seatrust Shipping Services Ltd., a private consulting firm.

Apostolos Kontoyannis has served as a Director and as the Chairman of our Compensation Committee and a member of our Audit Committee since March 2005. Mr. Kontoyannis has over 40 years of experience in shipping finance and currently serves as financial consultant to various shipping companies. He was employed by Chase Manhattan Bank N.A. in Frankfurt (Corporate Bank), London (Head of Shipping Finance South Western European Region) and Piraeus (Manager, Ship Finance Group) from 1975 to 1987. Mr. Kontoyannis holds a bachelor's degree in Finance and Marketing and a master's degree in business administration in Finance from Boston University.

Semiramis Paliou has served as a Director since March 2015. Mrs. Paliou has almost 20 years of experience in shipping operations, technical management and crewing. Mrs. Paliou began her career at Lloyd's Register of Shipping from 1996 to 1998 as a trainee ship surveyor. She was then employed by Diana Shipping Agencies S.A. From 2007 to 2010 she was employed as a Director and President of Alpha Sigma Shipping Corp. From February 2010 to November 2015 she was the Head of the Operations, Technical and Crew department of Diana Shipping Services S.A. From November 2015 to October 2016 she served as Vice President of the same company. Since November 2016 she serves as Managing Director and Head of the Technical, Operations, Crew and Supply department of Unitized Ocean Transport Limited. Mrs. Paliou obtained her BSc in Mechanical Engineering from Imperial College, London and her MSc in Naval Architecture from University College, London. She is the daughter of Simeon Palios, our Chief Executive Officer and Chairman, and is a member of the Greek committee of Det Norske Ve1px solid #000000;">

3

—

3

Provision for income taxes
Total reclassifications
$
—

$
(6
)
$
—

$
(6
)
Net income

Note 12. Fair Value Measurement
The Company utilizes FASB ASC Topic 820, Fair Value Measurement, as guidance for accounting for assets and liabilities carried at fair value. This standard defines fair value as the price that would be received, without adjustment for transaction costs, to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The guidance in FASB ASC Topic 820 establishes a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following is a description of the valuation methodologies used for the Company's assets that are measured on a recurring basis at estimated fair value:

Investment securities AFS: The Company's AFS securities have been valued utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Mutual funds: Mutual funds have been valued using unadjusted quoted prices from active markets and therefore have been classified as Level 1.

Assets measured at fair value on a recurring basis at June 30, 2018 and December 31, 2017, segregated by fair value hierarchy level, are summarized below:

	Fair Value Measurements			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018:	(Dollars in thousands)			
Debt securities AFS:				
U.S. Government-sponsored enterprises	$6,938	$ —	$ 6,938	$ —
Agency mortgage-backed	34,064	—	34,064	—
State and political subdivisions	24,269	—	24,269	—
Corporate	4,272	—	4,272	—
Total debt securities	$69,543	$ —	$ 69,543	$ —
Other investments:				
Mutual funds	$559	$ 559	$ —	$ —
December 31, 2017:				
Debt securities AFS:				
U.S. Government-sponsored enterprises	$7,695	$ —	$ 7,695	$ —
Agency mortgage-backed	28,116	—	28,116	—
State and political subdivisions	24,714	—	24,714	—
Corporate	4,393	—	4,393	—
Total debt securities	64,918	—	64,918	—
Mutual funds	521	521	—	—
Total	$65,439	$ 521	$ 64,918	$ —

There were no transfers in or out of Levels 1 and 2 during the three and six months ended June 30, 2018, nor were there any Level 3 assets at any time during either period. Certain other assets and liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Assets and liabilities measured at fair value on a nonrecurring basis in periods after initial recognition, such as collateral-dependent impaired loans, HTM securities, MSRs and OREO, were not considered material at June 30, 2018 or December 31, 2017. The Company has not elected to apply the fair value method to any financial assets or liabilities other than those situations where other accounting pronouncements require fair value measurements.

FASB ASC Topic 825, Financial Instruments, requires disclosure of the estimated fair value of financial instruments. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Management’s estimates and assumptions are inherently subjective and involve uncertainties and matters of significant judgment. Changes in assumptions could dramatically affect the estimated fair values.

Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments may be excluded from disclosure requirements. Thus, the aggregate fair value amounts presented may not necessarily represent the actual underlying fair value of such instruments of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its significant financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values and are classified as Level 1.

Interest bearing deposits in banks: Fair values for interest bearing deposits in banks are based on discounted present values of cash flows and are classified as Level 2.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair value measurements consider observable data which may include market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. Mutual funds have been valued using unadjusted quoted prices from active markets. Investment securities are classified as Level 1 or Level 2 depending on availability of recent trade information.

Loans held for sale: The fair value of loans held for sale is estimated based on quotes from third party vendors, resulting in a Level 2 classification.

Loans: The fair values of loans are estimated for portfolios of loans with similar financial characteristics and segregated by loan class or segment. For variable-rate loan categories that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts adjusted for credit risk. The fair values for other loans (for example, fixed-rate residential, commercial real estate, and rental property mortgage loans as well as commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future cash flows, future expected loss experience and risk characteristics. As of June 30, 2018, the Company implemented exit pricing valuation methodologies which incorporate a liquidity premium adjustment into the fair value estimate of all loan portfolios. This adjustment factors the costs/market inefficiencies associated with the sale of a financial instrument into the fair value estimate. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The fair value methods and assumptions that utilize unobservable inputs as defined by current accounting standards are classified as Level 3.

Accrued interest receivable and payable: The carrying amounts of accrued interest approximate their fair values and are classified as Level 1, 2, or 3 in accordance with the classification of the related principal's valuation.

Nonmarketable equity securities: It is not practical to determine the fair value of the nonmarketable securities, such as FHLB stock, due to restrictions placed on their transferability.

Deposits: The fair values disclosed for noninterest bearing deposits and other interest bearing nontime deposits are, by definition, equal to the amount payable on demand at the reporting date, resulting in a Level 1 classification. The fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar deposits to a schedule of aggregated expected maturities on such deposits, resulting in a Level 2 classification.

Borrowed funds: The fair values of the Company’s long-term debt are estimated using discounted cash flow analysis based on interest rates currently being offered on similar debt instruments, resulting in a Level 2 classification. The fair values of the Company’s short-term debt approximate the carrying amounts reported in the balance sheet, resulting in a Level 1 classification.

Off-balance-sheet financial instruments: Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. The only commitments to extend credit that are normally longer than one year in duration are the home equity lines whose interest rates are variable quarterly. The only fees collected for commitments are an annual fee on credit card arrangements and often a flat fee on commercial lines of credit and standby letters of credit. The fair value of off-balance-sheet financial instruments as of the balance sheet dates was not significant.

As of the balance sheet dates, the estimated fair values and related carrying amounts of the Company's significant financial instruments were as follows:

	June 30, 2018				
	Fair Value Measurements				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$13,846	$13,846	$13,846	$ —	$ —
Interest bearing deposits in banks	9,996	9,864	—	9,864	—
Investment securities	70,102	70,102	559	69,543	—
Loans held for sale	5,424	5,513	—	5,513	—
Loans, net					
Residential real estate	180,835	179,768	—	—	179,768
Construction real estate	49,876	50,059	—	—	50,059
Commercial real estate	266,850	268,296	—	—	268,296
Commercial	47,292	46,306	—	—	46,306
Consumer	3,659	3,691	—	—	3,691
Municipal	21,857	21,738	—	—	21,738
Accrued interest receivable	2,338	2,338	—	412	1,926
Nonmarketable equity securities	3,935	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits					
Noninterest bearing	$110,984	$110,984	$110,984	$ —	$ —
Interest bearing	360,582	360,582	360,582	—	—
Time	107,321	105,699	—	105,699	—
Borrowed funds					
Short-term	588	588	588	—	—
Long-term	68,451	68,256	—	68,256	—
Accrued interest payable	94	94	—	94	—

	December 31, 2017 Fair Value Measurements				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$38,508	$38,508	$38,508	$ —	$ —
Interest bearing deposits in banks	9,352	9,333	—	9,333	—
Investment securities	66,439	66,438	521	65,917	—
Loans held for sale	7,947	8,111	—	8,111	—
Loans, net					
Residential real estate	177,880	178,818	—	—	178,818
Construction real estate	42,505	42,069	—	—	42,069
Commercial real estate	251,566	248,746	—	—	248,746
Commercial	50,393	49,132	—	—	49,132
Consumer	3,869	3,919	—	—	3,919
Municipal	55,789	55,778	—	—	55,778
Accrued interest receivable	2,500	2,500	—	395	2,105
Nonmarketable equity securities	2,331	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits					
Noninterest bearing	$127,824	$127,824	$127,824	$ —	$ —
Interest bearing	418,621	418,621	418,621	—	—
Time	101,129	99,967	—	99,967	—
Borrowed funds					
Short-term	1,365	1,364	1,364	—	—
Long-term	30,216	29,039	—	29,039	—
Accrued interest payable	97	97	—	97	—

The carrying amounts in the preceding tables are included in the consolidated balance sheets under the applicable captions.

Note 13. Subsequent Events

Subsequent events represent events or transactions occurring after the balance sheet date but before the financial statements are issued. Financial statements are considered "issued" when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP. Events occurring subsequent to June 30, 2018 have been evaluated as to their potential impact to the consolidated financial statements.

On July 18, 2018, the Company declared a regular quarterly cash dividend of $0.30 per share, payable August 9, 2018, to stockholders of record on July 30, 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following discussion and analysis focuses on those factors that, in management's view, had a material effect on the financial position of the Company as of June 30, 2018 and December 31, 2017, and its results of operations for the three and six months ended June 30, 2018 and 2017. This discussion is being presented to provide a narrative explanation of the consolidated financial statements and should be read in conjunction with the consolidated financial statements and related notes and with other financial data appearing elsewhere in this filing and with the Company's 2017 Annual Report In the opinion of the Company's management, the interim unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments and disclosures necessary to fairly present the Company's consolidated financial position and results of operations for the interim periods presented. Management is not aware of the occurrence of any events after June 30, 2018 which would materially affect the information presented.

Please refer to Note 1 in the Company's unaudited interim consolidated financial statements at Part I, Item 1 of this Report for definitions of acronyms, abbreviations and capitalized terms used throughout the following discussion and analysis.

CAUTIONARY ADVICE ABOUT FORWARD LOOKING STATEMENTS

The Company, "we," "us," "our," may from time to time make written or oral statements that are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include financial projections, statements of plans and objectives for future operations, estimates of future economic performance or conditions and assumptions relating thereto. The Company may include forward-looking statements in its filings with the SEC, in its reports to stockholders, including this quarterly report, in press releases, other written materials, and in statements made by senior management to analysts, rating agencies, institutional investors, representatives of the media and others.

Forward-looking statements reflect management's current expectations and are subject to uncertainties, both general and specific, and risk exists that actual results will differ from those predictions, forecasts, projections and other estimates contained in forward-looking statements. These risks cannot be readily quantified. When management uses any of the words “believes,” “expects,” “predicts,” “anticipates,” “intends,” "projects," “plans,” “seeks,” “estimates,” "targets," “may,” "might," “could,” “would,” “should,” or similar expressions, they are making forward-looking statements. Many possible events or factors, including those beyond the control of management, could affect the future financial results and performance of the Company.

Factors that may cause results or performance to differ materially from those expressed in forward-looking statements include, but are not limited to:

- General economic conditions and financial instability, either nationally, internationally, regionally or locally;
- Increased competitive pressures, including those from tax-advantaged credit unions and other financial service providers in our northern Vermont and New Hampshire market area or in the financial services industry generally, from increasing consolidation and integration of financial service providers, and from changes in technology and delivery systems;
- Interest rates change in a way that puts pressure on the Company's margins, or that results in lower fee income and lower gain on sale of real estate loans, or that increases our interest costs;
- Changes in laws or government rules, or the way in which courts or government agencies interpret or implement those laws or rules, that increase our costs of doing business or otherwise adversely affect our business;
- Further changes in federal or state tax policy;
- Changes in our level of nonperforming assets and charge-offs;
- Changes in depositor behavior resulting in movement of funds out of bank deposits and into the stock market or other higher-yielding investments;

- Changes in estimates of future reserve requirements based upon relevant regulatory and accounting requirements;
- Changes in information technology that require increased capital spending or that result in new or increased risks;
- Changes in consumer and business spending, borrowing and savings habits;
- Changes in accounting principles, including those governing the manner of estimating our credit risk and calculating our loan loss reserve;
- Changes affecting the calculation of the amount of the contribution that will be required to settle our obligations in connection with termination of our defined benefit pension plan and the impact of such termination on our net income in 2018;
- Further changes to the regulations governing the calculation of the Company's regulatory capital ratios;
- Increased cybersecurity threats; and
- The effect of and changes in the United States monetary and fiscal policies, including interest rate policies and regulation of the money supply by the FRB.

When evaluating forward-looking statements to make decisions about the Company and our stock, investors and others are cautioned to consider these and other risks and uncertainties, and are reminded not to place undue reliance on such statements. Investors should not consider the foregoing list of factors to be a complete list of risks or uncertainties. Forward-looking statements speak only as of the date they are made and the Company undertakes no obligation to update them to reflect new or changed information or events, except as may be required by federal securities laws.

Non-GAAP Financial Measures
Under SEC Regulation G, public companies making disclosures containing financial measures that are not in accordance with GAAP must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure, as well as a statement of the company’s reasons for utilizing the non-GAAP financial measure. The SEC has exempted from the definition of non-GAAP financial measures certain commonly used financial measures that are not based on GAAP. However, two non-GAAP financial measures commonly used by financial institutions, namely tax-equivalent net interest income and tax-equivalent net interest margin (as presented in the tables in the section labeled Yields Earned and Rates Paid), have not been specifically exempted by the SEC, and may therefore constitute non-GAAP financial measures under Regulation G. We are unable to state with certainty whether the SEC would regard those measures as subject to Regulation G. Management believes that these non-GAAP financial measures are useful in evaluating the Company’s financial performance and facilitate comparisons with the performance of other financial institutions. However, that information should be considered supplemental in nature and not as a substitute for related financial information prepared in accordance with GAAP.

CRITICAL ACCOUNTING POLICIES
The Company has established various accounting policies which govern the application of GAAP in the preparation of the Company's consolidated financial statements. Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the reported amount of assets, liabilities, capital, revenues and expenses and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require management to make its most difficult and subjective judgments, often as a result of the need to make estimates on matters that are inherently uncertain. Based on this definition, management has identified the accounting policies and judgments most critical to the Company. They include establishing the amount of ALL, evaluating our investment securities for OTTI, valuing our intangible assets and determining the amount of our defined benefit pension plan obligation and net periodic cost/(benefit) as well as the amount of our required contribution in connection with termination of the Plan.The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from estimates and have a material impact on the carrying value of assets, liabilities, or capital, and/or the results of operations of the Company.

Please refer to the Company's 2017 Annual Report on Form 10-K for a more in-depth discussion of the Company's critical accounting policies. There have been no changes to the Company's critical accounting policies since the filing of that report.

OVERVIEW
The Company's net income was $2.5 million for the quarter ended June 30, 2018 compared to $2.2 million for the quarter ended June 30, 2017, an increase of $223 thousand, or 10.0%. These results reflected an increase in the Company's net interest income of $627 thousand, or 9.5%, and a decrease in the provision for income taxes of $374 thousand, or 45.6%. These positive changes were partially offset by a decrease in noninterest income of $181

thousand, or 7.8%, an increase in the provision for loan losses of $150 thousand and an increase in noninterest expenses of $447 thousand, or 7.6%.

Year-to-date earnings for 2018 were $5.2 million, or $1.16 per share, compared to $4.2 million, or $0.93 per share, for the same period in 2017, an increase of 25.0% year over year. Net interest income improved $1.2 million, or 9.7%, noninterest income increased $57 thousand, or 1.2%, and the provision for income taxes decreased $525 thousand, or 35.4%. These positive changes were partially offset by an increase in noninterest expenses of $641 thousand, or 5.4%, and an increase in the provision for loan losses of $150 thousand. No provision for loan losses was recorded during the first six months of 2017.

Passage of the 2017 Tax Act reduced the Company's federal income tax rate from 34% to 21% effective January 1, 2018. The rate reduction has had a positive impact on earnings for the three and six months ended June 30, 2018.(See Results of Operations, Provision for Income Taxes on page 35.)

As discussed in the Company's 2017 Annual Report, on October 18, 2017, the Company's Board of Directors voted to terminate Union Bank’s Defined Benefit Pension Plan. The Company anticipates completing the transfer of all liabilities and administrative

responsibilities under the Plan by December 31, 2018. Once the process is complete, the Company will no longer have any remaining defined benefit pension plan obligations and thus no periodic pension expense in future periods.
At June 30, 2018, the Company had total consolidated assets of $717.6 million, including gross loans and loans held for sale (total loans) of $580.5 million, deposits of $578.9 million, borrowed funds of $69.0 million, and stockholders' equity of $60.1 million. The Company’s total assets at June 30, 2018 decreased $28.2 million, or 3.8%, from $745.8 million at December 31, 2017, and increased $52.7 million, or 7.9%, compared to June 30, 2017. (See Financial Condition on page 35.)
The Company's total capital increased from $58.7 million at December 31, 2017 to $60.1 million at June 30, 2018. This increase primarily reflects net income of $5.2 million for the first six months of 2018, partially offset by an increase of $1.2 million in accumulated other comprehensive loss and regular cash dividends paid of $2.7 million. (See Capital Resources on page 43.)
The following unaudited per share information and key ratios depict several measurements of performance or financial condition at or for the three and six months ended June 30, 2018 and 2017, respectively:

	Three Months Ended or At June 30,		Six Months Ended or At June 30,	
	2018	2017	2018	2017
Return on average assets (1)	1.33 %	1.31 %	1.42 %	1.23 %
Return on average equity (1)	16.56 %	15.51 %	17.66 %	14.60 %
Net interest margin (1)(2)	4.24 %	4.26 %	4.19 %	4.20 %
Efficiency ratio (3)	66.62 %	64.36 %	65.55 %	66.12 %
Net interest spread (4)	4.13 %	4.18 %	4.09 %	4.12 %
Loan to deposit ratio	100.28 %	95.92 %	100.28 %	95.92 %
Net loan charge-offs to average loans not held for sale (1)	— %	0.02 %	— %	0.03 %
Allowance for loan losses to loans not held for sale	0.97 %	0.96 %	0.97 %	0.96 %
Nonperforming assets to total assets (5)	0.23 %	0.46 %	0.23 %	0.46 %
Equity to assets	8.38 %	8.79 %	8.38 %	8.79 %
Total capital to risk weighted assets	14.06 %	13.37 %	14.06 %	13.37 %
Book value per share	$13.46	$13.10	$13.46	$13.10
Earnings per share	$0.54	$0.50	$1.16	$0.93
Dividends paid per share	$0.30	$0.29	$0.60	$0.58
Dividend payout ratio (6)	55.56 %	58.00 %	51.72 %	62.37 %

(1) Annualized.
(2) The ratio of tax equivalent net interest income to average earning assets. See pages 31 and 32 for more information.
(3) The ratio of noninterest expense to tax equivalent net interest income and noninterest income, excluding securities gains (losses).
(4) The difference between the average yield on earning assets and the average rate paid on interest bearing liabilities. See pages 31 and 32 for more information.
(5) Nonperforming assets are loans or investment securities that are in nonaccrual or 90 or more days past due as well as OREO or OAO.
(6) Cash dividends declared and paid per share divided by consolidated net income per share.

RESULTS OF OPERATIONS
Net Interest Income. The largest component of the Company’s operating income is net interest income, which is the difference between interest and dividend income received from earning assets and interest expense paid on interest bearing liabilities. Net interest income is affected by various factors including, but not limited to changes in interest rates, loan and deposit pricing strategies, the volume and mix of interest earning assets and interest bearing liabilities,

and the level of nonperforming assets. Net interest margin is calculated as the net interest income on a fully tax equivalent basis as a percentage of average earning assets. As a result of the 2017 Tax Act, our corporate tax rate has declined from 34% in prior years to 21% in 2018. Accordingly, the factor utilized in calculating tax equivalent interest income has declined, resulting in lower yields on the tax advantaged earning assets.

The Company’s net interest income increased $627 thousand, or 9.5%, to $7.2 million for the three months ended June 30, 2018 from $6.6 million for the three months ended June 30, 2017. The net interest spread decreased five bps to 4.13% for the second quarter of 2018, from 4.18% for the same period last year, reflecting a 13 bp increase in the average rate paid on interest bearing liabilities, partially offset by an eight bp increase in the average yield earned on interest earning assets between periods. Interest income on loans increased $766 thousand to $7.4 million for the three months ended June 30, 2018 from $6.6 million for the three months ended June 30, 2017 due to an increase in the average volume of loans outstanding of $55.6 million during the comparison period. Interest income on investment securities increased $62 thousand between periods due to an increase in average volume of $2.9 million, despite a slight decline in the average yield of one bp due to a decrease in the tax equivalent factor.

The average rate paid on interest bearing liabilities increased 13 bps, to 0.53% for the second quarter of 2018 compared to 0.40% for the second quarter of 2017. Competition for customer deposits and increases in short term interest rates have contributed to increases in average rates paid in all deposit categories. The Company recognizes this trend may continue as short term interest rates and competition for deposit monies is likely to increase. Funding sources other than core deposits have been necessary to fund loan demand in the short term. These funds have a higher cost than customer deposits at 1.47% from 1.39% a year ago. The eight bp increase along with an increase in average volume of $7.9 million has resulted in a $37 thousand increase in interest expense. These changes could result in continued pressure on our net interest spread and net interest margin which have decreased five bps and two bps, respectively, during the comparison periods.

Net interest income was $14.1 million, on a fully tax equivalent basis for the six months ended June 30, 2018, compared to $12.9 million for the six months ended June 30, 2017, an increase of $1.2 million, or 9.69%. The average volume of earning assets increased$52.8 million and the average yield on earning assets increased six bps to 4.60% compared to 4.54% for the comparison periods. Average loans increased $54.4 million to $596.2 million for the six months ended June 30, 2018 compared to $541.8 million for the six months ended June 30, 2017. The increase in volume is the primary contributor to the $1.6 million increase in interest income on loans.

The average cost of funds, which is tied primarily to customer deposit accounts, increased nine bps to 0.51% for the six months ended June 30, 2018 compared to 0.42% for the same period last year. Interest expense increased $325 thousand, or 6.80%, from $1.1 million for the six months ended June 30, 2017 to $1.4 million for the six months ended June 30, 2018. The increase was primarily due to the increase in average rate and to a lesser extent the increase in average volume of $34.6 million.

The following tables show for the periods indicated the total amount of income recorded from average interest earning assets, the related average tax equivalent yields, the interest expense associated with average interest bearing liabilities, the related average rates paid, and the resulting tax equivalent net interest spread and margin.

	Three Months Ended June 30,							
	2018				2017			
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate		Average Balance	Interest Earned/ Paid	Average Yield/ Rate	
	(Dollars in thousands)							
Average Assets:								
Federal funds sold and overnight deposits	$8,375	$9	0.46	%	$13,939	$19	0.52	%
Interest bearing deposits in banks	9,757	51	2.10	%	8,500	36	1.72	%
Investment securities (1), (2)	71,314	477	2.87	%	68,442	415	2.88	%
Loans, net (1), (3)	601,947	7,374	4.97	%	546,391	6,608	4.95	%
Nonmarketable equity securities	2,826	32	4.41	%	2,431	23	3.83	%
Total interest earning assets (1)	694,219	7,943	4.66	%	639,703	7,101	4.58	%
Cash and due from banks	4,142				4,064			
Premises and equipment	14,696				13,219			
Other assets	22,006				22,022			
Total assets	$735,063				$679,008			
Average Liabilities and Stockholders' Equity:								
Interest bearing checking accounts	$142,967	45	0.13	%	$148,056	42	0.11	%
Savings/money market accounts	256,536	285	0.45	%	226,734	188	0.33	%
Time deposits	108,741	244	0.90	%	101,852	166	0.66	%
Borrowed funds	42,230	157	1.47	%	34,300	120	1.39	%
Total interest bearing liabilities	550,474	731	0.53	%	510,942	516	0.40	%
Noninterest bearing deposits	117,272				105,565			
Other liabilities	8,131				5,059			
Total liabilities	675,877				621,566			
Stockholders' equity	59,186				57,442			
Total liabilities and stockholders’ equity	$735,063				$679,008			
Net interest income		$7,212				$6,585		
Net interest spread (1)			4.13	%			4.18	%
Net interest margin (1)			4.24	%			4.26	%

	Six Months Ended June 30,					
	2018			2017		
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Average Assets:						
Federal funds sold and overnight deposits	$12,394	$62	1.00 %	$16,564	$49	0.59 %
Interest bearing deposits in banks	9,856	96	1.97 %	8,874	71	1.62 %
Investment securities (1), (2)	69,874	923	2.84 %	68,450	843	2.92 %
Loans, net (1), (3)	596,166	14,373	4.92 %	541,780	12,930	4.91 %
Nonmarketable equity securities	2,595	60	4.65 %	2,393	47	4.00 %
Total interest earning assets (1)	690,885	15,514	4.60 %	638,061	13,940	4.54 %
Cash and due from banks	4,044			4,093		
Premises and equipment	14,438			13,317		
Other assets	22,188			22,040		
Total assets	$731,555			$677,511		
Average Liabilities and Stockholders' Equity:						
Interest bearing checking accounts	$144,023	92	0.13 %	$144,176	81	0.11 %
Savings/money market accounts	257,297	583	0.46 %	228,823	398	0.35 %
Time deposits	105,286	432	0.83 %	102,782	339	0.66 %
Borrowed funds	37,320	271	1.44 %	33,516	235	1.40 %
Total interest bearing liabilities	543,926	1,378	0.51 %	509,297	1,053	0.42 %
Noninterest bearing deposits	121,024			106,124		
Other liabilities	7,745			5,128		
Total liabilities	672,695			620,549		
Stockholders' equity	58,860			56,962		
Total liabilities and stockholders' equity	$731,555			$677,511		
Net interest income		$14,136			$12,887	
Net interest spread (1)			4.09 %			4.12 %
Net interest margin (1)			4.19 %			4.20 %

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(1) Average yields reported on a tax equivalent basis using a marginal tax rate of 21% and 34% for the three and six months ended June 30, 2018 and 2017, respectively.

(2) Average balances of investment securities are calculated on the amortized cost basis and include nonaccrual securities, if applicable.

(3) Includes loans held for sale as well as nonaccrual loans, unamortized costs and unamortized premiums and is net of the allowance for loan losses.

Tax exempt interest income amounted to $506 thousand and $439 thousand for the three months ended June 30, 2018 and 2017, respectively, and $1.0 million and $872 thousand for the 2018 and 2017 six month comparison periods, respectively. The following table presents the effect of tax exempt income on the calculation of net interest income, using a marginal tax rate of 21% and 34% for the 2018 and 2017 three and six month comparison periods, respectively:

	For the Three Months Ended June 30,		For The Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net interest income, as presented	$7,212	$6,585	$14,136	$12,887
Effect of tax-exempt interest				
Investment securities	34	79	68	158
Loans	85	133	170	263
Net interest income, tax equivalent	$7,331	$6,797	$14,374	$13,308

Rate/Volume Analysis. The following table describes the extent to which changes in average interest rates (on a fully tax-equivalent basis) and changes in volume of average interest earning assets and interest bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. For each category of interest earning assets and interest bearing liabilities, information is provided on changes attributable to:

- changes in volume (change in volume multiplied by prior rate);
- changes in rate (change in rate multiplied by prior volume); and
- total change in rate and volume.

Changes attributable to both rate and volume have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017 Increase/(Decrease) Due to Change In			Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017 Increase/(Decrease) Due to Change In		
	Volume (1)	Rate (1)	Net	Volume	Rate	Net
	(Dollars in thousands)					
Interest earning assets:						
Federal funds sold and overnight deposits	$(7)	$(3)	$(10)	$(15)	$28	$13
Interest bearing deposits in banks	6	9	15	9	16	25
Investment securities	65	(3)	62	111	(31)	80
Loans, net	711	55	766	1,371	72	1,443
Nonmarketable equity securities	5	4	9	4	9	13
Total interest earning assets	$780	$62	$842	$1,480	$94	$1,574
Interest bearing liabilities:						
Interest bearing checking accounts	$(2)	$5	$3	$—	$11	$11
Savings/money market accounts	27	70	97	53	132	185

Time deposits	13	65	78	8	85	93
Borrowed funds	29	8	37	27	9	36
Total interest bearing liabilities	$67	$148	$215	$88	$237	$325
Net change in net interest income	$713	$(86)	$627	$1,392	$(143)	$1,249

(1) Tax equivalent interest income is calculated using a marginal tax rate of 21% and 34% for the three and six months ended June 30, 2018 and 2017, respectively.

Provision for Loan Losses. There was a $150 thousand provision for loan losses recorded for the three and six months ended June 30, 2018 compared to no provision recorded for the three and six months ended June 30, 2017. The provision for loan losses for the first six months of 2018 was deemed appropriate by management based on the size and mix of the loan portfolio, the level of nonperforming loans, the results of the qualitative factor review and prevailing existing economic conditions. For further details, see FINANCIAL CONDITION- Allowance for Loan Losses and Asset Quality below.

Noninterest Income. Noninterest income was $2.2 million, or 21.3% of total income for the three months ended June 30, 2018, compared to $2.3 million, or 24.7% of total income for the three months ended June 30, 2017 and $4.6 million, or 23.0% of total income for the six months ended June 30, 2018 compared to $4.6 million, or 24.7% of total income for the six months ended June 30, 2017. The following table sets forth the components of noninterest income and changes from 2017 to 2018:

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2018	2017	$ Variance	% Variance	2018	2017	$ Variance	% Variance
	(Dollars in thousands)							
Trust income	$191	$191	$ —	—	$384	$369	$ 15	4.1
Service fees	1,483	1,451	32	2.2	2,970	2,891	79	2.7
Net gains on sales of loans held for sale	431	597	(166)	(27.8)	726	1,105	(379)	(34.3)
Income from Company-owned life insurance	56	59	(3)	(5.1)	368	119	249	209.2
Other income	(9)	26	(35)	(134.6)	175	73	102	139.7
Subtotal	2,152	2,324	(172)	(7.4)	4,623	4,557	66	1.4
Net gains on sales of investment securities AFS	—	9	(9)	(100.0)	—	9	(9)	(100.0)
Total noninterest income	$2,152	$2,333	$ (181)	(7.8)	$4,623	$4,566	$ 57	1.2

The significant changes in noninterest income for the three and six months ended June 30, 2018 compared to the same periods of 2017 are described below:

- Service fees. Loan servicing income increased $25 thousand and $56 thousand for the three and six months ended June 30, 2018, respectively, compared to the same periods of 2017 due to an increase in the serviced loan portfolio during the comparison periods. Total service charges on deposit accounts, which includes overdraft fees and ATM surcharge and interchange fees, increased $1 thousand and $41 thousand for the three and six months ended June 30, 2018, respectively, despite a reduction in services charges on customer accounts of $13 thousand and $11 thousand for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017.
- Net gains on sales of loans held for sale. Continuing the Company's strategy to mitigate long-term interest rate risk, residential loans totaling $26.3 million and $49.4 million were sold for the three and six months ended June 30, 2018, respectively, versus residential and commercial loan sales of $30.0 million and $58.5 million during the same periods in 2017. The decline in net gains on sales of real estate loans is due to a combination of lower volumes of loans sold and lower average premiums on sold loans between periods, reflecting a rising interest rate environment.
- Income from Company-owned life insurance. Proceeds from the death benefit on an insurance policy on the life of a former director resulted in $252 thousand of additional income during the first quarter of 2018.
- Other income. Other income is a net expense of $9 thousand for the three months ended June 30, 2018 compared to income of $26 thousand for the three months ended June 30, 2017. The decrease between the comparison periods is due to a decrease in MSR income of $44 thousand, partially offset by an increase of $9 thousand in miscellaneous noninterest income. Other income for the six months ended June 30, 2018 increased $102 thousand between periods due to the gain on the sale of a bank owned branch building of $191 thousand during the first quarter of 2018, partially offset by a decrease of $88 thousand in MSR income.

Noninterest Expense. Noninterest expense increased $447 thousand, or 7.6%, and $641 thousand, or 5.4% for the three and six months ended June 30, 2018, respectively compared to the same periods in 2017. The following table sets forth the components of noninterest expense and changes between the three and six month comparison periods of 2018 and 2017:

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2018	2017	$ Variance	% Variance	2018	2017	$ Variance	% Variance
	(Dollars in thousands)							
Salaries and wages	$2,614	$2,504	$ 110	4.4	$5,263	$5,072	$ 191	3.8
Pension and employee benefits	1,197	951	246	25.9	2,155	1,830	325	17.8
Occupancy expense, net	336	363	(27)	(7.4)	731	753	(22)	(2.9)
Equipment expense	511	523	(12)	(2.3)	1,046	1,057	(11)	(1.0)
Electronic banking expenses	72	27	45	166.7	140	55	85	154.5
Other expenses	1,588	1,503	85	5.7	3,118	3,045	73	2.4
Total noninterest expense	$6,318	$5,871	$ 447	7.6	$12,453	$11,812	$ 641	5.4

The significant changes in noninterest expense for the three and six months ended June 30, 2018 compared to the same periods of 2017 are described below:

- Salaries and wages. Salaries and wages increased $110 thousand and $191 thousand for the three and six months ended June 30, 2018, respectively, compared to the same period of 2017 due to normal salary increases, partially offset by a reduction in commissions paid to mortgage loan originators.
- Pension and employee benefits. Pension and employee benefits increased $246 thousand for the three months ended June 30, 2018 and $325 thousand for the six months ended June 30, 2018 compared to the same periods in 2017, respectively. The increase for the three months ended June 30, 2018 is due to increases in pension expense of $190 thousand, company medical plan expense of $20 thousand, and other employee benefits of $21 thousand. The increase for the six months ended June 30, 2018 is the result of increases in pension plan expense of $379 thousand, 401k contributions of $23 thousand, partially offset by a reduction in the cost of the Company's medical plan of $98 thousand. The reduction in the Company's medical plan costs in 2018 reflects a $242 thousand plan credit due to favorable 2017 claims experience. A similar experience based credit received in 2017 was $130 thousand. As discussed in Note 9 of the Company's unaudited consolidated financial statements, the Company plans to terminate its defined benefit pension plan during 2018 with the settlement of assets and liabilities expected to occur during the fourth quarter of 2018. The Company will continue to recognize pension related costs during its interim periods until the plan has been settled.
- Electronic banking expenses. During the first quarter of 2018, Union changed its service provider for its internet and mobile banking product. The new product was selected to provide a more robust product to Union's customers that includes additional functionality. The utilization of the product resulted in an increase in electronic banking expenses of $45 thousand and $85 thousand for the three and six months ended June 30, 2018, respectively, compared to the same periods of 2017.

Provision for Income Taxes. The Company has provided for current and deferred federal income taxes for the three and six months ended June 30, 2018 and June 30, 2017. The Company's net provision for income taxes was $446 thousand and $959 thousand for the three and six months ended June 30, 2018, respectively, compared to $820 thousand and $1.5 million for the same periods in 2017, respectively. The Company's effective tax rate was 15.4% and 15.6% for the three and six months ended June 30, 2018, respectively, compared to 26.9% and 26.3% for the same periods in 2017, respectively. The reduction in the effective tax rate for the comparison periods was primarily due to a decrease in the corporate income tax rate from 34% to 21% as a result of the 2017 Tax Act.

Amortization expense related to limited partnership investments is included as a component of tax expense and amounted to $129 thousand and $269 thousand for the three and six months ended June 30, 2018, respectively, and $157 thousand and $314 thousand for the same periods in 2017 respectively. These investments provide tax benefits, including tax credits. Low income housing tax credits with respect to limited partnership investments are also included as a component of income tax expense and amounted to $148 thousand and $296 thousand for the three and six months ended June 30, 2018, respectively, and $158 thousand and $318 thousand for the three and six months ended June 30, 2017, respectively.

FINANCIAL CONDITION

At June 30, 2018, the Company had total consolidated assets of $717.6 million, including gross loans and loans held for sale (total loans) of $580.5 million, deposits of $578.9 million, borrowed funds of $69.0 million and stockholders' equity of $60.1 million.

The Company’s total assets at June 30, 2018 decreased $28.2 million, or 3.8%, from $745.8 million at December 31, 2017, and increased $52.7 million, or 7.9%, compared to June 30, 2017.

Net loans and loans held for sale totaled $575.8 million, or 80.2% of total assets at June 30, 2018, compared to $589.9 million, or 79.1% of total assets at December 31, 2017. (See Loans Held for Sale and Loan Portfolio below.)

Total deposits decreased $68.7 million, or 10.6%, to $578.9 million at June 30, 2018, from $647.6 million at December 31, 2017. There were decreases in interest bearing deposits of $58.0 million, or 13.9%, and noninterest bearing deposits of $16.8 million, or 13.2%, which were partially offset by an increase in time deposits of $6.2 million, or 6.1%. The majority of the decrease in total deposits between periods reflects an expected one day seasonal decline due to the municipal funding requirements in Vermont as municipalities and school districts utilize their deposits to pay down their short term loans as of their June 30 fiscal year end. (See average balances and rates in the Yields Earned and Rates Paid tables on pages 31 and 32.)

Total borrowed funds increased $37.5 million, or 118.6%, from $31.6 million at December 31, 2017 to $69.0 million at June 30, 2018. FHLB advances increased $38.2 million and customer overnight collateralized repurchase sweeps decreased $777 thousand between December 31, 2017 and June 30, 2018. (See Borrowings on page 41.)

Total stockholders’ equity increased $1.4 million to $60.1 million at June 30, 2018 from $58.7 million at December 31, 2017. (See Capital Resources on page 43.)

Loans Held for Sale and Loan Portfolio. Total loans (including loans held for sale) decreased $14.1 million, or 2.4%, to $580.5 million, representing 80.9% of assets at June 30, 2018, from $594.6 million, representing 79.7% of assets at December 31, 2017. The total loan portfolio at June 30, 2018 increased $38.9 million compared to the June 30, 2017 level of $541.6 million, representing 81.5% of assets. The Company’s loans consist primarily of adjustable-rate and fixed-rate mortgage loans secured by one-to-four family, multi-family residential or commercial real estate. Real estate secured loans represented $507.4 million, or 87.4% of total loans at June 30, 2018 and $484.2 million, or 81.4% of total loans at December 31, 2017. Although competition for good loans is strong, especially in the commercial sector, the Company has been able to originate loans to both current and new customers while maintaining credit quality. Other than the decrease in the municipal portfolio reflecting the one day seasonal fluctuation from municipalities and school districts paying down their short term loans as of their June 30 fiscal year end, the composition of the Company’s loan portfolio remained relatively unchanged from December 31, 2017. There was no material change in the Company’s lending programs or terms during the six months ended June 30, 2018.

The composition of the Company's loan portfolio as of June 30, 2018 and December 31, 2017 was as follows:

	June 30, 2018		December 31, 2017	
Loan Class	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential real estate	$181,942	31.3	$178,999	30.1
Construction real estate	50,358	8.7	42,935	7.2
Commercial real estate	269,645	46.5	254,291	42.8
Commercial	47,596	8.2	50,719	8.5
Consumer	3,680	0.6	3,894	0.7
Municipal	21,855	3.8	55,777	9.4
Loans held for sale	5,424	0.9	7,947	1.3
Total loans	580,500	100.0	594,562	100.0
Allowance for loan losses	(5,553)		(5,408)	
Unamortized net loan costs	846		795	

Net loans and loans held for sale	$575,793	$589,949

The Company originates and sells qualified residential mortgage loans in various secondary market avenues, with a majority of sales made to the FHLMC/Freddie Mac, generally with servicing rights retained. At June 30, 2018, the Company serviced a $681.5 million residential real estate mortgage portfolio, of which $5.4 million was held for sale and approximately $494.1 million was serviced for unaffiliated third parties.

The Company sold $49.4 million of qualified residential real estate loans primarily originated during the first six months of 2018 to the secondary market to mitigate long-term interest rate risk and to generate fee income, compared to sales of $58.4 million during the first six months of 2017. The Company originates and sells FHA, VA, and RD residential mortgage loans, and also has an Unconditional Direct Endorsement Approval from HUD which allows the Company to approve FHA loans originated in any of its Vermont or New Hampshire locations without needing prior HUD underwriting approval. The Company sells FHA, VA and RD loans as originated with servicing released. Some of the government backed loans qualify for zero down payments without geographic or income restrictions. These loan products increase the Company's ability to serve the borrowing needs of residents in the communities we serve, including low and moderate income borrowers, while the government guaranty mitigates our exposure to credit risk.

The Company also originates commercial real estate and commercial loans under various SBA, USDA and State sponsored programs that provide a government agency guaranty for a portion of the loan amount. There was $4.1 million guaranteed under these various programs at June 30, 2018 on an aggregate balance of $5.2 million in subject loans. The Company occasionally sells the guaranteed portion of the loan to other financial partners and retains servicing rights, which generates fee income. There were no commercial loans sold in the first six months of 2018 and $103 thousand of commercial loans sold in the first six months of 2017. The Company recognizes gains and losses on the sale of the principal portion of these loans as they occur.

The Company serviced $14.5 million of commercial and commercial real estate loans for unaffiliated third parties as of June 30, 2018. This includes $12.3 million of commercial or commercial real estate loans the Company has participated out to other financial institutions, in the ordinary course of business on a nonrecourse basis, for liquidity or credit concentration management purposes.

As of June 30, 2018, there were $1.089 billion in total loans serviced, which includes total loans on the balance sheet of $580.5 million as well as total loans sold with servicing retained of $508.7 million. There were $1.094 billion in total loans serviced as of December 31, 2017.

The Company capitalizes MSRs for all loans sold with servicing retained and recognizes gains and losses on the sale of the principal portion of these loans as they occur. The unamortized balance of MSRs on loans sold with servicing retained was $1.6 million at June 30, 2018, with an estimated market value in excess of the carrying value as of such date. Management periodically evaluates and measures the servicing assets for impairment.

Qualifying residential first mortgage loans and certain commercial real estate loans with a carrying value of $187.4 million were pledged as collateral for borrowings from the FHLB under a blanket lien at June 30, 2018.

Asset Quality. The Company, like all financial institutions, is exposed to certain credit risks, including those related to the value of the collateral that secures its loans and the ability of borrowers to repay their loans. Consistent application of the Company’s conservative loan policies has helped to mitigate this risk and has been prudent for both the Company and its customers. Renewed market volatility, high unemployment rates or weakness in the general economic condition of the country or our market area, may have a negative effect on our customers’ ability to make their loan payments on a timely basis and/or on underlying collateral values. Management closely monitors the Company’s loan and investment portfolios, OREO and OAO for potential problems and reports to the Company’s and Union’s Board at regularly scheduled meetings. Board approved policies set forth portfolio diversification levels to mitigate concentration risk and the Company participates large credits out to other financial institutions to further mitigate that risk.

Repossessed assets and loans or investments that are 90 days or more past due are considered to be nonperforming assets.The following table shows the composition of nonperforming assets at the dates indicated and trends in certain ratios monitored by the Company's management in reviewing asset quality:

	June 30, 2018	December 31, 2017	June 30, 2017
	(Dollars in thousands)		
Nonaccrual loans	$927	$ 1,191	$2,728
Accruing loans 90+ days delinquent	758	494	357
Total nonperforming loans (1)	1,685	1,685	3,085
OREO	—	36	—
Total nonperforming assets (1)	$1,685	$ 1,721	$3,085
ALL to loans not held for sale	0.97 %	0.92 %	0.96 %
ALL to nonperforming loans	329.55 %	320.95 %	167.52 %
Nonperforming loans to total loans	0.29 %	0.28 %	0.57 %
Nonperforming assets to total assets	0.23 %	0.23 %	0.46 %
Delinquent loans (30 days to nonaccruing) to total loans	0.60 %	1.05 %	0.97 %
Net charge-offs (annualized) to average loans not held for sale	— %	0.01 %	0.03 %

(1) The Company had guarantees of U.S. or state government agencies on the above nonperforming loans totaling $253 thousand at June 30, 2018, $131 thousand at December 31, 2017, and $194 thousand at June 30, 2017.

The level of nonaccrual loans decreased $264 thousand, or 22.2%, since December 31, 2017, and accruing loans delinquent 90 days or more increased $264 thousand, or 53.4%, during the same time period. There was one residential real estate loan totaling $131 thousand in process of foreclosure at June 30, 2018. The aggregate interest income not recognized on nonaccrual loans amounted to approximately $1.2 million and $1.4 million as of June 30, 2018 and 2017, respectively, and $1.2 million as of December 31, 2017.

At June 30, 2018, the Company had loans rated substandard that were on performing status totaling $2.0 million, compared to $3.0 million at December 31, 2017. In management's view, substandard loans represent a higher degree of risk of becoming nonperforming loans in the future. The Company's management is focused on the impact that the economy may have on its borrowers and closely monitors industry and geographic concentrations for evidence of financial problems. The past two years have resulted in successful tourist seasons for all seasons throughout the year, which appears to have improved the related business' financial performance. Improvement in local economic indicators have also been identified over the past two years. The unemployment rate has stabilized in Vermont and was 2.8% for June 2018 compared to 3.2% for June 2017. The New Hampshire unemployment rate was 2.7% for June 2018 compared to 2.9% for June 2017. These rates compare favorably with the nationwide unemployment rate of 4.0% and 4.4%, respectively, for the comparable periods. Management will continue to monitor the national, regional and local economic environment and its impact on unemployment, business outlook and real estate values in the Company's market area.

On occasion, the Company acquires residential or commercial real estate properties through or in lieu of loan foreclosure. These properties are held for sale and are initially recorded as OREO at fair value less estimated selling costs at the date of the Company's acquisition of the property, with fair value based on an appraisal for more significant properties and on a broker's price opinion for less significant properties. Holding costs and declines in the fair value of properties acquired are expensed as incurred. Declines in the fair value after acquisition of the property result in charges against income before tax. There were no such declines for the three and six months ended June 30, 2018, or June 30, 2017. The Company evaluates each OREO property at least quarterly for changes in the fair value. The Company had no properties classified as OREO at June 30, 2018 or June 30, 2017 and one residential real estate property valued at $36 thousand classified as OREO at December 31, 2017.

Allowance for Loan Losses. Some of the Company's loan customers ultimately do not make all of their contractually scheduled payments, requiring the Company to charge off a portion or all of the remaining principal balance due. The

Company maintains an ALL to absorb such losses. The ALL is maintained at a level believed by management to be appropriate to absorb probable credit losses inherent in the loan portfolio as of the evaluation date; however, actual loan losses may vary from current estimates. The Company's policy and methodologies for establishing the ALL, described in the Company's 2017 Annual Report did not change during the first six months of 2018.
Impaired loans, including $3.4 million of TDR loans, were $4.0 million at June 30, 2018, with government guaranties of $675 thousand and a specific reserve amount allocated of $57 thousand. Impaired loans at December 31, 2017 were $3.3 million, with

government guaranties of $550 thousand and a specific reserve amount allocated of $48 thousand. All of the impaired loans were also TDR loans at December 31, 2017. Based on management's evaluation of the Company's historical loss experience on substandard commercial loans, commercial loans with balances greater than $500 thousand is the threshold for individual impairment evaluation with a specific reserve allocated when warranted. Commercial loans with balances under this threshold are collectively evaluated for impairment as a homogeneous pool of loans, unless such loans are subject to a restructuring agreement or have been identified as impaired as part of a larger customer relationship. The specific reserve amount allocated to individually identified impaired loans increased $9 thousand as a result of the June 30, 2018 impairment evaluation.

The following table reflects activity in the ALL for the three and six months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For The Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Balance at beginning of period	$5,405	$5,192	$5,408	$5,247
Charge-offs	(3)	(28)	(9)	(89)
Recoveries	1	4	4	10
Net charge-offs	(2)	(24)	(5)	(79)
Provision for loan losses	150	—	150	—
Balance at end of period	$5,553	$5,168	$5,553	$5,168

The following table (net of loans held for sale) shows the internal breakdown by risk component of the Company's ALL and the percentage of loans in each category to total loans in the respective portfolios at the dates indicated:

	June 30, 2018		December 31, 2017	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential real estate	$1,375	31.6	$1,361	30.5
Construction real estate	556	8.8	488	7.3
Commercial real estate	2,855	46.9	2,707	43.4
Commercial	374	8.3	395	8.6
Consumer	26	0.6	30	0.7
Municipal	30	3.8	64	9.5
Unallocated	337	—	363	—
Total	$5,553	100.0	$5,408	100.0

Notwithstanding the categories shown in the table above or any specific allocation under the Company's ALL methodology, all funds in the ALL are available to absorb loan losses in the portfolio, regardless of loan category or specific allocation.

There were no changes to the reserve factors assigned to any of the loan portfolios based on the qualitative factor reviews performed during the first six months of 2018. Management of the Company believes, in its best estimate, that the ALL at June 30, 2018 is appropriate to cover probable credit losses inherent in the Company’s loan portfolio as of such date. However, there can be no assurance that the Company will not sustain losses in future periods which could be greater than the size of the ALL at June 30, 2018. In addition, our banking regulators, as an integral part of their examination process, periodically review our ALL. Such agencies may require us to recognize adjustments to the ALL based on their judgments about information available to them at the time of their examination. A large adjustment to the ALL for losses in future periods could require increased provisions to replenish the ALL, which could negatively affect earnings. Management continues to be cautiously optimistic about the collectability of the Company's loan portfolio.

Investment Activities. At June 30, 2018, investment securities classified as AFS totaled $69.5 million, comprising 9.7% of total assets, compared to $65.4 million, or 8.8% of total assets at December 31, 2017. Total investment securities increased $3.1 million, or 4.7%, from $66.4 million, or 8.9% of total assets at December 31, 2017. Net unrealized losses for the Company's AFS investment securities portfolio were $1.9 million as of June 30, 2018, compared to net unrealized losses of $381 thousand as of December 31, 2017. Net unrealized losses of $1.5 million, net of income tax effect, were reflected in the Company's accumulated OCI component of stockholders' equity at June 30, 2018. There were no securities classified as HTM at June 30, 2018 and $1.0 million in investment securities classified as HTM at December 31, 2017. No declines in value were deemed by management to be OTT at June 30, 2018. Deterioration in credit quality and/or imbalances in liquidity that may exist in the financial marketplace might adversely affect the fair values of the Company's investment portfolio and the amount of gains or losses ultimately realized on the sale of such securities, and may also increase the potential that certain resulting unrealized losses will be designated as OTT in future periods, resulting in write-downs and charges to earnings. There was $3.0 million of investment securities pledged to secure various public deposits or customer repurchase agreements as of June 30, 2018, compared to $4.6 million at December 31, 2017.

Deposits. The following table shows information concerning the Company's average deposits by account type and weighted average nominal rates at which interest was paid on such deposits for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Average Amount	Percent of Total Deposits	Average Rate	Average Amount	Percent of Total Deposits	Average Rate
	(Dollars in thousands)					
Nontime deposits:						
Noninterest bearing deposits	$121,024	19.3	—	$106,124	18.2	—
Interest bearing checking accounts	144,023	22.9	0.13 %	144,176	24.8	0.11 %
Money market accounts	153,221	24.4	0.66 %	130,206	22.4	0.50 %
Savings accounts	104,076	16.6	0.15 %	98,617	16.9	0.15 %
Total nontime deposits	522,344	83.2	0.26 %	479,123	82.3	0.20 %
Time deposits:						
Less than $100,000	60,186	9.6	0.72 %	62,116	10.7	0.65 %
$100,000 and over	45,100	7.2	0.97 %	40,666	7.0	0.68 %
Total time deposits	105,286	16.8	0.83 %	102,782	17.7	0.66 %
Total deposits	$627,630	100.0	0.36 %	$581,905	100.0	0.28 %

During the first six months of 2018, average total deposits grew $45.7 million, or 7.9%, compared to the six months ended June 30, 2017, with growth in all categories except interest bearing checking accounts and time deposits less than $100 thousand.

The Company participates in CDARS, which permits the Company to offer full deposit insurance coverage to its customers by exchanging deposit balances with other CDARS participants. CDARS also provides the Company with an additional source of funding and liquidity through the purchase of deposits. At June 30, 2018, $1.5 million of the Company's CDARS deposits represented purchased deposits which are considered "brokered" deposits. There were no purchased deposits as of December 31, 2017. These deposits are included in time deposits on the consolidated balance sheets. There were $12.6 million of time deposits of $250,000 or less on the balance sheet at June 30, 2018 and $11.5 million at December 31, 2017, which were exchanged with other CDARS participants.

The Company also participates in the ICS program, a service through which Union can offer its customers a savings product with access to unlimited FDIC insurance, while receiving reciprocal deposits from other FDIC-insured banks. Like the exchange of certificate of deposit accounts through CDARS, exchange of savings deposits through ICS provides a depositor with full deposit insurance coverage of excess balances, thereby helping Union retain the full amount of the deposit on its balance sheet. As with the CDARS program, in addition to reciprocal deposits, participating banks may also purchase one-way ICS deposits. There were $44.6 million and $67.0 million in exchanged ICS money market deposits on the balance sheet at June 30, 2018 and December 31, 2017, respectively. There were no purchased ICS deposits at June 30, 2018 or December 31, 2017.

The Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law in May 2018 and allows the Company to hold reciprocal deposits up to 20 percent of total liabilities without those deposits being treated as brokered for regulatory purposes.

At June 30, 2018, there was $999 thousand in retail brokered deposits issued under a master certificate of deposit program with a deposit broker for the purpose of providing a supplemental source of funding and liquidity. These deposits will mature in February 2019. There were $2.0 million of retail brokered deposits at December 31, 2017.

The following table provides a maturity distribution of the Company's time deposits in amounts of $100,000 and over at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Within 3 months	$11,178	$ 5,345
3 to 6 months	7,736	9,752
6 to 12 months	13,487	13,737
Over 12 months	14,277	12,348
	$46,678	$ 41,182

A provision of the Dodd-Frank Act permanently raised FDIC deposit insurance coverage to $250 thousand per depositor per insured depository institution for each account ownership category. At June 30, 2018, the Company had deposit accounts with less than $250 thousand totaling $453.2 million, or 78.3% of its deposits, with FDIC insurance protection. An additional $6.4 million of municipal deposits were over the FDIC insurance coverage limit at June 30, 2018 and were collateralized by Union under applicable state regulations by investment securities or letters of credit issued by the FHLB.

Borrowings. Total borrowed funds at June 30, 2018 were $69.0 million compared to $31.6 million at December 31, 2017, a net increase of $37.5 million, or 118.6%. The FHLB option advance borrowings were $68.5 million at June 30, 2018, at a weighted average rate of 1.79%, and $30.2 million at December 31, 2017, at a weighted average rate of 1.42%. The increase in borrowed funds was utilized to fund loan demand as loan growth has been outpacing deposit growth through the first six months of 2018. The increase in option advance borrowings reflects a $21.0 million one month bullet advance at 2.13% and a $20.0 million one month bullet advance at 2.09% taken during the second quarter of 2018, as well as a $7.0 million five year option advance (callable after one year) at 0.77% taken during the first quarter of 2018. These advances were partially offset by the maturity of $4.7 million in option advances, a $5.0 million option advance called by FHLB and scheduled monthly payments of $72 thousand on long-term FHLB amortizing advances during the first six months of 2018. In addition, the Company had overnight secured customer repurchase agreement sweeps at June 30, 2018 of $588 thousand, at a weighted average rate of 0.25%, compared to $1.4 million, at a weighted average rate of 0.25% at December 31, 2017, a decrease of $777 thousand, or 56.9%, primarily due to a customer converting their account to another deposit product during the first quarter. The volume of the overnight secured customer repurchase agreement sweeps is volatile and is a function of our customers' cash flow and cash management needs.

The Company has the authority, up to its available borrowing capacity with the FHLB, to collateralize public unit deposits with letters of credit issued by the FHLB. FHLB letters of credit in the amount of $7.0 million and $29.6 million were utilized as collateral for these deposits at June 30, 2018 and December 31, 2017, respectively. Total fees paid by the Company in connection with the issuance of these letters of credit were $9 thousand and $15 thousand for the three and six months ended June 30, 2018, respectively, with no fees paid for the three and six months ended June 30, 2017.

Commitments, Contingent Liabilities, and Off-Balance-Sheet Arrangements. The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers, to reduce its own exposure to fluctuations in interest rates and to implement its strategic objectives. These financial instruments include commitments to extend credit, standby letters of credit, interest rate caps and floors written on adjustable-rate loans, commitments to participate in or sell loans, commitments to buy or sell securities, certificates of deposit or other investment instruments and risk-sharing commitments or guarantees on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The contractual or notional amounts of these instruments reflect the extent of involvement the Company has in a particular class of financial instruments.

The Company's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable-rate loans, the contractual or notional amounts do not represent the Company's exposure to credit loss. The Company controls the risk of interest rate cap agreements through credit approvals, limits, and monitoring procedures. The Company generally requires collateral or other security to support financial instruments with credit risk.

The following table details the contractual or notional amount of financial instruments that represented credit risk at the balance sheet dates:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Commitments to originate loans	$116,887	$ 25,394
Unused lines of credit	81,178	85,906
Standby and commercial letters of credit	2,078	2,064
Credit card arrangements	1,389	1,326
FHLB Mortgage Partnership Finance credit enhancement obligation, net	643	640
Commitment to purchase investment in a real estate limited partnership	—	1,470
Contract commitment for renovation projects	431	662
Total	$202,606	$ 117,462

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have a fixed expiration date or other termination clause and may require payment of a fee. Since many of the loan commitments are expected to expire without being drawn upon and not all credit lines will be utilized, the total commitment amounts do not necessarily represent future cash requirements. Lines of credit incur seasonal volume fluctuations due to the nature of some customers' businesses, such as tourism and maple syrup products production. The large increase in commitments to originate loans at June 30, 2018 from December 31, 2017 is primarily the result of the municipals' and school districts' fiscal cycle, with $63.9 million committed to them on June 30, 2018 for their fiscal year beginning July 1, 2018. In addition, commitments to originate commercial real estate loans at June 30, 2018 increased $25.2 million over December 31, 2017.

The Company did not hold any derivative or hedging instruments at June 30, 2018 or December 31, 2017.

The Company’s subsidiary bank is required (as are all banks) to maintain vault cash or a noninterest bearing reserve balance as established by FRB regulations. The Bank’s average total required reserve for the 14 day maintenance period including June 30, 2018 was $1.1 million and for December 31, 2017 was $1.4 million, both of which were satisfied by vault cash.

Contractual Obligations. The Company and Union have various financial obligations, including contractual obligations that may require future cash payments. The following table presents, as of June 30, 2018, significant fixed and determinable contractual obligations to third parties:

	June 30, 2018
	(Dollars in thousands)
Operating lease commitments	$ 587
Contractual payments on borrowed funds (1)	69,039
Deposits without stated maturity (1) (2)	471,566
Certificates of deposit (1) (2)	107,321
Deferred compensation payouts	880
Total	$ 649,393

(1) The amounts exclude interest payable.

(2) While Union has a contractual obligation to depositors should they wish to withdraw all or some of the funds on deposit, management believes, based on historical analysis as well as current conditions in the financial markets, that the majority of these deposits will remain on deposit for the foreseeable future.

Liquidity. Liquidity is a measurement of the Company’s ability to meet potential cash requirements, including ongoing commitments to fund deposit withdrawals, repay borrowings, fund investment and lending activities, and for other general business purposes. The primary objective of liquidity management is to maintain a balance between sources and uses of funds to meet our cash flow needs in the most economical and expedient manner. The Company's principal sources of funds are deposits; amortization, prepayment and maturity of loans, investment securities, interest bearing deposits and other short-term investments; sales of securities and loans AFS; earnings; and funds provided from operations. Contractual principal repayments on loans are a relatively predictable source of funds; however, deposit flows and loan and investment prepayments are less predictable and can be significantly influenced by market interest rates, economic conditions, and rates offered by our competitors. Managing liquidity risk is essential to maintaining both depositor confidence and earnings stability.

As of June 30, 2018, Union, as a member of FHLB, had access to unused lines of credit up to $38.5 million over and above the $76.4 million in combined outstanding borrowings and other credit subject to collateralization, subject to the purchase of required FHLB Class B common stock and evaluation by the FHLB of the underlying collateral available. This line of credit can be used for either short-term or long-term liquidity or other funding needs.
Union also maintains an IDEAL Way Line of Credit with the FHLB. The total line available was $551 thousand at June 30, 2018. There were no borrowings against this line of credit as of such date. Interest on this line is chargeable at a rate determined by the FHLB and payable monthly. Should Union utilize this line of credit, qualified portions of the loan and investment portfolios would collateralize these borrowings.
In addition to its borrowing arrangements with the FHLB, Union maintains a pre-approved federal funds line of credit totaling $10.0 million with an upstream correspondent bank and one-way buy options with CDARS and ICS as well as access to the FRB discount window, which would require pledging of qualified assets. Core deposits are the lowest cost of funds the Company has access to but these deposits may not be sufficient to cover the on balance sheet liquidity needs which makes using these other funding sources necessary. At June 30, 2018 there were no purchased ICS deposits under this agreement, $1.5 million purchased CDARS deposits, and no outstanding advances on the federal funds line or at the discount window.
Union's investment and residential loan portfolios provide a significant amount of contingent liquidity that could be accessed in a reasonable time period through sales of those portfolios. We also have additional contingent liquidity sources with access to the brokered deposit market and the FRB discount window. These sources are considered as liquidity alternatives in our contingent liquidity plan. At June 30, 2018, there was $998 thousand in retail brokered deposits issued under a master certificate of deposit program with a deposit broker. Management believes the Company has sufficient liquidity to meet all reasonable borrower, depositor, and creditor needs in the present economic environment. However, any projections of future cash needs and flows are subject to substantial uncertainty, including factors outside the Company's control.
On July 2, 2018, the Company entered into a terms agreement with a deposit broker for placement of $8.0 million of brokered deposits to settle on July 13, 2018. Interest will be charged at a rate of 2.07% and will mature on October 12, 2018. The agreement was entered into to obtain funding to manage short term liquidity needs.

Capital Resources. Capital management is designed to maintain an optimum level of capital in a cost-effective structure that meets target regulatory ratios, supports management’s internal assessment of economic capital, funds the Company’s business strategies and builds long-term stockholder value. Dividends are generally in line with long-term trends in earnings per share and conservative earnings projections, while sufficient profits are retained to support anticipated business growth, fund strategic investments, maintain required regulatory capital levels and provide continued support for deposits. The Company continues to evaluate growth opportunities both through internal growth or potential acquisitions.
Stockholders’ equity increased from $58.7 million at December 31, 2017 to $60.1 million at June 30, 2018, reflecting net income of $5.2 million for the first six months of 2018, an increase of $82 thousand from stock based compensation, and a $15 thousand increase due to the issuance of common stock under the DRIP. These increases were partially offset by cash dividends paid of $2.7 million, a decrease of $1.2 million in accumulated other comprehensive loss due to a decline in the fair market value of the Company's AFS securities, and stock repurchases of $3 thousand during the six months ended June 30, 2018. The components of the other comprehensive loss are illustrated in Note 11 of the unaudited consolidated financial statements.
The Company has 7,500,000 shares of $2.00 par value common stock authorized. As of June 30, 2018, the Company had 4,940,961 shares issued, of which 4,465,803 were outstanding and 475,158 were held in treasury.
In January 2018, the Company's Board reauthorized the limited stock repurchase plan that was initially established in May of 2010 and has been reauthorized annually since that time. The limited stock repurchase plan allows the repurchase of up to a fixed number of shares of the Company's common stock each calendar quarter (currently 2,500 shares) in open market purchases or privately negotiated transactions, as management deems advisable and as market conditions may warrant. The repurchase authorization for a calendar quarter expires at the end of that quarter to the extent it has not been exercised, and is not carried forward into future quarters. The quarterly repurchase authorization

expires on December 31, 2018, unless reauthorized. The Company repurchased 60 shares during the first six months of 2018 under this program at a total cost of $3 thousand.

The Company adopted a Dividend Reinvestment and Stock Purchase Plan whereby registered stockholders may elect to reinvest cash dividends and optional cash contributions to purchase additional shares of the Company's common stock. The Company has reserved 200,000 shares of its common stock for issuance and sale under the DRIP. As of June 30, 2018, 1,164 shares of stock had been issued from treasury stock under the DRIP.

The Company (on a consolidated basis) and Union are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Union must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Under the current guidelines, banking organizations must have a minimum total risk-based capital ratio of 8.0%, a minimum Tier I risk-based capital ratio of 6.0%, a minimum common equity Tier I risk-based capital ratio of 4.5%, and a minimum leverage ratio of 4.0% in order to be "adequately capitalized." In addition to these requirements, banking organizations must maintain a 2.5% capital conservation buffer consisting of common Tier I equity, subject to a transition schedule with a full phase-in by 2019. Effective January 1, 2018, the Company and the Bank were required to establish a capital conservation buffer of 1.875%, increasing the minimum required total risk-based capital, Tier I risk-based and common equity Tier I capital to risk-weighted assets they must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act was signed into law. This act rolls back certain provisions of the Dodd-Frank Act of 2010 providing relief to all but the largest banking organizations in the United States. A bank with less than $10 billion in assets may be exempt from current leverage and risk-based capital ratio requirements if it maintains a community bank leverage ratio ("CBLR") above a threshold to be set by regulators between eight and 10 percent. The bank will be deemed "well capitalized" if it meets the CBLR.

As of June 30, 2018, both the Company and Union met all capital adequacy requirements to which they are currently subject. There were no conditions or events between June 30, 2018 and the date of this report that management believes have changed either Company's regulatory capital category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of June 30, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Company:						
Total capital to risk weighted assets	$69,199	14.06 %	$39,374	8.00 %	N/A	N/A
Tier I capital to risk weighted assets	63,646	12.93 %	29,534	6.00 %	N/A	N/A
Common Equity Tier 1 to risk weighted assets	63,646	12.93 %	22,151	4.50 %	N/A	N/A
Tier I capital to average assets	63,646	8.71 %	29,229	4.00 %	N/A	N/A
Union:						
Total capital to risk weighted assets	$68,817	14.01 %	$39,296	8.00 %	$49,120	10.00 %
Tier I capital to risk weighted assets	63,264	12.88 %	29,471	6.00 %	39,294	8.00 %
Common Equity Tier 1 to risk weighted assets	63,264	12.88 %	22,103	4.50 %	31,927	6.50 %
Tier I capital to average assets	63,264	8.64 %	29,289	4.00 %	36,611	5.00 %

Dividends paid by Union are the primary source of funds available to the Company for payment of dividends to its stockholders. Union is subject to certain requirements imposed by federal banking laws and regulations, which among other things, establish minimum levels of capital and restrict the amount of dividends that may be distributed by Union to the Company.

Quarterly cash dividends of $0.30 per share were paid during the first half of 2018 and declared for the third quarter, payable on August 9, 2018 to stockholders of record on July 30, 2018. The dividend rate of $0.30 per share represents an increase of $0.01 per share in the quarterly cash dividends paid in 2017 .

Regulatory Matters. The Company and Union are subject to periodic examinations by the various regulatory agencies. These examinations include, but are not limited to, procedures designed to review lending practices, risk management, credit quality, liquidity, compliance and capital adequacy. In May of 2017, the FDIC performed its regular, periodic safety and soundness examination of Union. In February of 2017, the FDIC performed its regular periodic compliance examination of Union. In September of 2017, the FRB performed its regular, periodic examination of the Company. During 2015, the Vermont Department of Financial Regulation performed a regular safety and soundness examination of Union. No comments were received that would have a material adverse effect on the Company's or Union's liquidity, financial position, capital resources, or results of operations.

OTHER FINANCIAL CONSIDERATIONS

Market Risk and Interest Rate Risk. Market risk is the potential of loss in a financial instrument arising from adverse changes in market prices, interest rates, foreign currency exchange rates, commodity prices, and equity prices. As of June 30, 2018, the

Company did not have any market risk sensitive instruments acquired for trading purposes. The Company's market risk arises primarily from interest rate risk inherent in its lending, investing, deposit taking and borrowing activities. Management of interest rate risk is an important component of our asset and liability management process, which is governed by established policies that are reviewed and approved annually. Our investment policy details the types of securities that may be purchased, and establishes portfolio limits and maturity limits for the various sectors. Our investment policy also establishes specific investment quality limits. The ALCO develops guidelines and strategies impacting our asset and liability management-related activities based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends. Members of the ALCO also manage the investment portfolio to maximize net interest income while mitigating market and interest rate risk.

Interest rate risk arises naturally from imbalances in repricing, maturity and cash flow characteristics of our assets and liabilities. The ALCO takes into consideration the cash flow and repricing attributes of balance sheet and off-balance sheet items and their relation to possible changes in interest rates. The ALCO manages interest rate exposure primarily by using on-balance sheet strategies, generally accomplished through the management of the duration, rate sensitivity and average lives of our various investments, and by extending or shortening maturities of borrowed funds, as well as carefully managing and monitoring the maturities and pricing of loans and deposits.

An outside consultant is utilized to perform rate shocks to our balance sheet to assess our risk to earnings in different interest rate environments, and to perform a variety of other analyses. The consultant's most recent completed analysis was as of June 30, 2018. The base simulation assumed no changes in rates, as well as 200 and 300 basis point rising interest rate scenarios which assume a parallel shift of the yield curve over a one-year period, and no growth assumptions. Management is not aware of any significant changes in the Company's risk profile since the analysis was performed as of June 30, 2018. A summary of the results is as follows:

- Current/Flat Rates: If rates remain at current levels net interest income is projected to trend sideways for the entire simulation as declining asset yields are similarly offset by reductions to funding costs.
- Rising Rates: Higher rates indicate positive results under all scenarios. Under the rising rate scenarios if rates rise in a parallel fashion, net interest income is expected to trend close to the base case scenario over the near term as higher funding costs match increasing asset yields. Once funding cost increases stabilize, net interest income is projected to increase for the duration of the simulation as assets reprice at higher rates and investment and loan cash flow continues to cycle into the elevated environment. The timing of recovery will depend on the slope and shape of the yield curve as rates rise.

The net interest income simulation as of June 30, 2018 showed that the change in net interest income for the next 12 months from our expected or "most likely" forecast was as follows:

Rate Change	Percent Change in Net Interest Income Limit	Percent Change in Net Interest Income
Up 300 basis points	(21.00)%	(2.8)%
Up 200 basis points	(14.00)%	(1.5)%

The preceding sensitivity analysis does not represent our forecast and should not be relied upon as being indicative of expected operating results. These estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit run-off rates, pricing decisions on loans and deposits and reinvestment/replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, we cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences might change.

The model used to perform the base case balance sheet simulation assumes a parallel shift of the yield curve over twelve months and reprices every interest earning asset and interest bearing liability on our balance sheet, simultaneously. The use of pricing betas help simulate the expected pricing behavior regarding non-maturing deposits, limiting the rate increases that occur when market rates rise. A historic analysis of the bank's prepayment history was performed and the results were used as a basis for future prepayment expectations. Investment securities with call provisions are examined on an individual basis to estimate the likelihood of a call.

As market conditions vary from those assumed in the sensitivity analysis, actual results will likely differ due to: the varying impact of changes in the balances and mix of loans and deposits differing from those assumed, the impact of possible off balance sheet commitments, and other internal/external variables. Furthermore, the sensitivity analysis does not reflect all actions that the ALCO might take in responding to or anticipating changes in interest rates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.
Information called for by this item is incorporated to Part I, Item 2, reference in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption OTHER FINANCIAL CONSIDERATIONS on page 44 of this report

Item 4. Controls and Procedures.
Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer, with the assistance of the Disclosure Control Committee, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2018. Based on this evaluation they concluded that those disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files with the Commission is accumulated and communicated to the Company's management, including its principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required information.
Changes in Internal Controls over Financial Reporting. There was no change in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.
There are no known pending legal proceedings to which the Company or its subsidiary is a party, or to which any of their properties is subject, other than ordinary litigation arising in the normal course of business activities. Although the amount of any ultimate liability with respect to such proceedings cannot be determined, in the opinion of management, any such liability is not expected to have a material adverse effect on the consolidated financial condition or results of operations of the Company and its subsidiary.

Item 1A. Risk Factors
There have been no material changes in the risk factors discussed in Part I-Item 1A, "Risk Factors" in our 2017 Annual Report since the date of the filing of that report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
During the quarter ended June 30, 2018, the Company did not issue any unregistered equity securities.
There was no repurchase of the Company's equity securities during the quarter ended June 30, 2018.

Item 6. Exhibits.

31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the three and six months ended June 30, 2018 and 2017, (iii) the unaudited consolidated statements of comprehensive income for the three and six months ended June 30, 2018 and 2017, (iv) the unaudited consolidated statements of changes in stockholders' equity, (iv) the unaudited consolidated statements of cash flows and (v) related notes.

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Union Bankshares, Inc.

August 9, 2018 /s/ David S. Silverman
David S. Silverman
Director, President and Chief Executive Officer

August 9, 2018 /s/ Karyn J. Hale
Karyn J. Hale
Chief Financial Officer
(Principal Financial Officer)

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