Navios Maritime Partners L.P.
Form 20-F
April 09, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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 __________

For the transition period from __________ to __________

Commission file number 001-33811

Navios Maritime Partners L.P.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant s Name into English)

Republic of Marshall Islands

(Jurisdiction of incorporation or organization)

7 Avenue de Grande Bretagne, Office 11B2

Monte Carlo, MC 98000 Monaco

(Address of Principal Executive Offices)

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(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 Units	New York Stock Exchange LLC

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

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: 169,054,258 Common Units

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

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 periods that the registrant was required to file such reports), and (2) has been subject to such reporting requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or emerging growth company. See the definition of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

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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

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FORWARD-LOOKING STATEMENTS

This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

Statements included in this annual report which are not historical facts (including our statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto) are forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements which are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, and the markets in which we operate as described in this annual report. In some cases, you can identify the forward-looking statements by the use of words such as may, could, should, would, expect, plan, anticipate, intend, forecast, believe, estimate, potential, continue or the negative of these terms or other comparable terminology.

Forward-looking statements appear in a number of places and include statements with respect to, among other things:

- our ability to make cash distributions on our common units;
- our future financial condition or results of operations and our future revenues and expenses;
- future levels of operating surplus and levels of distributions, as well as our future cash distribution policy;
- our current and future business and growth strategies and other plans and objectives for future operations;
- future charter hire rates and vessel values;
- the repayment of debt;
- our ability to access debt and equity markets;
- planned capital expenditures and availability of capital resources to fund capital expenditures;
- future supply of, and demand for, dry cargo commodities;
- increases in interest rates;

our ability to maintain long-term relationships with major commodity traders, operators and liner companies;

our ability to leverage to our advantage Navios Maritime Holdings Inc. s (Navios Holdings) relationships and reputation in the shipping industry;

our continued ability to enter into long-term, fixed-rate time charters;

our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term time charters;

timely purchases and deliveries of newbuilding vessels;

future purchase prices of newbuildings and secondhand vessels;

our ability to compete successfully for future chartering and newbuilding opportunities;

our future financial condition or results of operations and our future revenues and expenses, including revenues from any profit sharing arrangements, and required levels of reserves;

potential liability and costs due to environmental, safety and other incidents involving our vessels;

our track record, and past and future performance, in safety, environmental and regulatory matters;

our anticipated incremental general and administrative expenses as a publicly traded limited partnership and our expenses under the management agreement, as amended (the Management Agreement) and the administrative services agreement (the Administrative Services Agreement) with Navios ShipManagement Inc., a subsidiary of Navios Holdings (the Manager) and for reimbursements for fees and costs of our general partner;

estimated future maintenance and replacement capital expenditures;

future sales of our common units in the public market;

a lack of sufficient cash to pay the quarterly distribution on our common units;

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the cyclical nature of the international dry cargo and container shipping industry;

fluctuations in charter rates for dry cargo carriers and containerships;

the high numbers of newbuildings currently under construction in the dry cargo industry;

changes in the market values of our vessels and the vessels for which we have purchase options;

an inability to expand relationships with existing customers and obtain new customers;

the loss of any customer or charter or vessel;

the aging of our fleet and resultant increases in operations costs;

damage to our vessels;

global economic outlook and growth and changes in general economic and business conditions;

general domestic and international political conditions, including wars, terrorism and piracy;

increases in costs and expenses, including but not limited to: crew wages, insurance, provisions, port expenses, lube oil, bunkers, repairs, maintenance and general and administrative expenses;

the adequacy of our insurance arrangements and our ability to obtain insurance and required certifications;

the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards, as well as standard regulations imposed by our charterers applicable to our business;

the changes to the regulatory requirements applicable to the shipping industry, including, without limitation, stricter requirements adopted by international organizations, such as the International Maritime Organization and the European Union, or by individual countries or charterers and actions taken by regulatory authorities and governing such areas as safety and environmental compliance;

- the anticipated taxation of our partnership and our unitholders;
- expected demand in the dry cargo shipping sector in general and the demand for our Panamax, Capesize, Ultra-Handymax and Container vessels in particular;
- our ability to retain key executive officers;
- customers increasing emphasis on environmental and safety concerns;
- changes in the availability and costs of funding due to conditions in the bank market, capital markets and other factors; and
- other factors detailed from time to time in our periodic reports filed with the U.S. Securities and Exchange Commission (the SEC).

These and other forward-looking statements are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those set forth below, as well as those risks discussed in Item 3. Key Information .

The risks and assumptions are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

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Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated historical financial information as of December 31, 2018 and 2017 and operating results for the years ended December 31, 2018, 2017, and 2016, were derived from our audited consolidated financial statements of Navios Maritime Partners L.P. (sometimes referred to as Navios Partners , the Partnership , we or us) which are included elsewhere in this report. The selected consolidated historical financial information as of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2015 and December 31, 2014 have been derived from our audited financial statements not included in this report. This information is qualified by reference to, and should be read in conjunction with, Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and notes thereto included elsewhere in this report.

	Year ended December 31,				
	2018	2017	2016	2015	2014
	(Expressed in thousands of U.S. dollars-except unit and per unit data)				
Statement of Income Data					
Time charter and voyage revenues	$ 231,361	$ 211,652	$ 190,524	$ 223,676	$ 227,356
Time charter and voyage expenses	(10,024)	(4,158)	(5,673)	(7,199)	(15,390)
Direct vessel expenses	(6,180)	(7,172)	(6,381)	(4,043)	(761)
Management fees	(68,871)	(67,310)	(59,209)	(56,504)	(50,359)
General and administrative expenses	(18,458)	(17,163)	(12,351)	(7,931)	(7,839)
Depreciation and amortization	(58,334)	(72,760)	(92,370)	(75,933)	(95,822)
Vessel impairment losses	(44,344)	(32,677)	(27,201)		
Loss on sale of securities			(19,435)		
Interest expense and finance cost, net	(42,766)	(38,225)	(31,247)	(31,720)	(28,761)
Interest income	4,408	3,277	541	222	243
Gain on change in control		4,068			
Other income	1,554	9,884	14,523	5,232	47,935
Other expense	(5,384)	(5,133)	(4,270)	(3,995)	(1,749)
Equity in net earnings of affiliated companies	3,957	866			

Net (loss)/ income	**$ (13,081)**	**$ (14,851)**	**$ (52,549)**	**$ 41,805**	**$ 74,853**
Balance Sheet Data (at period end)					
Current assets, including cash	$ 111,112	$ 60,306	$ 56,349	$ 39,835	$ 115,197
Vessels, net	1,043,250	1,099,015	1,037,206	1,230,049	1,139,426
Total assets	1,314,133	1,305,302	1,268,580	1,350,291	1,338,709[(2)]
Total long-term financial liability, including current portion, net	23,820				
Total long-term debt, including current portion, net	483,665	493,463	523,776	598,078	575,974[(2)]
Total partners capital	776,753	767,710	680,209	732,215	749,098
Units issued and outstanding					
Common unitholders	169,054,258	147,797,720	83,323,911	83,079,710	77,359,163
Weighted average units outstanding (basic and diluted)					
Common unitholders	162,353,865	132,610,330	83,107,066	82,437,128	76,587,656
Earnings per unit (basic and diluted)					
Common unit	$ (0.08)	$ (0.11)	$ (0.62)	$ 0.48	$ 0.93
Dividends declared per unit					
Cash dividend per common unit	$ 0.06			$ 1.54	$ 1.73
Cash dividend per general partner unit	$ 0.06			$ 2.57	$ 3.08
Cash Flow Data					
Net cash provided by operating activities	$ 68,319	$ 53,499[(3)]	$ 61,813[(3)]	$ 123,702[(3)]	$ 171,438[(3)]
Net cash (used in)/ provided by investing activities	(67,888)	(187,211)	5,051	(149,301)	(123,272)
Net cash provided by/ (used in) financing activities	31,091	138,557[(3)]	(76,315)[(3)]	(40,311)[(3)]	15,760[(3)]
Fleet Data:					
Vessels operating at end of period[(1)]	37	36	32	31	32

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(1) Includes owned and chartered-in vessels.
(2) The total assets and long-term debt, including current portion net of discount presented in this table have been revised to reflect the adoption of ASU 2015-03, which was effective beginning the first quarter ending March 31, 2015 and applied retrospectively to all prior periods presented in the Company s financial statements.
(3) The net cash provided by operating activities and net increase in operating assets presented in this table have been revised to reflect the adoption of ASU 2016-18, which was effective beginning the first quarter ended March 31, 2018 and applied retrospectively to all prior periods presented in the Company s financial statements.

B. Capitalization and indebtedness.

Not applicable.

C. Reasons for the offer and use of proceeds.

Not applicable.

D. Risk factors

Risks Relating to Our Business

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 and to make distributions.

We are a holding company and our subsidiaries conduct all of our operations and own all of our operating assets, including our ships. We have no significant assets other than the equity interests in our subsidiaries. As a result, our ability to pay our obligations and to make distributions depends entirely on our subsidiaries and their ability to distribute funds to us. The ability of a subsidiary to make these distributions could be affected by a claim or other action by a third party, including a creditor, or by the law of their respective jurisdiction of incorporation which regulates the payment of distributions. If we are unable to obtain funds from our subsidiaries, our Board of Directors may not exercise its discretion not to declare or make distributions.

We depend on Navios Holdings and its affiliates to assist us in operating and expanding our business.

Pursuant to the Management Agreement between Navios Partners and the Manager, an affiliate of our general partner, the Manager provides to us significant commercial and technical management services (including the commercial and technical management of our vessels, vessel maintenance and crewing, purchasing and insurance and shipyard supervision). In addition, pursuant to the Administrative Services Agreement between us and the Manager, the Manager provides to Navios Partners significant administrative, financial and other support services. Our operational success and ability to execute our growth strategy will depend significantly upon the Manager s satisfactory performance of these services. Our business will be harmed if the Manager fails to perform these services satisfactorily, if the Manager cancels either of these agreements, or if the Manager stops providing these services to us.

Our growth depends on continued growth in demand for drybulk commodities, finished or semi-finished goods, and the shipping of drybulk cargoes as well as the shipping of containers.

Our growth strategy focuses on expansion in the dry cargo shipping sector. Accordingly, our growth depends on continued growth in world and regional demand for drybulk commodities, finished or semi-finished goods and the shipping of dry cargoes, which could be negatively affected by a number of factors, such as declines in prices for

drybulk commodities or containerized cargoes, or general political and economic conditions.

We anticipate that the future demand for our drybulk carriers and drybulk charter rates will be dependent upon demand for imported commodities, economic growth in the emerging markets, including the Asia Pacific region, India, Brazil and Russia. In past years, China and India have had two of the world s fastest growing economies in terms of gross domestic product and have been the main driving force behind increases in marine drybulk trade and the demand for drybulk vessels. The Asia Pacific and Indian economies have also been significant suppliers of manufactured goods currently shipped by container to the developed markets of the OECD. If economic growth declines in China, Japan, India and other countries in the Asia Pacific region, we may face decreases in such drybulk and container shipping trade and demand. For example, the recent slowdown of the Chinese economy has adversely affected demand for Capesize bulk carriers and, as a result, spot and period rates, as well as asset values, are currently at low levels. A slowdown in the

economies of the United States or the European Union, or certain other Asian countries may also adversely affect economic growth in the Asia Pacific region and India. A decline in demand for commodities transported in drybulk carriers and/or containerships, or an increase in supply of drybulk vessels or containerships could cause a further decline in charter rates, which could materially adversely affect our results of operations and financial condition. If we sell a vessel at a time when the market value of our vessels has fallen, the sale may be at less than the vessel s carrying amount, resulting in a loss.

A decrease in the level of China s imports of raw materials or a decrease in trade globally could have a material adverse impact on our charterers business and, in turn, could cause a material adverse impact on our results of operations, financial condition and cash flows.

China imports significant quantities of raw materials. For example, in 2018, China imported 1.047 billion tons of iron ore by sea out of a total of 1.476 billion tons shipped globally, accounting for about 71% of the global seaborne iron ore trade. While it only accounted for approximately 19% of seaborne coal movements of coal in 2018 according to current estimates (236 million tons imported compared to 1.262 billion tons of seaborne coal traded globally), that is a decline from over 22% in 2013 (264 million tons imported compared to 1.182 billion tons of seaborne coal traded globally). Our drybulk vessels are deployed by our charterers on routes involving drybulk trade in and out of emerging markets, and our charterers drybulk shipping and business revenue may be derived from the shipment of goods within and to the Asia Pacific region from various overseas export markets. Any reduction in or hindrance to China-based importers could have a material adverse effect on the growth rate of China s imports and on our charterers business. For instance, the government of China has implemented economic policies aimed at reducing pollution, increasing consumption of domestically produced Chinese coal or promoting the export of such coal or increasing consumption of natural gas or increasing the production of electricity from renewable resources. This may have the effect of reducing the demand for imported raw materials and may, in turn, result in a decrease in demand for drybulk 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 from China or other nations will adversely affect our business. If the global recovery is undermined by downside risks and the recent economic downturn returns, 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 may cause (i) a decrease in cargoes available to our charterers in favor of Chinese charterers and Chinese owned ships and (ii) an increase in the risks associated with importing goods to China. 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, results of operations, financial condition and our ability to pay cash distributions to our unitholders.

We are focused on employing vessels on long-term charters and we may have difficulties in doing so if a more active short-term or spot market develops.

One of our principal strategies is to enter into long-term charters, although we believe it is impractical to determine the typical charter length for vessels in our sectors due to factors such as market dynamics, charter strategy and the private nature of charter agreements. If a market for long-term time charters in the sectors in which we operate does

not develop, we may have increased difficulty entering into long-term time charters upon expiration or early termination of the time charters for our vessels. As a result, our revenues and cash flows may become more volatile. In addition, an active short-term or spot charter market may require us to enter into charters based on changing market prices, as opposed to contracts based on fixed rates, which could result in a decrease in our revenues and cash flows, including cash available for distribution to unitholders, if we enter into charters during periods when the market price for shipping dry cargoes is depressed or these markets become depressed during the period of any adjustable rate charter.

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Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we will face substantial competition.

Long-term time charters have the potential to provide income at pre-determined rates over more extended periods of time. However, the process for obtaining longer term time charters is highly competitive and generally involves a lengthy, intensive and continuous screening and vetting process and the submission of competitive bids that often extends for several months. In addition to the quality, age and suitability of the vessel, longer term shipping contracts tend to be awarded based upon a variety of other factors relating to the vessel operator, including:

- the operator s environmental, health and safety record;
- compliance with the IMO standards and the heightened industry standards that have been set by some energy companies;
- shipping industry relationships, reputation for customer service, technical and operating expertise;
- shipping experience and quality of ship operations, including cost-effectiveness;
- quality, experience and technical capability of crews;
- the ability to finance vessels at competitive rates and overall financial stability;
- relationships with shipyards and the ability to obtain suitable berths;
- construction management experience, including the ability to procure on-time delivery of new vessels according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

It is likely that we will face substantial competition for long-term charter business from a number of experienced companies. We may not be able to compete profitably as we expand our business into new geographic regions or provide new services. New markets may require different skills, knowledge or strategies than we use in our current markets. Many of these competitors have significantly greater financial resources than we do. It is also likely that we will face increased numbers of competitors entering into our transportation sectors, including in the containership and drybulk sector. Many of these competitors have strong reputations and extensive resources and experience. Increased

competition may cause greater price competition, especially for long-term charters.

As a result of these factors, we may be unable to expand our relationships with existing customers or obtain new customers for long-term charters on a profitable basis, if at all. However, even if we are successful in employing our vessels under longer term charters, our vessels will not be available for trading in the spot market during an upturn in the dry cargo market cycle, when spot trading may be more profitable. If we cannot successfully employ our vessels in profitable time charters our results of operations and operating cash flow could be adversely affected.

As we expand our business, we may have difficulty managing our growth, which could increase expenses.

We intend to seek to grow our fleet, either through purchases, the increase of the number of chartered-in vessels or through the acquisitions of businesses. The addition of vessels to our fleet or the acquisition of new businesses will impose significant additional responsibilities on our management. We will also have to increase our customer base to provide continued employment for the new vessels. Our growth will depend on our success in locating and acquiring suitable vessels, identifying and consummating acquisitions or joint ventures, integrating any acquired business successfully with our existing operations, enhancing our customer base, managing our expansion, and obtaining required financing.

Growing any business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty in obtaining additional qualified personnel, and managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures, and we may not be successful in executing our growth plans. We may incur significant expenses and losses in connection therewith or that our acquisitions will perform as expected, which could materially adversely affect our results of operations and financial condition.

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We may be unable to make or realize expected benefits from acquisitions, and implementing our growth strategy through acquisitions may harm our business, financial condition and operating results.

Our growth strategy focuses on a gradual expansion of our fleet. Any acquisition of a vessel may not be profitable to us at or after the time we acquire it and may not generate cash flow sufficient to justify our investment. We may also fail to realize anticipated benefits of our growth, such as new customer relationships, cost-savings or cash flow enhancements, or we may be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet.

Our growth strategy could decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions. To the extent that we incur additional debt to finance acquisitions, it could significantly increase our interest expense or financial leverage. We may also incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

Additionally, the marine transportation and logistics industries are capital intensive, traditionally using substantial amounts of indebtedness to finance vessel acquisitions, capital expenditures and working capital needs. If we finance the purchase of our vessels through the issuance of debt securities, it could result in:

- default and foreclosure on our assets if our operating cash flow after a business combination or asset acquisition were insufficient to pay our debt obligations;

- acceleration of our obligations to repay the indebtedness even if we have made all principal and interest payments when due if the debt security contained covenants that required the maintenance of certain financial ratios or reserves and any such covenant were breached without a waiver or renegotiation of that covenant;

- our immediate payment of all principal and accrued interest, if any, if the debt security was payable on demand; and

- our inability to obtain additional financing, if necessary, if the debt security contained covenants restricting our ability to obtain additional financing while such security was outstanding.

In addition, our business plan and strategy is predicated on buying vessels at what we believe is near the low end of the cycle in what has typically been a cyclical industry. However, charter rates and vessel asset values may sink lower, and shipping costs or vessel asset values may not increase in the near-term or at all.

Delays in deliveries of secondhand vessels, our decision to cancel an order for purchase of a vessel or our inability to otherwise complete the acquisitions of additional vessels for our fleet, could harm our business, financial condition and results of operations.

We expect to purchase secondhand vessels from time to time. The delivery of these vessels could be delayed, not completed or cancelled, which would delay or eliminate our expected receipt of revenues from the employment of these vessels. The seller could fail to deliver these vessels to us as agreed, or we could cancel a purchase contract because the seller has not met its obligations.

If the delivery of any vessel is materially delayed or cancelled, especially if we have committed the vessel to a charter for which we become responsible for substantial liquidated damages to the customer as a result of the delay or cancellation, our business, financial condition and results of operations could be adversely affected.

If we purchase any newbuilding vessels, delays, cancellations or non-completion of deliveries of newbuilding vessels could harm our operating results.

If we purchase any newbuilding vessels, the shipbuilder could fail to deliver the newbuilding vessel as agreed or their counterparty could cancel the purchase contract if the shipbuilder fails to meet its obligations. In addition, under charters that are related to a newbuilding, delays in our delivery of the newbuilding to our customer could result in liquidated damages payable to the customer. For prolonged delays, the customer may terminate the charter and, in addition to the resulting loss of revenues, we may be responsible for additional, substantial liquidated damages. We do not derive any revenue from a vessel until after its delivery and will be required to pay substantial sums as progress payments during construction of a newbuilding. While we expect to have refund guarantees from financial institutions with respect to such progress payments in the event the vessel is not delivered by the shipyard or is otherwise not accepted by us, there is the potential that we may not be able to collect all portion of such refund guarantees, in which case we would lose the amounts of monies we have advanced to the shipyards for such progress payments.

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The completion and delivery of newbuildings could be delayed, cancelled or otherwise not completed because of:

- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
- work stoppages or other labor disturbances at the shipyard;
- bankruptcy or other financial crisis of the shipbuilder;
- a backlog of orders at the shipyard;
- political or economic disturbances;
- weather interference or catastrophic event, such as a major earthquake or fire;
- requests for changes to the original vessel specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- inability to finance the construction or conversion of the vessels; or
- inability to obtain requisite permits or approvals.

If delivery of a vessel is materially delayed, it could materially adversely affect our results of operations and financial condition and our ability to make cash distributions.

We rely on the master limited partnership (MLP) structure and its appeal to investors for accessing debt and equity markets to finance our growth and repay or refinance our debt. The depressed trading price of our common units may affect our ability to access capital markets and, as a result, our ability to pay distributions or repay our debt.

We rely on the master limited partnership (MLP) structure and its appeal to investors for accessing debt and equity markets to finance our growth and repay or refinance our debt.

We rely on our ability to raise capital in the equity and debt markets to grow our fleet and to refinance our debt. A protracted deterioration in the valuation of our common units would increase our cost of capital, make any equity

issuance significantly dilutive and may affect our ability to access capital markets and, as a result, our capacity to pay distributions to our unitholders and refinance or repay our debt.

The loss of a customer, charter or vessel could result in a loss of revenues and cash flow in the event we are unable to replace such customer, charter or vessel.

For the year ended December 31, 2018, HMM represented approximately 24.5% of total revenues. For the year ended December 31, 2017, HMM and Yang Ming accounted for approximately 26.8% and 12.0%, respectively, of our total revenues. For the year ended December 31, 2016, HMM, Yang Ming and Mediterranean Shipping Co. S.A. accounted for 29.6%, 13.0% and 11.6%, respectively, of our total revenues. No other customers accounted for 10% or more of total revenues for any of the years presented.

The charterers in the containership sector consist of a limited number of liner companies. The combination of any surplus of containership capacity and the expected increase in the size of the world containership fleet over the next few years may make it difficult to secure substitute employment for any of our containerships if our counterparties fail to perform their obligations under the currently arranged time charters, and any new charter arrangements we are able to secure may be at lower rates. Furthermore, the surplus of containerships available at lower charter rates and lack of demand for our customers liner services could negatively affect our charterers willingness to perform their obligations under our time charters, which in many cases provide for charter rates significantly above current market rates. We expect that a limited number of leading liner companies will continue to generate a substantial portion of our revenues. The cessation of business with these liner companies or their failure to fulfill their obligations under the time charters for our containerships could have a material adverse effect on our financial condition and results of operations.

Our customers may go bankrupt or fail to perform their obligations under the contracts, they may delay payments or suspend payments altogether, they may terminate the contracts prior to the agreed-upon expiration date or they may attempt to renegotiate the terms of the contracts. For example, in 2016, HMM faced financial difficulties and developed a restructuring plan, which included restructuring agreements for five of our container vessels (see Note 19 Notes Receivable). In addition, Navios Partners has filed claims for lost revenues in connection with the 2016 filing by Hanjin for rehabilitation, which was later followed by entry into liquidation in 2017. These claims are currently being assessed by the court.

The failure of a customer to perform its obligations under a contract may mean we increase our exposure to the spot market, which is subject to greater rate fluctuation than the time charter market.

If we receive lower rates under replacement contracts or are unable to re-employ all of our vessels, it could have a material adverse effect on our business, financial condition, cash flows and results of operations.

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

As of April 8, 2019, the vessels in our fleet had an average age of approximately 10 years, when most dry cargo vessels have an expected life of approximately 25 years, and we may acquire older vessels in the future. Older vessels are typically more costly to maintain than more recently constructed vessels due to improvements in engine technology. In some instances, charterers prefer newer vessels that are more fuel efficient than older vessels. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers as well. Governmental regulations, safety or other equipment standards related to the age of the vessels may require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which these 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. If we sell vessels, we may have to sell them at a loss, and if charterers no longer charter out vessels due to their age, it could materially adversely affect our earnings.

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

If our owned vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. We may have to pay drydocking costs that insurance does not cover. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, could decrease our revenues and earnings substantially, particularly if a number of vessels are damaged or drydocked at the same time. Under the terms of the Management Agreement with the Manager, the costs of drydocking repairs are not included in the daily management fee, but are be reimbursed at cost upon occurrence.

In addition, we often purchase secondhand vessels that, unlike newbuilt vessels, typically do not carry warranties as to their condition, and our vessel inspections would not normally provide us with as much knowledge of a vessel s condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for secondhand vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flows, liquidity and our ability to pay dividends to our unitholders.

The market value of our vessels, which has declined from historically high levels, may fluctuate significantly, which could cause us to breach covenants in our credit facilities and result in the foreclosure on our mortgaged

vessels.

The factors that influence vessel values include:

- the number of newbuilding deliveries;
- prevailing economic conditions in the markets in which drybulk or containerships operate;
- reduced demand for drybulk or containerships, including as a result of a substantial or extended decline in world trade;
- the number of vessels scrapped or otherwise removed from the total fleet;
- changes in environmental and other regulations that may limit the useful life of vessels;
- changes in global dry cargo commodity supply;

- types, sizes and age of vessels;
- advances in efficiency, such as the introduction of remote or autonomous vessels;
- the development of an increase in use of other modes of transportation;
- where the ship was built and as-built specification;
- lifetime maintenance record;
- the cost of vessel acquisitions;
- governmental or other regulations (including the application of any IMO rules);
- prevailing level of charter rates;
- the availability of financing, or lack thereof, for ordering newbuildings or for facilitating ship sale and purchase transactions;
- general economic and market conditions affecting the shipping industry; and
- the cost of retrofitting or modifying existing ships to respond to technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise.

If the market value of our owned vessels decreases, we may be required to record an impairment charge in our financial statements that, among other things, could cause us to breach covenants contained in our credit facilities, which could adversely affect our financial results. We purchased the majority of our drybulk vessels from Navios Holdings based on market prices that were, for certain vessels, at historically high levels. If we breach the covenants in our credit facilities and are unable to remedy any relevant breach, our lenders could accelerate our debt and foreclose on the collateral, including our vessels. Any loss of vessels would significantly decrease our ability to generate positive cash flow from operations and therefore service our debt. If a charter expires or is terminated, we may be unable to re-charter the vessel at an acceptable rate and, rather than continue to incur costs to maintain the vessel, may seek to dispose of it. Our inability to dispose of a vessel at a reasonable price could result in a loss on its sale and could materially and adversely affect our business, results of operations and financial condition, as well as our cash flows, including cash available for distributions to our unitholders.

Charter rates in the drybulk and container shipping industry have decreased from their historically high levels and may decrease further in the future, which may adversely affect our earnings and ability to pay dividends.

The current charter rates for dry cargo vessels have significantly decreased from their historic highs reached in the second quarter of 2008. If the drybulk shipping industry, which has been highly cyclical and volatile, is depressed in the future when our charters expire, our earnings and available cash flow may be adversely affected. We cannot assure you that we will be able to successfully charter our vessels in the future or renew our existing charters at rates sufficient to allow us to operate our business profitably, to meet our obligations, including payment of debt service to our lenders, or to pay dividends to our unitholders. Our ability to renew the charters on our vessels upon the expiration or termination of our current charters, or on vessels that we may acquire in the future, as well as, the charter rates payable under any replacement charters will depend upon, among other things, economic conditions in the sectors in which our vessels operate at that time, changes in the supply and demand for vessel capacity and changes in the supply and demand for the transportation of commodities.

All of our drybulk time charters are scheduled to expire on dates ranging from March 2019 to September 2022. If, upon expiration or termination of these or other contracts, long-term recharter rates are lower than existing rates, particularly considering that we intend to enter into long-term charters, or if we are unable to obtain replacement charters, our earnings, cash flow and our ability to make cash distributions to our unitholders could be materially adversely affected.

The five containerships that we own are on long-term time charter for ten years until 2023 with our option to terminate after year seven. Our ability to re-charter our containerships upon the expiration or termination of their current time charters and the charter rates payable under any renewal options or replacement time charters will depend upon, among other things, the prevailing state of the containership charter market, which can be affected by consumer demand for products shipped in containers. If the charter market is depressed when our containerships time charters expire, we may be forced to re-charter our containerships at reduced or even unprofitable rates, or we may not be able to re-charter them at all, which may reduce or eliminate our earnings, make our earnings volatile, affect our ability to generate cash flows and maintain liquidity.

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We must make substantial capital expenditures to maintain the operating capacity of our fleet, which will reduce our cash available for distribution. In addition, each quarter our board of directors is required to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less or no cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted.

We must make substantial capital expenditures to maintain, over the long term, the operating capacity of our fleet. These maintenance and replacement capital expenditures include capital expenditures associated with drydocking a vessel, modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain the operating capacity of our fleet. These expenditures could increase as a result of changes in the cost of our labor and materials, the cost of suitable replacement vessels, customer/market requirements, increases in the size of our fleet, and governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment.

Our significant maintenance and replacement capital expenditures, including without limitation the management fees paid to the Manager pursuant to the Management Agreement, may reduce or eliminate the amount of cash we have available for distribution to our unitholders. Our partnership agreement requires our board of directors to deduct estimated, rather than actual, maintenance and replacement capital expenditures from operating surplus each quarter in an effort to reduce fluctuations in operating surplus. The amount of estimated capital expenditures deducted from operating surplus is subject to review and change by the Conflicts Committee of our board of directors at least once a year. If our board of directors underestimates the appropriate level of estimated maintenance and replacement capital expenditures, we may have less, if any, cash available for distribution in future periods when actual capital expenditures begin to exceed previous estimates. For detailed information on the amount of management fees owed under the Management Agreement, please see the section entitled, Item 5. Operating and Financial Review and Prospects A. Operating results Management fees .

Our debt levels may limit our ability to obtain additional financing and pursue other business opportunities, and our interest rates under our credit facilities may fluctuate and may impact our operations.

As of December 31, 2018, the total borrowings, net of unamortized discount, under our credit facilities amounted to $512.4 million. We have the ability to incur additional debt, subject to limitations in our credit facilities. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

- we may need to use a substantial portion of our cash from operations to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities, distributions to unitholders;

- our debt level could make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally; and

- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt depends upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. Our ability to service debt under our credit facilities also will depend on market interest rates, since the interest rates applicable to our borrowings will fluctuate with the London Interbank Offered Rate (LIBOR), or the prime rate. We do not currently hedge against increases in such rates and, accordingly, significant increases in such rate would require increased debt levels and reduce distributable cash. We may not be able to refinance all or part of our maturing debt on favorable terms, or at all. If our operating income is not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing or discontinuing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

We are exposed to volatility in the London Interbank Offered Rate, or LIBOR, which can affect our profitability, earnings and cash flow.

The loans under our credit facilities are generally advanced at a floating rate based on LIBOR, which was volatile in prior years and has been steadily increasing in recent years. LIBOR can affect the amount of interest payable on our debt, which, in turn, could have an adverse effect on our earnings and cash flow. In addition, although in recent years LIBOR has been at relatively low levels, LIBOR increased during 2016 and may continue to rise in the future as the current low interest rate environment comes to an end.

Our financial condition could be materially adversely affected as we have not entered into interest rate hedging arrangements to hedge our exposure to the interest rates applicable to our credit facilities and may not enter into interest rate hedging arrangements for these or any other financing arrangements we may enter into in the future, including those we may enter into to finance a portion of the amounts payable with respect to newbuildings or acquisitions.

We may enter into derivative contracts to hedge our overall exposure to interest rate risk. Entering into swaps and other derivatives transactions is inherently risky and presents possibilities for incurring significant expenses. The derivatives strategies that we may employ may not be successful or effective, and we could, as a result, incur substantial additional interest and breakage costs.

Changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect interest expense related to outstanding debt.

Our outstanding debt bears interest rates in relation to LIBOR. On July 27, 2017, the United Kingdom s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time whether or not LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index calculated by short-term repurchase agreements, backed by Treasury securities (SOFR). SOFR is observed and backward looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question. As such, the future of LIBOR at this time is uncertain. If LIBOR ceases to exist, we may need to renegotiate our credit agreements that utilize LIBOR as a factor in determining the interest rate.

In addition, lenders have recently insisted on provisions that entitle the lenders, in their discretion, to replace published LIBOR as the base for the interest calculation with their cost-of-funds rate. Such provisions could significantly increase our lending costs, which would have an adverse effect on our profitability, earnings and cash flow.

Our credit facilities contain restrictive covenants, which may limit our business and financing activities and may prevent us from paying distributions to unitholders, if our board of directors determines to do so again in the future.

We have two credit facilities with DVB Bank S.E. (the DVB Credit Facility and the DVB $44m Credit Facility), a term loan facility (the Term Loan B Facility), a credit facility with BNP PARIBAS (the BNP Credit Facility) and a credit facility with Nordea Bank AB, Skandinaviska Enskilda Banken AB and NIBC Bank N.V. (the March 2018 Credit Facility). We have two sale and leaseback agreements with unrelated third parties for the Navios Fantastiks and

the Navios Beaufiks. As of December 31, 2018, the outstanding loan balance under Navios Partners credit facilities, net of deferred finance fees and discounts, was $507.5 million.

We also have three credit facilities with DNB Bank ASA (the April 2019 Credit Facility), DVB Bank S.E. (the February 2019 Credit Facility) and NIBC Bank N.V. (the December 2018 Credit Facility). No amount has been drawn yet under these facilities.

The operating and financial restrictions and covenants in our credit facilities and any future credit facilities could adversely affect our ability to finance future operations or capital needs to engage, expand or pursue our business activities and reduce cash available for distribution on our common units. For example, our credit facilities require the consent of our lenders or limit our ability to (among other things):

- incur or guarantee indebtedness;
- charge, pledge or encumber the vessels;
- merge or consolidate;
- change the flag, class or commercial and technical management of our vessels;

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make cash distributions;

make new investments; and

sell or change the ownership or control of our vessels.

Our credit facilities also require us to comply with the International Safety Management Code (the ISM Code), and International Ship and Port Facilities Security Code (ISPS Code) and to maintain valid safety management certificates and documents of compliance at all times.

The credit facilities require compliance with a number of financial covenants, including: (i) maintain a required security amount ranging over 120% to 140%; (ii) minimum free consolidated liquidity in an amount equal to at least $650 per owned vessel; (iii) maintain a ratio of EBITDA to interest expense of at least 2.00:1.00; (iv) maintain a ratio of total liabilities or total debt to total assets (as defined in our credit facilities) ranging of less than 0.75; and (v) maintain a minimum net worth to $135.0 million.

The Financial Liabilities have no financial covenants.

It is an event of default under the credit facilities if such covenants are not complied with in accordance with the terms and subject to the prepayments or cure provisions of the facilities.

The Term Loan B facility is secured by first priority mortgages covering certain vessels owned by subsidiaries of Navios Partners, in addition to other collateral, and guaranteed by each subsidiary of Navios Partners.

The Term Loan B Facility requires maintenance of a loan to value ratio of 0.8 to 1.0, and other restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. The Term Loan B Facility also provides for customary events of default, prepayment and cure provisions.

In addition, our credit facilities prohibit the payment of distributions if we are not in compliance with certain financial covenants or upon the occurrence of an event of default.

Events of default under our credit facilities include, among other things, the following:

failure to pay any principal, interest, fees, expenses or other amounts when due;

failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;

default under other indebtedness;

an event of insolvency or bankruptcy;

- material adverse change in the financial position or prospects of us or our general partner;
- failure of any representation or warranty to be materially correct; and
- failure of Navios Holdings or its affiliates (as defined in the credit facilities agreements) to own at least 15% of us.

Our ability to comply with the covenants and restrictions that are contained in our credit facilities and any other debt instruments we may enter into in the future may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we are in breach of any of the restrictions, covenants, ratios or tests in our credit facilities, especially if we trigger a cross default currently contained in certain of our loan agreements, a significant portion of our obligations may become immediately due and payable, and our lenders commitment to make further loans to us may terminate. We may not have, or be able to obtain, sufficient funds to make these accelerated payments. In addition, our obligations under our credit facilities are secured by certain of our vessels, and if we are unable to repay borrowings under such credit facilities, lenders could seek to foreclose on those vessels. We anticipate that any subsequent refinancing of our current debt or any new debt will have similar restrictions.

We may be subject to litigation that, if not resolved in our favor or not sufficiently insured against, could have a material adverse effect on us.

We have been and may be, from time to time, involved in various litigation matters. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, and other tort claims, employment matters, governmental claims for taxes or duties, and other litigation that arises in the ordinary course of our business. We cannot predict with certainty the outcome or effect of any claim or other litigation matter, and the ultimate outcome of any litigation or the potential costs to resolve them may have a material adverse effect on us. Insurance may not be applicable or sufficient in all cases and/or insurers may not remain solvent which may have a material adverse effect on our financial condition.

The loss of key members of our senior management team could disrupt the management of our business.

We believe that our success depends on the continued contributions of the members of our senior management team, including Ms. Angeliki Frangou, our Chairman and Chief Executive Officer. The loss of the services of Ms. Frangou or one of our other executive officers or those of Navios Holdings who provide us with significant managerial services could impair our ability to identify and secure new charter contracts, to maintain good customer relations and to otherwise manage our business, which could have a material adverse effect on our financial performance and our ability to compete.

The Manager acting on our behalf may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business or may have to pay substantially increased costs for its employees and crew.

Our success will depend in part on the Manager s ability to attract, hire, train and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract, hire, train and retain qualified crew members is intense, and crew manning costs continue to increase. If we are not able to increase our hire rates to compensate for any crew cost increases, our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected. Any inability we experience in the future to attract, hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Because we generate all of our revenues in U.S. dollars but incur a portion of our expenses in other currencies, exchange rate fluctuations could cause us to suffer exchange rate losses thereby increasing expenses and reducing income.

We engage in worldwide commerce with a variety of entities. Although our operations may expose us to certain levels of foreign currency risk, our transactions are at present predominantly U.S. dollar-denominated. Transactions in currencies other than the functional currency are translated at the exchange rate in effect on the date of each transaction. Expenses incurred in foreign currencies against which the U.S. dollar falls in value can increase thereby decreasing our income or vice versa if the U.S. dollar increases in value. For example, as of December 31, 2018, the value of the U.S. dollar as compared to the Euro increased by approximately 4.7% compared with the respective value as of December 31, 2017. A greater percentage of our transactions and expenses in the future may be denominated in currencies other than the U.S. dollar.

Security breaches and disruptions to our information technology infrastructure could interfere with our operations and expose us to liability which could have a material adverse effect on our business, financial condition, cash flows and results of operations.

In the ordinary course of business, we rely heavily on information technology networks and systems to process, transmit, and store electronic information, and to manage or support a variety of business processes and activities. Additionally, we collect and store certain data, including proprietary business information and customer and employee data, and may have access to other confidential information in the ordinary course of our business. Despite our cybersecurity measures, which includes active monitoring, training, reporting and other activities designed to protect and secure our data, our information technology networks and infrastructure may be vulnerable to damage, disruptions, or shutdowns due to attack by hackers or breaches, employee error or malfeasance, data leakage, power outages, computer viruses and malware, telecommunication or utility failures, systems failures, natural disasters, or other catastrophic events. Any such events could result in legal claims or proceedings, liability or penalties under privacy or other laws, disruption in operations, and damage to our reputation, which could have a material adverse effect on our business, financial condition, cash flows and results of operations.

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Increased competition in technology and innovation could reduce our charter hire income and the value of our vessels.

The charter hire rates and the value and operational life of a vessel are determined by a number of factors including the vessel s efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy, loading and discharging speed and personnel required to operate. The potential introduction of autonomous vessels, which would significantly reduce or eliminate the costs of crew and victuals, could put our vessels at an efficiency disadvantage. Flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits. The length of a vessel s physical life is related to its original design and construction, its maintenance and the impact of the stress of operations. If new vessels are built that are more efficient or flexible or have longer physical lives than our vessels, competition from these more technologically advanced vessels could adversely affect the amount of charter hire payments that we receive for our vessels upon expiration of their current charters and the resale value of our vessels could significantly decrease. This could adversely affect our revenues and cash flows, and our ability to service our debt or make distributions to our unit holders and repurchases of common units.

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

There are a number of risks associated with the operation of ocean-going vessels, including mechanical failure, collision, human error, war, terrorism, piracy, loss of life, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. Any of these events may result in loss of revenues, increased costs and decreased cash flows. In addition, the operation of any vessel is subject to the inherent possibility of marine disaster.

Although we carry insurance for our fleet against risks commonly insured against by vessel owners and operators, including hull and machinery insurance, war risks insurance and protection and indemnity insurance (which include environmental damage and pollution insurance), all risks may not be adequately insured against, and any particular claim may not be paid.

We do not currently maintain strike or off-hire insurance, which would cover the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from accidents except in cases of loss of hire up to a limited number of days due to war or a piracy event. Other events that may lead to off-hire periods include natural or man-made disasters that result in the closure of certain waterways and prevent vessels from entering or leaving certain ports. Accordingly, any extended vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business and our ability to pay distributions to our unitholders.

Because we obtain some of our insurance through protection and indemnity associations, 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. Our payment of these calls could result in significant expenses to us, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, we cannot assure you that we will be able to renew our insurance policies on the same or commercially reasonable terms, or at all, in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, protection and indemnity insurance against risks of environmental damage or pollution. Any uninsured or underinsured loss could harm our business, financial condition, cash flows and results of operations. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our vessels failing to maintain certification with applicable maritime self-regulatory organizations. Further, we cannot assure you that our insurance policies will cover all losses that we incur, or that disputes over insurance claims will not arise with our insurance carriers. Any claims covered by

insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. In addition, our insurance policies are subject to limitations and exclusions, which may increase our costs or lower our revenues, and could have a material adverse effect on our business, financial condition, cash flows and results of operations.

Navios Holdings, Navios Maritime Acquisition Corporation (Navios Acquisition), Navios Maritime Midstream Partners L.P. (Navios Midstream), Navios Maritime Containers L.P. (Navios Containers) and their affiliates may compete with us.

Navios Partners has entered into an omnibus agreement with Navios Holdings (the Partners Omnibus Agreement) in connection with the closing of the Navios Partners IPO governing, among other things, Navios Holdings and its controlled affiliates (other than us, our general partner and our subsidiaries) generally agreed not to acquire or own Panamax or Capesize drybulk carriers under time charters of three or more years without the consent of an independent committee of Navios Holdings. The Omnibus Agreement, however, contains significant exceptions that allow Navios Holdings or any of its controlled affiliates to compete with us under

specified circumstances which could harm our business. In addition, concurrently with the successful consummation of the initial business combination by Navios Acquisition, on May 28, 2010, because of the overlap between Navios Acquisition, Navios Holdings and us, with respect to possible acquisitions under the terms of the Omnibus Agreement, we entered into a business opportunity right of first refusal agreement which provides the types of business opportunities in the marine transportation and logistics industries, we, Navios Holdings and Navios Acquisition must share with the each other.

In connection with the Navios Midstream initial public offering and effective November 18, 2014, Navios Partners entered into the Omnibus Agreement with Navios Midstream, Navios Acquisition and Navios Holdings (the Navios Midstream Omnibus Agreement) pursuant to which Navios Acquisition, Navios Holdings and Navios Partners have agreed not to acquire or own any VLCCs, crude oil tankers, refined petroleum product tankers, LPG tankers or chemical tankers under time charters of five or more years and also providing rights of first offer on certain tanker vessels.

In connection with the 2017 Navios Containers private placement and listing on the Norwegian over-the-counter (N-OTC) market effective June 8, 2017, Navios Partners entered into an omnibus agreement with Navios Containers, Navios Holdings, Navios Acquisition and Navios Midstream (the Navios Containers Omnibus Agreement), pursuant to which Navios Partners, Navios Holdings, Navios Acquisition and Navios Midstream have granted to Navios Containers a right of first refusal over any container vessels to be sold or acquired in the future. The omnibus agreement contains significant exceptions that will allow Navios Partners, Navios Holdings, Navios Acquisition and Navios Midstream to compete with Navios Containers under specified circumstances.

Risks Relating in Our Industry

Charter hire rates are volatile and have declined significantly since their historic highs and may remain at low levels or decrease in the future, which may adversely affect our earnings, revenue and our profitability. The cyclical nature of the international shipping industry may lead to decreases in charter rates and lower vessel values.

The drybulk shipping industry is cyclical with attendant volatility in charter hire rates and profitability. The degree of charter hire rate volatility among different types of drybulk vessels has varied widely, and charter hire rates for drybulk vessels have declined significantly from historically high levels. For example, in the past time charter and spot market rates for drybulk vessels have declined below operating costs of vessels. The Baltic Dry Index, or BDI, an index published by the Baltic Exchange Limited of shipping rates for 19 key drybulk routes, fell 97% from a peak of 11,793 in May 2008 to a low of 290 in February 2016. While the BDI showed improvement since then, it has ranged from a low of 595 in February 2019 to a high of 1,774 in July 2018, it remains at low levels compared to historical highs and there can be no assurance that the drybulk charter market will not decline further.

The ocean-going container shipping industry is both cyclical and volatile in terms of charter rates, profitability and, consequently, vessel values. According to industry data, containership charter rates peaked in 2005, with the Containership Timecharter Rate Index (a $/day per TEU weighted average of 6-12 month time charter rates of Panamax and smaller vessels (1993=100)) reaching 172 points in March and April 2005, and generally stayed above 100 points until the middle of 2008, when the effects of the economic crisis began to affect global container trade, driving the Containership Timecharter Rate Index to a 10-year low of 32 points in the period from November 2009 to January 2010. As of the end of January 2018, the Containership Timecharter Rate Index stood at 54 points, peaked at 68 as of the end of June 2018 and then fell to 50 at the end of January 2019.

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 and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in charter rates are also unpredictable.

Furthermore, a significant decrease in charter rates would cause asset values to decline, and we may have to record an impairment charge in our consolidated financial statements which could adversely affect our financial results. Because the market value of our vessels may fluctuate significantly, we may also incur losses when we sell vessels, which may adversely affect our earnings. 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.

Factors that influence demand for vessels capacity include:

- global and regional economic and political conditions, including armed conflicts and terrorist activities (including piracy), embargoes and strikes;
- disruptions and developments in international trade, including the effects of currency exchange rate changes;
- changes in seaborne and other transportation patterns, such as port congestion and canal closures or expansions;
- supply and demand for energy resources, drybulk products, 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;

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- supply and demand for products shipped in containers;
- changes in global production of raw materials, semi-finished goods or products transported by containerships;
- the distance drybulk cargo or containers are to be moved by sea;
- the globalization of manufacturing;
- carrier alliances, vessel sharing or container slot sharing that seek to allocate container ship capacity on routes;
- weather and crop yields;
- political, environmental and other regulatory developments, including but not limited to governmental macroeconomic policy changes, import and export restrictions (including trade wars), central bank policies and pollution conventions or protocols;
- international sanctions, embargoes, import and export restrictions, nationalizations and wars; and
- technical advances in ship design and construction.

The supply of vessel capacity has generally been influenced by, among other factors:

- the number of vessels that are out of service, namely those that are laid-up, drydocked, awaiting repairs or otherwise not available for hire.
- the scrapping rate of older vessels;
- the availability of finance or lack thereof for ordering newbuildings or for facilitating ship sale and purchase transactions;
- port and canal traffic and congestion, including canal improvements that can affect employment of ships designed for older canals;

- the number of shipyards and ability of shipyards to deliver vessels;
- vessel casualties;
- weather;
- changes in environmental and other regulations and standards (including IMO rules requiring a reduction in the use of high sulphur fuels and the fitting of additional ballast water treatment systems) that limit the profitability, operations or useful lives of vessels;
- the availability of shipyard capacity; and
- the economics of slow steaming.

In addition to the prevailing and anticipated charter rates, factors that affect the rate of newbuilding, scrapping and laying-up include newbuilding prices, secondhand vessel values in relation to newbuilding and scrap prices, costs of bunkers and other operating costs, costs associated with classification society surveys, normal maintenance and insurance coverage costs, the efficiency and age profile of the existing drybulk fleet in the market and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. These and other 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.

We anticipate that the future demand for our vessels will be dependent upon economic growth in the world s economies, mainly China and India, seasonal and regional changes in demand, changes in the capacity of the global dry fleet and the sources and supply of drybulk cargo to be transported by sea.

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The oversupply of drybulk vessel capacity may continue to prolong or further depress the current low charter rates, which has and may continue to limit our ability to operate our drybulk vessels profitably.

The market supply of drybulk carriers has been increasing as a result of the delivery of numerous newbuilding orders over the last few years. Newbuildings have been delivered in significant numbers over the last few years and, as of April 1, 2019, newbuilding orders had been placed for an aggregate of about 11% of the existing global drybulk fleet, with deliveries expected during the next three years. Due to lack of financing, many analysts expect significant cancellations and/or slippage of newbuilding orders. 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 drybulk carrier capacity could exacerbate decreases in charter rates or prolong the period during which low charter rates prevail which may have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

An oversupply of containership capacity may depress charter rates, as has happened in the past, or prolong the period of depressed charter rates, and adversely affect our ability to charter our containerships at profitable rates, or at all.

From 2005 through 2010, the containership orderbook was at historically high levels as a percentage of the in-water fleet reaching a high of 61% in November 2007, according to industry data. Since that time, deliveries of previously ordered containerships increased substantially and ordering momentum slowed somewhat with the total orderbook declining as a percentage of the existing fleet from 21% in October 2015 to an all-time low of 12% as of September 2018. As of the beginning of April the ratio stood at approximately 13%. The orderbook remains significantly skewed towards vessels over 8,000 twenty-foot equivalent units (TEU). An oversupply of large newbuilding vessel and/or re-chartered containership capacity entering the market, combined with any decline in the demand for containerships, may prolong or further depress current charter rates and may decrease our ability to charter our containerships when we are seeking new or replacement charters other than for unprofitable or reduced rates, or we may not be able to charter our containerships at all.

A number of third party owners have ordered so-called eco-type vessel designs, which may offer substantial bunker savings as compared to older designs. Increased demand for and supply of eco-type vessels could reduce demand for our vessels that are not classified as such and expose us to lower vessel utilization and/or decreased charter rates.

New eco-type vessel designs purport to offer material bunker savings compared to older designs, including certain of our vessels. Such savings could result in a substantial reduction of bunker cost for charterers compared to such vessels of ours. Such savings may also increase as a result of the International Maritime Organization (the IMO) 0.5% sulphur limitations on marine fuels due to come into force on January 1, 2020, which may increase the cost of fuels that meet these limits. As the supply of such eco-type vessel increases and if charterers prefer such vessels over our vessels that are not classified as such, this may reduce demand for our non- eco-type vessels, impair our ability to re-charter such vessels at competitive rates and have a material adverse effect on our business, financial condition, cash flows and results of operations.

If we expand the size of our fleet in the future, we generally will be required to make significant installment payments for acquisitions of vessels even prior to their delivery and generation of revenue. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our ability to make cash distributions to unitholders, to the extent we are making distributions, may be diminished or our financial leverage could increase or our unitholders could be diluted.

The actual cost of a vessel varies significantly depending on the market price, the size and specifications of the vessel, governmental regulations and maritime self-regulatory organization standards. If we purchase additional vessels in the future, we generally will be required to make installment payments prior to their delivery. If we finance these acquisition costs by issuing debt or equity securities, we will increase the aggregate amount of interest payments or distributions, to the extent we are making distributions, prior to generating cash from the operation of the vessel.

To fund the remaining portion of these and other capital expenditures, we will be required to use cash from operations or raise capital through the sale of debt or additional equity securities. Use of cash from operations may reduce or eliminate cash available for distributions to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to make cash distributions. Even if we successfully obtain necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional preferred and common equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to make distributions to our common unitholders, to the extent we are making distributions, which could have a material adverse effect on our ability to make cash distributions to all of our unitholders.

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We are subject to various laws, regulations and conventions, including environmental and safety laws, that could require significant expenditures both to maintain compliance with such laws and to pay for any uninsured environmental liabilities, including any resulting from a spill or other environmental incident.

The shipping business and vessel operation are materially affected by government regulation in the form of international conventions, national, state and local laws, and regulations in force in the jurisdictions in which vessels operate, as well as in the country or countries of their registration, such as the International Convention for the Prevention of Pollution from Ships, the International Convention for the Control and Management of Ships Ballast Water and Sediments, the International Convention for Civil Liability for Oil Pollution Damage, the International Convention on Civil Liability for Bunker Oil Pollution Damage, the Comprehensive Environmental Response, Compensation, and Liability Act, and The Offshore Petroleum Licensing (Offshore Safety Directive) Regulations 2015. Governmental regulations, safety or other equipment standards, as well as compliance with standards imposed by maritime self-regulatory organizations and customer requirements or competition, may require us to make capital and other expenditures. 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 fair market price or useful life of our vessels. In order to satisfy any such requirements, we may be required to take any of our vessels out of service for extended periods of time, with corresponding losses of revenues. In the future, market conditions may not justify these expenditures or enable us to operate our vessels, particularly older vessels, profitably during the remainder of their economic lives. This could lead to significant asset write downs. In addition, violations of environmental and safety regulations can result in substantial penalties and, in certain instances, seizure or detention of our vessels.

Additional conventions, laws and regulations may be adopted that could limit our ability to do business, require capital expenditures or otherwise increase our cost of doing business, which may materially adversely affect our operations, as well as the shipping industry generally. For example, in various jurisdictions, legislation has been enacted, or is under consideration, that would impose more stringent requirements on air pollution and effluent discharges from our vessels, such as the amendments to the International Convention for the Prevention of Pollution from Ships that are imposed by the IMO from time to time.

In addition, certain jurisdictions have adopted more stringent requirements compared to other regulatory authorities. For instance, California has adopted more stringent low sulfur fuel requirements within California-regulated waters. Compliance with new emissions standards could require modifications to vessels or the use of more expensive fuel. While it is unclear how new emissions standards will affect the employment of our vessels, over time it is possible that ships not retrofitted to comply with new standards may become less competitive. In addition, the IMO, the United States and states within the United States have proposed or implemented requirements relating to the management of ballast water to prevent the harmful effects of foreign invasive species.

Criminal liability for a pollution incident could not only result in us incurring substantial penalties or fines, but may also, in some jurisdictions, facilitate civil liability claims for greater compensation than would otherwise have been payable. We maintain insurance coverage for each owned vessel in our fleet against pollution liability risks in the amount of $1.0 billion in the aggregate for any one event. The insured risks include penalties and fines as well as civil liabilities and expenses resulting from accidental pollution. However, this insurance coverage is subject to exclusions, deductibles and other terms and conditions, and we cannot be certain that liabilities or expenses will not fall within an exclusion from coverage, or that damages from a catastrophic incident will not exceed the aggregate liability of $1.0 billion for any one event. Our cash flow, profitability and financial position would be adversely impacted.

The operation of vessels is also affected by the requirements set forth in the ISM Code and to national and international laws governing pollution from such vessels.

For more information on these international regulations that affect our business, please see the section entitled, Item 4. Information on the Partnership B. Business Overview Regulation .

In addition, the IMO, the United States and states within the United States have proposed or implemented requirements relating to the management of ballast water to prevent the harmful effects of foreign invasive species. In February 2004, the IMO adopted the International Convention for the Control and Management of Ships Ballast Water and Sediments (the BWM Convention). 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, as well as other obligations including recordkeeping requirements and implementation of a Ballast Water and Sediments Management Plan. The BWM convention entered into force on September 8, 2017. As of February 11, 2019, the BWM Convention had 79 contracting states for 80.94% of world gross tonnage. New ships constructed after September 8, 2017 must comply on delivery with the BWM Convention. For vessels constructed prior to September 8, 2017, installation of ballast water management systems must take place at the first renewal survey following September 8, 2017 (the date the BWM Convention entered into force). Ships built before September 8, 2017 must comply with IMO discharge standards by the due date for their IOPPC renewal survey under MARPOL Annex 1. All ships must meet the IMO ballast water discharge standard by September 8, 2024. The BWM Convention requires ships to manage ballast water in a manner that removes, renders harmless or avoids the update or discharge of aquatic organisms and pathogens within ballast water and sediment. Recently updated Ballast Water

and Sediment Management Plan guidance includes more robust testing and performance specifications. The entry of the BWM Convention and revised guidance, as well as similar ballast water treatment requirements in certain jurisdictions (such as the United States and states within the United States), will likely result in substantial compliance costs relating to the installation of equipment on our vessels to treat ballast water before it is discharged and other additional ballast water management and reporting requirements. In the United States, the Vessel Incidental Discharge Act (VIDA) was signed into law on December 4, 2018, which requires the U.S. Coast Guard to address the regulation of discharges incidental to the normal operation of commercial vessels into navigable waters, including management of ballast water. This change is expected to result in a simplification of the current patch-work state of ballast water regulation in the United States, which is currently variably regulated by the U.S. Environmental Protection Agency and the various states.

We operate a fleet of dry cargo vessels that are subject to national and international laws governing pollution from such vessels. Several international conventions impose and limit pollution liability from vessels. An owner of a tanker vessel carrying a cargo of persistent oil as defined by the International Convention for Civil Liability for Oil Pollution Damage (the CLC) is subject under the convention to strict liability for any pollution damage caused in a contracting state by an escape or discharge from cargo or bunker tanks. This liability is subject to a financial limit calculated by reference to the tonnage of the ship, and the right to limit liability may be lost if the spill is caused by the ship owner s intentional or reckless conduct. Liability may also be incurred under the CLC for a bunker spill from the vessel even when she is not carrying such cargo, but is in ballast.

When a tanker is carrying clean oil products that do not constitute persistent oil that would be covered under the CLC, liability for any pollution damage will generally fall outside the CLC and will depend on other international conventions or domestic laws in the jurisdiction where the spillage occurs. The same principle applies to any pollution from the vessel in a jurisdiction which is not a party to the CLC. The CLC applies in over 100 jurisdictions around the world, but it does not apply in the United States, where the corresponding liability laws such as the Oil Pollution Act of 1990 (the OPA) discussed below, are particularly stringent.

For vessel operations not covered by the CLC, including those operated under our fleet, at present, international liability for oil pollution is governed in part by the International Convention on Civil Liability for Bunker Oil Pollution Damage (the Bunker Convention). In 2001, the IMO adopted the Bunker Convention, which imposes strict liability on ship owners for pollution damage and response costs incurred in contracting states caused by discharges, or threatened discharges, of bunker oil from all classes of ships not covered by the CLC. The Bunker Convention also requires registered owners of ships over a certain size to maintain insurance to cover their liability for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime, including liability limits calculated in accordance with the Convention on Limitation of Liability for Maritime Claims 1976, as amended (the 1976 Convention), discussed in more detail in the following paragraph. The Bunker Convention became effective in contracting states on November 21, 2008, and, as of February 11, 2019, had 91 contracting states, representing 92.85% of the gross tonnage of the world s merchant fleet. In non-contracting states, liability for such bunker oil pollution typically is determined by the national or other domestic laws in the jurisdiction where the spillage occurs.

The CLC and Bunker Convention also provide vessel owners a right to limit their liability, depending on the applicable national or international regime. The CLC includes its own liability limits. The 1976 Convention is the most widely applicable international regime limiting maritime pollution liability. Rights to limit liability under the 1976 Convention are forfeited where a spill is caused by a ship owner s intentional or reckless conduct. Certain jurisdictions have ratified the IMO s Protocol of 1996 to the 1976 Convention, referred to herein as the Protocol of 1996. The Protocol of 1996 provides for substantially higher liability limits in those jurisdictions than the limits set forth in the 1976 Convention. Finally, some jurisdictions, such as the United States, are not a party to either the 1976

Convention or the Protocol of 1996, and, therefore, a ship owner s rights to limit liability for maritime pollution in such jurisdictions may be uncertain.

Environmental legislation in the United States merits particular mention as it is in many respects more onerous than international laws, representing a high-water mark of regulation with which ship owners and operators must comply, and of liability likely to be incurred in the event of non-compliance or an incident causing pollution.

Though it has been several years since the 2010 Deepwater Horizon oil spill in the Gulf of Mexico (the Deepwater Horizon incident), such regulation may become even stricter because of the incident s impact. In the United States, the OPA establishes an extensive regulatory and liability regime for the protection and cleanup of the environment from cargo and bunker oil spills from vessels, including tankers. The OPA covers all owners and operators whose vessels trade in 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. Under the OPA, vessel owners, operators and bareboat charterers 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 substantial threats of discharges, of oil from their vessels. In response to the 2010 Deepwater Horizon oil incident in the Gulf of Mexico, the U.S. House of Representatives passed and the U.S. Senate considered but did not pass a bill to strengthen certain requirements of the OPA; similar legislation may be introduced in the future. Further, under the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and

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similar state laws, investigation and cleanup requirements for threatened or actual releases of hazardous substances may be imposed upon owners and operators of vessels, on a joint and several basis, regardless of fault or the legality of the original activity that resulted in the release of hazardous substances

In addition to potential liability under the federal OPA and CERCLA, vessel owners may in some instances incur liability on an even more stringent basis under state law in the particular state where the spillage occurred. For example, California regulations prohibit the discharge of oil, require an oil contingency plan be filed with the state, require that the ship owner contract with an oil response organization and require a valid certificate of financial responsibility, all prior to the vessel entering state waters.

In recent years, the European Union has become increasingly active in the field of regulation of maritime safety and protection of the environment. In some areas of regulation the European Union has introduced new laws without attempting to procure a corresponding amendment to international law. Notably, in 2005 the European Union adopted a directive, as amended in 2009, on ship-source pollution, imposing criminal sanctions for pollution not only where pollution is caused by intent or recklessness (which would be an offence under MARPOL), but also where it is caused by serious negligence. The concept of serious negligence may be interpreted in practice to be little more than ordinary negligence. The directive could therefore result in criminal liability being incurred in circumstances where it would not be incurred under international law.

In response to the Deepwater Horizon incident, the EU issued Directive 2013/30/EU of the European Parliament and of the Council of June 12, 2013 on safety of offshore oil and gas operations. Implemented on July 19, 2015, the objective of this Directive is to reduce as far as possible the occurrence of major accidents relating to offshore oil and gas operations and to limit their consequences, thus increasing the protection of the marine environment and coastal economies against pollution, establishing minimum conditions for safe offshore exploration and exploitation of oil and gas and limiting possible disruptions to Union indigenous energy production, and to improve the response mechanisms in case of an accident. As far as the environment is concerned, the UK has various regulations such as: the Offshore Petroleum Activities (Offshore Safety Directive) (Environmental Functions) Regulations 2015 (OSDEF), the 2015 amendments to the Merchant Shipping (Oil Pollution Preparedness, Response and Cooperation Convention) Regulations 1998 (OPRC 1998) and other environmental Directive requirements, specifically the Environmental Management System. The Offshore Petroleum Licensing (Offshore Safety Directive) Regulations 2015 will implement the licensing Directive requirements.

Climate change and government laws and regulations related to climate change could negatively impact our financial condition.

We are and will be, directly and indirectly, subject to the effects of climate change and may, directly or indirectly, be affected by government laws and regulations related to climate change. A number of countries have adopted or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions, such as carbon dioxide, methane, and nitrogen oxides. In the U.S., the United States Environmental Protection Agency (EPA) has declared greenhouse gases to be dangerous pollutants and has issued greenhouse gas reporting requirements for emissions sources in certain industries (which currently do not include the shipping industry). The EPA does require owners of vessels subject to MARPOL Annex VI to maintain records for nitrogen oxides standards and in-use fuel specifications.

In addition, while the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the UNFCCC), which requires adopting countries to implement national programs to reduce greenhouse gas emissions, the IMO intends to develop limits on greenhouse gases from international shipping. It has responded to the global focus on climate change and greenhouse gas

emissions by developing specific technical and operational efficiency measures and a work plan for market-based mechanisms in 2011. These include the mandatory measures of under the ISM Code, and an energy efficiency design index (EEDI) for new ships. The IMO is also considering its position on market-based measures through an expert working group. Among the numerous proposals being considered by the working group are the following: a port state levy based on the amount of fuel consumed by the vessel on its voyage to the port in question; a global emissions trading scheme which would allocate emissions allowances and set an emissions cap; and an international fund establishing a global reduction target for international shipping, to be set either by the UNFCCC or the IMO.

At its 68th session (2015), the Marine Environmental Protection Committee (the MEPC) amended the 2014 Guidelines on EEDI survey and certification as well as the method of calculating of EEDI for new ships, the latter of which was again amended at the 70th session (2016). At its 70th session, the MEPC also adopted mandatory requirements for ships of 5,000 gross tonnage or greater to collect fuel consumption data for each type of fuel used, and report the data to the flag State after the end of each calendar year. At the 72nd MEPC session (April 2018), the committee adopted the goal of reducing annual greenhouse gas emissions from ships by at least 50% by 2050 as compared to 2008 levels, which if implemented could significantly increase operational costs associated with equipment upgrades and fuel costs.

In December 2011, UN climate change talks took place in Durban and concluded with an agreement referred to as the Durban Platform for Enhanced Action. The Durban Conference did not result in any proposals specifically addressing the shipping industry s role in climate change but the progress that has been made by the IMO in this area was widely acknowledged throughout the negotiating bodies of the UNFCCC process, and an ad hoc working group was established.

Although regulation of greenhouse gas emissions in the shipping industry was discussed during the 2015 UN Climate Change Conference in Paris (the Paris Conference), the agreement reached among the 195 nations did not expressly reference the shipping industry. Following the Paris Conference, the IMO announced it would continue its efforts on this issue at the MEPC, and at its 70th session, the MEPC approved a Roadmap for developing a comprehensive greenhouse gas emissions reduction strategy for ships, which includes the goal of adopting an initial strategy and emission reduction commitments in 2018. In April 2018, the IMO s MEPC adopted the initial strategy to reduce greenhouse gas emissions from shipping by at least 50% by 2050 compared to 2008 levels, while pursuing efforts towards phasing them out entirely, as a pathway towards greenhouse gas emissions reduction consistent with the Paris Agreement s temperature goals. The initial strategy is due to be revised and adopted by 2023.

On August 3, 2017, the U.S. formally submitted a notice of withdrawal from the Paris Agreement. Thus far, no other nations have withdrawn from the Paris Agreement, so it remains to be seen whether the withdrawal will significantly impact greenhouse gas developments moving forward. The United Nations Katowice Climate Change Conference occurred December 2-14, 2018. The key objective of the meeting was to begin adopting the implementation guidelines of the Paris Climate Change Agreement.

The European Union announced in April 2007 that it planned to expand the European Union emissions trading scheme (ETS) by adding vessels, as ETS-regulated businesses required to report on carbon emissions and subject to a credit trading system for carbon allowances. A proposal from the European Commission (EC) was expected if no global regime for reduction of seaborne emissions had been agreed to by the end of 2011. On October 1, 2012, it announced that it would propose measures to monitor, verify and report on greenhouse-gas emissions from the shipping sector. On June 28, 2013, the EC adopted a communication setting out a strategy for progressively including greenhouse gas emissions from maritime transport in the EU s policy for reducing its overall GHG emissions. The first step proposed by the EC was an EU Regulation (as defined below) to an EU-wide system for the monitoring, reporting and verification of carbon dioxide emissions from large ships starting in 2018. The EU Regulation (2015/757) was adopted on April 29, 2015 and took effect on July 1, 2015, with monitoring, reporting and verification requirements beginning on January 1, 2018. This Regulation appears to be indicative of an intent to maintain pressure on the international negotiating process. The EC also adopted an Implementing Regulation, which entered into force in November 2016, setting templates for monitoring plans, emissions reports and compliance documents pursuant to Regulation 2015/757.

In February 2017, European Union member states met to consider independently regulating the shipping industry under the ETS. On February 15, 2017, European Parliament voted in favor of a bill to include maritime shipping in the ETS by 2023 if the IMO has not promulgated a comparable system by 2021. In November 2017, the Council of Ministers, the European Union s main decision making body, agreed that the European Union should act on shipping emissions by 2023 if the IMO fails to deliver effective global measures. In 2018, IMO s urgent call to action to bring about shipping greenhouse gas emissions reductions before 2023 was met with industry push-back in many countries. Depending on how fast IMO and the European Union move on this issue, the ETS may result in additional compliance costs for our vessels.

We cannot predict with any degree of certainty what effect, if any possible climate change and government laws and regulations related to climate change will have on our operations, whether directly or indirectly. However, we believe

that climate change, including the possible increase in severe weather events resulting from climate change, and government laws and regulations related to climate change may affect, directly or indirectly, (i) the cost of the vessels we may acquire in the future, (ii) our ability to continue to operate as we have in the past, (iii) the cost of operating our vessels, and (iv) insurance premiums, deductibles and the availability of coverage. As a result, our financial condition could be negatively impacted by significant climate change and related governmental regulation, and that impact could be material.

For more information on regulatory developments in response to growing concerns of greenhouse gas emissions, please see the section entitled, Item 4. Information on the Partnership B. Business Overview Regulation Greenhouse gas emissions .

We are subject to vessel security regulations and we incur costs to comply with adopted regulations. We may be subject to costs to comply with similar regulations that may be adopted in the future in response to terrorism.

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002 (the MTSA) came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea (the SOLAS) created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facilities Security Code (the ISPS Code). Among the various requirements are:

on-board installation of automatic information systems (AIS), to enhance vessel-to-vessel and vessel-to-shore communications;

on-board installation of ship security alert systems;

the development of vessel security plans; and

compliance with flag state security certification requirements.

The U.S. Coast Guard 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 International Ship Security Certificate (ISSC) that attests to the vessel s compliance with SOLAS security requirements and the ISPS Code. Starting January 1, 2016, the IMDG Code also included updates to the provisions for radioactive material, reflecting the latest provisions from the International Atomic Energy Agency, or the IAEA, new marking requirements for overpack and salvage and updates to various individual packing requirements. We will implement the various security measures addressed by the MTSA, SOLAS and the ISPS Code and take measures for our vessels or vessels that we charter to attain compliance with all applicable security requirements within the prescribed time periods. Although management does not believe these additional requirements will have a material financial impact on our operations, there can be no assurance that there will not be an interruption in operations to bring vessels into compliance with the applicable requirements and any such interruption could cause a decrease in charter revenues. Furthermore, additional security measures could be required in the future that could have significant financial impact on us.

The cost of vessel security measures has also been affected by the escalation in recent years in the frequency and seriousness of acts of piracy against ships, notably off the coast of Somalia, including the Gulf of Aden and Arabian Sea area. Attacks of this kind have commonly resulted in vessels and their crews being detained for several months, and being released only on payment of large ransoms. Substantial loss of revenue and other costs may be incurred as a result of such detention. Although we insure against these losses to the extent practicable, the risk remains of uninsured losses which could significantly affect our business. Costs are incurred in taking additional security measures in accordance with Best Management Practices to Deter Piracy, notably those contained in the BMP3 industry standard. A number of flag states have signed the 2009 New York Declaration, which expresses commitment to Best Management Practices in relation to piracy and calls for compliance with them as an essential part of compliance with the ISPS Code.

Our international activities increase the compliance risks associated with economic and trade sanctions imposed by the United States, the European Union and other jurisdictions.

Iran

Prior to January 2016, the scope of sanctions imposed against Iran, the government of Iran and persons engaging in certain activities or doing certain business with and relating to Iran was expanded by a number of jurisdictions, including the United States, the European Union and Canada. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act (CISADA), which expanded the scope of the former Iran Sanctions Act. The scope of U.S. sanctions against Iran were expanded subsequent to CISADA by, among other U.S. laws, the National Defense Authorization Act of 2012 (the 2012 NDAA), the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA), Executive Order 13662, and the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA).

The foregoing laws, among other things, expanded the application of prohibitions to non-U.S. companies such as our company and to transactions with no U.S. nexus, and introduced limits on the ability of non-U.S. companies and other non-U.S. persons to do business or trade with Iran when such activities relate to specific activities such as investment in Iran, the supply or export of refined petroleum or refined petroleum products to Iran, the supply and delivery of goods to Iran which could enhance Iran s petroleum or energy sectors, and the transportation of crude oil from Iran to countries which do not enjoy Iran crude oil sanctions waivers (our tankers called in Iran but did not engage in the prohibited activities specifically identified by these sanctions).

U.S. economic sanctions on Iran fall into two general categories: Primary sanctions, which prohibit U.S. persons or U.S. companies and their foreign branches, foreign owned or controlled subsidiaries, U.S. citizens, U.S. permanent residents, persons within the territory of the United States from engaging in all direct and indirect trade and other transactions with Iran without U.S. government authorization, and secondary sanctions, which are mainly nuclear-related sanctions. While most of the U.S. nuclear-related sanctions with respect to Iran (including, *inter alia,* CISADA, ITRA, and IFCA) and the EU sanctions on Iran were initially lifted on January 16, 2016 through the implementation of the Joint Comprehensive Plan of Action (JCPOA) entered into between the permanent members of the United Nations Security Council (China, France, Russia, the United Kingdom and the United States) and Germany, there are still certain limitations under that sanctions framework in place with which we need to comply. The primary sanctions with which U.S. persons or transactions with a U.S. nexus must comply are still in force and have not been lifted or relaxed.

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However, the following sanctions which were lifted under the JCPOA were reimposed (snapped back) on May 8, 2018 as a result of the U.S. withdrawal from the JCPOA:

i. Sanctions on the purchase or acquisition of U.S. dollar banknotes by the Government of Iran;

ii. Sanctions on Iran s trade in gold or precious metals;

iii. Sanctions on the direct or indirect sale, supply, or transfer to or from Iran of graphite, raw, or semi-finished metals such as aluminum and steel, coal, and software for integrating industrial processes;

iv. Sanctions on significant transactions related to the purchase or sale of Iranian rials, or the maintenance of significant funds or accounts outside the territory of Iran denominated in the Iranian rial;

v. Sanctions on the purchase, subscription to, or facilitation of the issuance of Iranian sovereign debt; and

vi. Sanctions on Iran s automotive sector.

Following a 180-day wind-down period ending on November 4, 2018, the U.S. government will re-impose the following sanctions that were lifted pursuant to the JCPOA, including sanctions on associated services related to the activities below:

i. Sanctions on Iran s port operators, and shipping and shipbuilding sectors, including on the Islamic Republic of Iran Shipping Lines (IRISL), South Shipping Line Iran, or their affiliates;

ii. Sanctions on petroleum-related transactions with, among others, the National Iranian Oil Company (NIOC), Naftiran Intertrade Company (NICO), and National Iranian Tanker Company (NITC), including the purchase of petroleum, petroleum products, or petrochemical products from Iran;

iii. Sanctions on transactions by foreign financial institutions with the Central Bank of Iran and designated Iranian financial institutions under Section 1245 of the National Defense Authorization Act for Fiscal Year 2012 (NDAA);

iv. Sanctions on the provision of specialized financial messaging services to the Central Bank of Iran and Iranian financial institutions described in Section 104(c)(2)(E)(ii) of the Comprehensive Iran Sanctions and Divestment Act of 2010 (CISADA);

v. Sanctions on the provision of underwriting services, insurance, or reinsurance; and

vi. Sanctions on Iran s energy sector.

U.S. Iran sanctions also prohibit significant transactions with any individual or entity that the U.S. Government has designated as an Iran sanctions target.

EU sanctions remain in place in relation to the export of arms and military goods listed in the EU common military list, missiles-related goods and items that might be used for internal repression. The main nuclear-related EU sanctions which remain in place include restrictions on:

i. Graphite and certain raw or semi-finished metals such as corrosion-resistant high-grade steel, iron, aluminum and alloys, titanium and alloys and nickel and alloys (as listed in Annex VIIB to EU Regulation 267/2012 as updated by EU Regulation 2015/1861 (the EU Regulation);

ii. Goods listed in the Nuclear Suppliers Group list (listed in Annex I to the EU Regulation);

iii. Goods that could contribute to nuclear-related or other activities inconsistent with the JCPOA (as listed in Annex II to the EU Regulation); and

iv. Software designed for use in nuclear/military industries (as listed in Annex VIIA to the EU Regulation).

The above EU sanctions activities can only be engaged if prior authorization (granted on a case-by-case basis) is obtained. The remaining restrictions apply to the sale, supply, transfer or export, directly or indirectly to any Iranian person/for use in Iran, as well as the provision of technical assistance, financing or financial assistance in relation to the restricted activity. Certain individuals and entities remain sanctioned and the prohibition to make available, directly or indirectly, economic resources or assets to or for the benefit of sanctioned parties remains. Economic resources is widely defined and it remains prohibited to provide vessels for a fixture from which a sanctioned party (or parties related to a sanctioned party) directly or indirectly benefits. It is therefore still necessary to carry out due diligence on the parties and cargoes involved in fixtures involving Iran.

Russia/Ukraine

As a result of the crisis in Ukraine and the annexation of Crimea by Russia in 2014, both the U.S. and EU have implemented sanctions against certain Russian individuals and entities.

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The EU has imposed travel bans and asset freezes on certain Russian persons and entities pursuant to which it is prohibited to make available, directly or indirectly, economic resources or assets to or for the benefit of the sanctioned parties. Certain Russian ports including Kerch Commercial Seaport; Sevastopol Commercial Seaport and Port Feodosia are subject to the above restrictions. Other entities are subject to sectoral sanctions which limit the provision of equity financing and loans to the listed entities. In addition, various restrictions on trade have been implemented which, amongst others, include a prohibition on the import into the EU of goods originating in Crimea or Sevastopol as well as restrictions on trade in certain dual-use and military items and restrictions in relation to various items of technology associated with the oil industry for use in deep water exploration and production, Arctic oil exploration and production or shale oil projects in Russia. As such, it is important to carry out due diligence on the parties and cargoes involved in fixtures relating to Russia.

The United States has imposed sanctions against certain designated Russian entities and individuals (U.S. Russian Sanctions Targets). These sanctions block the property and all interests in property of the U.S. Russian Sanctions Targets. This effectively prohibits U.S. persons from engaging in any economic or commercial transactions with the U.S. Russian Sanctions Targets unless the same are authorized by the U.S. Treasury Department. Similar to EU sanctions, U.S. sanctions also entail restrictions on certain exports from the United States to Russia and the imposition of Sectoral Sanctions which restrict the provision of equity and debt financing to designated Russian entities. While the prohibitions of these sanctions are not directly applicable to us, we have compliance measures in place to guard against transactions with U.S. Russian Sanctions Targets which may involve the United States or U.S. persons and thus implicate prohibitions. The United States also maintains prohibitions on trade with Crimea.

The U.S. has also taken a number of steps toward implementing aspects of the Countering America s Adversaries Through Sanctions Act (CAATSA), a major piece of sanctions legislation.

Under CAATSA, the U.S. has imposed secondary sanctions relating to Russia s energy export pipelines, investments in special Russian crude oil projects. CAATSA has a provision that requires the U.S. President to sanction persons who knowingly engage in significant transactions with parties affiliated with Russia s defense and intelligence sectors.

Venezuela-Related Sanctions

The U.S. sanctions with respect to Venezuela prohibit dealings with designated Venezuelan government officials, and curtail the provision of financing to Petroleos de Venezuela, S.A. (PDVSA) and other government entities. EU sanctions against Venezuela are primarily governed by EU Council Regulation 2017/2063 of 13 November 2017 concerning restrictive measures in view of the situation in Venezuela. This includes financial sanctions and restrictions on listed persons and an, arms embargo and related prohibitions and restrictions including restrictions related to internal repression. In particular,

On August 24, 2017, by executive order 13808, the Trump Administration Imposed Additional Sanctions With Respect to Situation in Venezuela EO 13808 amended the Venezuela sanctions as follows:

1. Expanded the definition of Government of Venezuela to include PDVSA (Section 3); and

2. Added prohibitions on all transactions related to:

i. New debt with a maturity of greater than 90 days of PDVSA;

ii. New debt with a maturity of greater than 30 days or new equity of the Government of Venezuela, other than debt of PDVSA;

iii. Bonds issued by the Government of Venezuela prior to August 25, 2017, the EO s effective date;

iv. Dividend payments or other distributions of profits to the Government of Venezuela from any entity directly or indirectly owned or controlled by the Government of Venezuela; or

v. Direct or indirect purchase by US persons or persons within the United States of securities from the Government of Venezuela, other than securities qualifying as new debt with a maturity of less than or equal to 90 or 30 days as covered by the EO (Section 1).

Additionally, all transactions related to, provision of financing for, and other dealings in, by a United States person or within the United States, any digital currency, digital coin, or digital token, that was issued by, for, or on behalf of the Government of Venezuela on or after January 9, 2018, are prohibited.

On January 25, 2019, Executive Order 13857 expanded the definition of Government of Venezuela to include persons that have acted, or have purported to act, on behalf of the Government of Venezuela, including members of the Maduro regime.

On January 28, 2019, the Department of the Treasury s Office of Foreign Assets Control (i) designated PDVSA for operating in the oil sector of Venezuela; and (ii) issued eight new General Licenses.

Other U.S. Economic Sanctions Targets

In addition to Iran and certain Russian entities and individuals, as indicated above, the United States maintains economic sanctions against Syria, Cuba, North Korea, and sanctions against entities and individuals (such as entities and individuals in the foregoing targeted countries, designated terrorists, narcotics traffickers) whose names appear on the List of SDNs and Blocked Persons maintained by the U.S. Treasury Department (collectively, Sanctions Targets). We are subject to the prohibitions of these sanctions to the extent that any transaction or activity we engage in involves Sanctions Targets and a U.S. person or otherwise has a nexus to the United States.

Other E.U. Economic Sanctions Targets

The EU also maintains sanctions against Syria, North Korea and certain other countries and against individuals listed by the EU. These restrictions apply to our operations and as such, to the extent that these countries may be involved in any business it is important to carry out checks to ensure compliance with all relevant restrictions and to carry out due diligence checks on counterparties and cargoes.

Compliance

Considering the aforementioned prohibitions of U.S. as well as EU sanctions and the nature of our business, there is a sanctions risk for us due to the worldwide trade of our vessels, which we seek to minimise by the implementation of our corporate Sanctions policy and our compliance with all applicable sanctions and embargo laws and regulations. Although we 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, and the law may change. Moreover, despite, for example, relevant provisions in charter parties forbidding the use of our vessels in trade that would violate economic sanctions, our charterers may nevertheless violate applicable sanctions and embargo laws and regulations and those violations could in turn negatively affect our reputation and be imputed to us.

In addition, given our relationship with Navios Holdings and its affiliates , we cannot give any assurance that an adverse finding against Navios Holdings and/or its affiliates by a governmental or legal authority or others with respect to the matters discussed herein or any future matter related to regulatory compliance by Navios Holdings and/or its affiliates will not have a material adverse impact on our business, reputation or the market price or trading of our common stock-units.

We are constantly monitoring developments in the United States, the European Union and other jurisdictions that maintain economic sanctions against Iran, other countries, and other sanctions targets, including developments in implementation and enforcement of such sanctions programs. Expansion of sanctions programs, embargoes and other restrictions in the future (including additional designations of countries and persons subject to sanctions), or modifications in how existing sanctions are interpreted or enforced, could prevent our vessels from calling in ports in sanctioned countries or could limit their cargoes. If any of the risks described above materialize, it could have a material adverse impact on our business and results of operations.

To reduce the risk of violating economic sanctions, we have a policy of compliance with applicable economic sanctions laws and have implemented and continue to implement and diligently follow compliance procedures to avoid economic sanctions violations.

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We could be materially adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and anti-corruption laws in other applicable jurisdictions.

As an international shipping company, we may operate in countries known to have a reputation for corruption. The U.S. Foreign Corrupt Practices Act of 1977 (the FCPA) and other anti-corruption laws and regulations in applicable jurisdictions generally prohibit companies registered with the SEC and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Under the FCPA, U.S. companies may be held liable for some actions taken by strategic or local partners or representatives. Legislation in other countries includes the U.K. Bribery Act 2010 (the U.K. Bribery Act) which is broader in scope than the FCPA because it does not contain an exception for facilitation payments. We and our customers may be subject to these and similar anti-corruption laws in other applicable jurisdictions. Failure to comply with legal requirements could expose us to civil and/or criminal penalties, including fines, prosecution and significant reputational damage, all of which could materially and adversely affect our business and the results of operations, including our relationships with our customers, and our financial results. Compliance with the FCPA, the U.K. Bribery Act and other applicable anti-corruption laws and related regulations and policies imposes potentially significant costs and operational burdens on us. Moreover, the compliance and monitoring mechanisms that we have in place including our Code of Ethics and our anti-bribery and anti-corruption policy, may not adequately prevent or detect all possible violations under applicable anti-bribery and anti-corruption legislation. However, we believe that the procedures we have in place to prevent bribery are adequate and that they should provide a defense in most circumstances to a violation or a mitigation of applicable penalties, at least under the U.K. s Bribery Act.

The operation of ocean-going vessels entails the possibility of marine disasters including damage or destruction of the vessel due to accident, the loss of a vessel due to piracy or terrorism, damage or destruction of cargo and similar events that may cause a loss of revenue from affected vessels and damage our business reputation, which may in turn lead to loss of business.

The operation of ocean-going vessels entails certain inherent risks that may materially adversely affect our business and reputation, including:

- damage or destruction of vessel due to marine disaster such as a collision;
- the loss of a vessel due to piracy and terrorism;
- cargo and property losses or damage as a result of the foregoing or less drastic causes such as human error, mechanical failure, grounding, fire, explosions and bad weather;
- environmental accidents as a result of the foregoing; and
- business interruptions and delivery delays caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

Any of these circumstances or events could substantially increase our costs. For example, the costs of replacing a vessel or cleaning up a spill could substantially lower our revenues by taking vessels out of operation permanently or

for periods of time. The involvement of our vessels in a disaster or delays in delivery or damages or loss of cargo may harm our reputation as a safe and reliable vessel operator and cause us to lose business.

The operation of vessels, such as drybulk carriers, has certain unique risks. With a drybulk carrier, the cargo itself and its interaction with the vessel can be an operational risk. By their nature, drybulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, drybulk 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 at sea. Hull breaches in drybulk carriers may lead to the flooding of the vessels holds. If a drybulk 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.

The total loss or damage of any of our vessels or cargoes could harm our reputation as a safe and reliable vessel owner and operator. If we are unable to adequately maintain or safeguard our vessels, we may be unable to prevent any such damage, costs, or loss that could negatively impact our business, financial condition, results of operations, cash flows and ability to pay distributions.

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo, and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages against such vessel. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest lifted. We are not currently aware of the existence of any such maritime lien on our vessels.

In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel which 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 try to assert sister ship liability against one vessel in our fleet for claims relating to another vessel in the fleet.

The smuggling of drugs or other contraband onto our vessels may lead to governmental claims against us.

Our vessels may call in ports where smugglers may attempt to hide drugs and other contraband on vessels, with or without the knowledge of crew members. To the extent our vessels are found with contraband, whether inside or attached to the hull of our vessel and whether with or without the knowledge of any of our crew, we may face reputational damage and governmental or other regulatory claims or penalties, which could have an adverse effect on our business, results of operations, cash flows, financial condition, as well as our cash flows, including cash available for distributions to our unitholders. Under some jurisdictions, vessels used for the conveyance of illegal drugs could result in forfeiture of the vessel to the government of such jurisdiction.

A failure to pass inspection by classification societies could result in one or more vessels being unemployable unless and until they pass inspection, resulting in a loss of revenues from such vessels for that period and a corresponding decrease in operating cash flows.

The hull and machinery of every commercial vessel must be inspected and approved by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and with SOLAS. Our owned fleet is currently enrolled with American Bureau of Shipping, Nippon Kaiji Kiokai, Bureau Veritas, DNVGL, and Lloyd s Register.

A vessel must undergo an annual survey, an intermediate survey and a special survey. In lieu of a special survey, a vessel s machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be drydocked every two to three years for inspection of the underwater parts of such vessel.

If any vessel fails any annual survey, intermediate survey or special survey, the vessel may be unable to trade between ports and, therefore, would be unemployable, potentially causing a negative impact on our revenues due to the loss of revenues from such vessel until she is able to trade again. Further, if any vessel fails a classification survey and the condition giving rise to the failure is not cured within a reasonable time, the vessel may lose coverage under various insurance programs, including hull and machinery insurance and/or protection and indemnity insurance.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.

International shipping is subject to various security and customs inspections and related procedures in countries of origin and destination and trans-shipment points. Inspection procedures can result in the seizure of contents of our vessels, delays in the loading, offloading, trans-shipment or delivery and the levying of customs, duties, fines or other penalties.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our future 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, results of operations, cash flows, financial condition and ability to make cash distributions.

Political and government instability, terrorist attacks, increased hostilities or war could lead to further economic instability, increased costs and disruption of our business.

We are an international company and primarily conduct our operations outside the United States. Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered will affect us. Terrorist attacks, such as the attacks in the United States on September 11, 2001 and the United States continuing response to these attacks, and in Paris on January 7, 2015 and on November 13, 2015, the bombings in Spain on March 11, 2004 and in Brussels on March 22, 2016, and the attacks in London on July 7, 2005, the recent conflicts in Iraq, Afghanistan, Syria, Ukraine and other current and future conflicts, and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets, including the energy markets. Continuing hostilities in the Middle East may lead to additional refugee flows, armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which could result in increased volatility and turmoil in the financial markets and may contribute further to economic instability. Current and

future conflicts and terrorist attacks may adversely affect our business, operating results, financial condition, ability to raise capital and future growth. Terrorist attacks on vessels, such as the October 2002 attack on the M/V Limburg, a VLCC not related to us, may in the future also negatively affect our operations and financial condition and directly impact our vessels or our customers.

Furthermore, our operations may be adversely affected by changing or adverse political and governmental conditions in the countries where our vessels are flagged or registered and in the regions where we otherwise engage in business. Any disruption caused by these factors may interfere with the operation of our vessels, which could harm our business, financial condition and results of operations. Our operations may also be adversely affected by expropriation of vessels, taxes, regulation, tariffs, trade embargoes, economic sanctions or a disruption of or limit to trading activities, or other adverse events or circumstances in or affecting the countries and regions where we operate or where we may operate in the future. Adverse economic, political, social or other developments can decrease demand and prospects for growth in the shipping industry and thereby could reduce revenue significantly.

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 its owner, while requisition for hire occurs when a government takes control of a vessel and effectively becomes its 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 may 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 could have a material adverse effect on our business, financial condition, cash flows and results of operations.

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

The shipping industry has historically been affected by acts of piracy in regions such as the South China Sea, the Indian Ocean, the Strait of Malacca, the Arabian Sea, the Gulf of Aden off the coast of Somalia and the Red Sea. Although the frequency of sea piracy worldwide has decreased in recent years, sea piracy incidents continue to occur, particularly in the Gulf of Aden and towards the Mozambique Channel in the North Indian Ocean and increasingly in the Gulf of Guinea. In January 2014, a vessel owned by our affiliate, Navios Maritime Acquisition Corporation, the Nave Atropos, came under attack from a pirate action group in international waters off the coast of Yemen and in February 2016, the Nave Jupiter, a vessel also owned by Navios Acquisition, came under attack from pirate action groups on her way out from her loading terminal about 50NM off Bayelsa, Nigeria. In both instances, the crew and the on-board security team successfully implemented the counter piracy action plan and standard operating procedures to deter the attack with no consequences to the vessels or their crew. These piracy attacks resulted in regions (in which our vessels are deployed) being characterized by insurers as war risk zones or Joint War Committee war and strikes listed areas. Premiums payable for such insurance coverage could increase significantly and such insurance coverage may be more difficult to obtain. Crew costs, including those due to employing onboard security guards, could increase in such circumstances. While the use of security guards is intended to deter and prevent the hijacking of our vessels, it could also increase our risk of liability for death or injury to persons or damage to personal property. In addition, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charter hire 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 it 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, 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, results of operations and cash flows. Acts of piracy on ocean-going vessels could adversely affect our business and operations.

The cost of vessel security measures has also been affected by the escalation in recent years in the frequency and seriousness of acts of piracy against ships, notably off the coast of Somalia, including the Gulf of Aden and Arabian Sea area. Attacks of this kind have commonly resulted in vessels and their crews being detained for several months, and being released only on payment of large ransoms. Substantial loss of revenue and other costs may be incurred as a result of such detention. Although we insure against these losses to the extent practicable, the risk remains of uninsured losses which could significantly affect our business. Costs are incurred in taking additional security measures in accordance with Best Management Practices to Deter Piracy, notably those contained in the BMP3 industry standard. A number of flag states have signed the 2009 New York Declaration, which expresses commitment to Best Management Practices in relation to piracy and calls for compliance with them as an essential part of compliance with the ISPS Code.

Disruptions in world financial markets and the resulting governmental action in the United States and in other parts of the world could have a material adverse impact on our ability to obtain financing, our results of operations, financial conditions and cost flows and could cause the market price of our common units to decline.

The refugee crisis in Europe and the Middle East, and concerns relating to the European sovereign debt crisis, the socioeconomic and political crisis in Venezuela and the United Kingdom s pending exit from the European Union have led to increased volatility in global credit and equity markets. Several European countries, including Greece, have been affected by increasing public debt burdens and weakening economic growth prospects. In recent years, Standard and Poor s Rating Services and Moody s Investors Service downgraded the long-term ratings of most European countries sovereign debt and initiated negative outlooks. Such downgrades could negatively affect those countries ability to access the public debt markets at reasonable rates or at all, materially affecting the financial conditions of banks in those countries, including those with which we maintain cash deposits and equivalents, or on which we rely on to finance our vessel and new business acquisitions.

Cash deposits and cash equivalents in excess of amounts covered by government-provided insurance are exposed to loss in the event of non-performance by financial institutions. We maintain cash deposits and equivalents in excess of government-provided insurance limits at banks in Greece, USA and other European banks, which may expose us to a loss of cash deposits or cash equivalents.

During the financial crisis, credit markets worldwide and in the U.S. experienced significant contraction, de-leveraging and reduced liquidity, and the U.S. federal government, state governments and foreign governments took highly significant measures in response to such events, including the enactment of the Emergency Economic Stabilization Act of 2008 in the United States, and may implement other significant responses in the future. Additionally, uncertainty regarding trade barriers, including import tariffs, tax policy and government spending in the United States have created an uncertain environment which could reduce demand for our services. 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 changes to securities, tax, environmental, trade, or other laws or regulations, could have a material adverse effect on our results of operations, financial condition or cash flows, and could cause the market price of our common units to decline.

Within the last several years, a number of financial institutions have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. These difficulties resulted, in part, from declining markets for assets held by such institutions, particularly the reduction in the value of their mortgage and asset-backed securities portfolios. These difficulties were compounded by financial turmoil affecting the world s debt, credit and capital markets, and the general decline in the willingness by banks and other financial institutions to extend credit, particularly to the shipping industry due to the historically low vessel earnings and values, and, in part, due to changes in overall banking regulations (for example, Basel III). As a result, the ability of banks and credit institutions to finance new projects, including the acquisition of new vessels in the future, were for a time uncertain. Following the stress tests run by the European Central Bank (the ECB), revised capital ratios have been communicated to European banks. This has reduced the uncertainty following the difficulties of the past several years, but it has also led to changes in each bank s lending policies and ability to provide financing or refinancing. A recurrence of global economic weakness may adversely affect the financial institutions that provide our credit facilities and may impair their ability to continue to perform under their financing obligations to us, which could have an impact on our ability to fund current and future obligations.

Furthermore, we may experience difficulties obtaining financing commitments, including commitments to refinance our existing debt as balloon payments come due under our credit facilities, in the future if lenders are unwilling to extend financing to us or unable to meet their funding obligations due to their own liquidity, capital or solvency issues. Because we would possibly cover all or a portion of the cost of any new vessel acquisition with debt financing, such uncertainty, combined with restrictions imposed by our current debt, could hamper our ability to finance vessels or new business acquisitions.

In addition, the economic uncertainty worldwide has markedly reduced demand for shipping services and has decreased shipping rates, which may adversely affect our results of operations and financial condition. Currently, the economies of China, Japan, other Pacific Asian countries and India are the main driving force behind the development in seaborne transportation. Reduced demand from such economies has in the past driven decreased rates and vessel values and could do so in the future.

In addition, as a result of the ongoing political and economic turmoil in Greece resulting from the sovereign debt crisis and the related austerity measures implemented by the Greek government, the operations of our managers located in Greece may be subjected to new regulations and potential shift in government policies 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. We also face the risk that strikes, work stoppages, civil unrest and violence within Greece may disrupt the shoreside operations of our managers located in Greece.

We could face risks attendant to changes in economic environments, changes in interest rates, tax policies, and instability in certain securities markets, among other factors. Major market disruptions and the uncertainty in market conditions and the regulatory climate in the U.S., Europe and worldwide could adversely affect our business or impair our ability to borrow amounts under any future financial arrangements. The current market conditions may last longer than we anticipate. These recent and developing economic and governmental factors could have a material adverse effect on our results of operations, financial condition or cash flows.

Risks Relating to Our Units

Our board of directors may not declare cash distributions in the foreseeable future.

The declaration and payment of cash distributions, if any, will always be subject to the discretion of our board of directors, restrictions contained in our credit facilities and the requirements of Marshall Islands law. The timing and amount of any cash distributions 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, the terms of our outstanding indebtedness and the ability of our subsidiaries to distribute funds to us. The containership and drybulk sector of the shipping industry is highly volatile, and we cannot predict with certainty the amount of cash, if any, that will be available for distribution as cash distributions in any period. Also, there may be a high degree of variability from period to period in the amount of cash that is available for the payment of cash distributions.

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We may not have sufficient cash available to pay quarterly distributions or to maintain or increase distributions following the establishment of cash reserves and payment of fees and expenses. In February 2016, we announced that our board of directors decided to suspend the quarterly cash distributions to our unitholders, including the distribution for the quarter ended December 31, 2015, in order to conserve cash and improve our liquidity. In March 2018, our board of directors determined to reinstate a distribution and any continued distribution will be at the discretion of our board of directors. The amount of cash we can distribute on our common units depends principally upon the amount of cash we generate from our operations, which may fluctuate based on numerous factors including, those set forth elsewhere in this section.

The actual amount of cash we will have available for distribution also will depend on other factors, some of which are beyond our control, such as the level of capital expenditures we make (including those associated with maintaining vessels, building new vessels, acquiring existing vessels and complying with regulations), our debt service requirements and restrictions on distributions contained in our debt instruments, interest rate fluctuations, the cost of acquisitions, if any, fluctuations in our working capital needs, our ability to make working capital borrowings, and the amount of any cash reserves, including reserves for future maintenance and replacement capital expenditures, working capital and other matters, established by our board of directors in its discretion.

In addition, the amount of cash we generate from our operations may differ materially from our profit or loss for the period, which will be affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Any dividend payments on our common units would be declared in U.S. dollars, and any unit holder whose principal currency is not the U.S. dollar would be subject to risks of exchange rate fluctuations.

Our common units, and any cash dividends or other distributions to be declared in respect of them, if any, will be denominated in U.S. dollars. Unit holders whose principal currency is not the U.S. dollar will be exposed to foreign currency exchange rate risk. Any depreciation of the U.S. dollar in relation to such foreign currency will reduce the value of such unitholders units and any appreciation of the U.S. dollar will increase the value in foreign currency terms. In addition, we will not offer its shareholders the option to elect to receive dividends, if any, in any other currency. Consequently, unitholders may be required to arrange their own foreign currency exchange, either through a brokerage house or otherwise, which could incur additional commissions or expenses.

The New York Stock Exchange may delist our securities from trading on its exchange, which could limit your ability to trade our securities and subject us to additional trading restrictions.

Our securities are listed on the New York Stock Exchange (the NYSE), a national securities exchange. The NYSE minimum listing standards, require that we meet certain requirements relating to stockholders equity, number of round-lot holders, market capitalization, aggregate market value of publicly held shares and distribution requirements. However, on March 13, 2019, we were notified by the NYSE that we were no longer in compliance with the NYSE s continued listing standards because the average closing price of our common stock over a consecutive 30 trading-day period was less than $1.00 per unit. Although we intend to cure this deficiency within the prescribed timeframe set out in the NYSE s Listed Company Manual, we cannot assure you that our securities will continue to be listed on NYSE in the future.

If NYSE delists our securities from trading on its exchange, we could face significant material adverse consequences, including limited availability of market quotations for our securities, limited amount of news and analyst coverage for us, decreased ability for us to issue additional securities or obtain additional financing in the future, limited liquidity

for our unitholders; and the loss of our tax exemption under Section 883 of the Internal Revenue Code of 1986, as amended (the Code), loss of preferential capital gain tax rates for certain dividends received by certain non-corporate U.S. holders, and loss of mark-to-market election by U.S. holders in the event we are treated as a passive foreign investment company (PFIC).

The price of our common units may be volatile.

The price of our common units may be volatile and may fluctuate due to various factors including:

- actual or anticipated fluctuations in quarterly and annual results;
- fluctuations in the seaborne transportation industry, including fluctuations in the containership market;
- our making of distributions;
- mergers and strategic alliances in the shipping industry;

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changes in governmental regulations or maritime self-regulatory organization standards;

shortfalls in our operating results from levels forecasted by securities analysts;

announcements concerning us or our competitors;

general economic conditions;

terrorist acts;

future sales of our common units or other securities;

investors perceptions of us and the international container shipping industry;

the general state of the securities markets; and

other developments affecting us, our industry or our competitors.

The containership and drybulk sector of the shipping industry has been highly unpredictable and volatile. Securities markets worldwide are experiencing significant price and volume fluctuations. The market price for our securities may also be volatile. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our securities in spite of our operating performance. Consequently, you may not be able to sell our securities at prices equal to or greater than those at which you pay or paid.

Increases in interest rates may cause the market price of our common units to decline.

An increase in interest rates may cause a corresponding decline in demand for equity investments in general and in particular for yield-based equity investments such as our common units. Any such increase in interest rates or reduction in demand for our common units resulting from other relatively more attractive investment opportunities may cause the trading price of our common units to decline. In addition, our interest expense will increase, since initially our debt will bear interest at a floating rate, subject to any interest rate swaps we may enter into the future.

Substantial future sales of our common units in the public market, including through our continuous offering sales program, could cause the price of our common units to fall.

In order to raise additional capital, we may in the future offer additional common units or other securities convertible into or exchangeable for our common units, including convertible debt. For instance, in 2016 we entered into a Continuous Offering Program Sales Agreement for the offer and sale of up to $25.0 million in aggregate amount of our common units from time to time through the sales agent. Whether we choose to affect future sales under the continuous offering program will depend upon a variety of factors, including, among others, market conditions and the trading price of our common units relative to other sources of capital.

We cannot predict the size of future issuances or sales of our common units, including those made pursuant to the continuous offering program sales agreement or in connection with future acquisitions or capital activities, or the effect, if any, that such issuances or sales may have on the market price of our common units. The issuance and sale of substantial amounts of common units, including issuance and sales pursuant to the continuous offering program sales agreement, or announcement that such issuance and sales may occur, could adversely affect the market price of our common units.

Unitholders may be liable for repayment of distributions.

Under some circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under the Marshall Islands Act, we may not make a distribution to unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Marshall Islands law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Marshall Islands law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the assignee at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

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Common unitholders have limited voting rights and our partnership agreement restricts the voting rights of common unitholders owning more than 4.9% of our common units.

Holders of our common units have only limited voting rights on matters affecting our business. We hold a meeting of the limited partners every year to elect one or more members of our board of directors and to vote on any other matters that are properly brought before the meeting. Common unitholders may only elect four of the seven members of our board of directors. The elected directors are elected on a staggered basis and serve for three year terms. Our general partner in its sole discretion has the right to appoint the remaining three directors and to set the terms for which those directors will serve. The partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders ability to influence the manner or direction of management. Unitholders will have no right to elect our general partner and our general partner may not be removed except by a vote of the holders of at least 66 2/3% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class.

Our partnership agreement further restricts common unitholders voting rights by providing that if any person or group owns beneficially more than 4.9% of the common units then outstanding, any such common units owned by that person or group in excess of 4.9% may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, except for purposes of nominating a person for election to our board, determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such common unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates and persons who acquired common units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units in the election of the elected independent directors.

Risks Relating to Taxes and Other Legal Matters

In addition to the following risk factors, you should read the section entitled Material U.S. Federal Income Tax Considerations for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of common units.

We may be subject to taxes, which may reduce our cash available for distribution to our unitholders.

We and our subsidiaries may be subject to tax in the jurisdictions in which we are organized or operate, reducing the amount of cash available for distribution. In computing our tax obligation in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing the cash available for distribution. In addition, changes in our operations or ownership could result in additional tax being imposed on us or our subsidiaries in jurisdictions in which operations are conducted.

In accordance with the currently applicable Greek law, foreign flagged vessels that are managed by Greek or foreign ship management companies having established an office in Greece are subject to duties towards the Greek state which are calculated on the basis of the relevant vessels tonnage. The payment of said duties exhausts the tax liability of the foreign ship owning company and the relevant manager against any tax, duty, charge or contribution payable on income from the exploitation of the foreign flagged vessel. As our Manager is located in Greece, we will have to pay these duties.

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

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a passive foreign investment company (PFIC), for U.S. federal income tax purposes if at least 75.0% of its gross income for any taxable year consists of certain types of passive income, or at least 50.0% of the average value of the entity s assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income generally includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties that 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. unitholders 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 units in the PFIC, as well as additional U.S. federal income tax filing obligations.

Based on our current and projected method of operation, and on opinion of counsel, we believe that we were not a PFIC for our 2018 taxable year, and we expect that we will not become a PFIC with respect to any other taxable year. Our U.S. counsel, Thompson Hine LLP, is of the opinion that (1) the income we receive from time chartering activities and the assets we own that are engaged in generating such income should not be treated as passive income or assets, respectively, and (2) so long as our income from time charters exceeds 25.0% of our gross income from all sources for each taxable year after our initial taxable year and the fair market value of our vessels contracted under time charters exceeds 50.0% of the average fair market value of all of our assets for each taxable year after our initial taxable year, we should not be a PFIC for any taxable year. This opinion is based on representations and projections provided by us to our counsel regarding our assets, income and charters, and its validity is conditioned on the accuracy of such representations and projections. We expect that all of the vessels in our fleet will be engaged in time chartering activities and intend to treat our income from those activities as non-passive income, and the vessels engaged in those activities as non-passive assets, for PFIC purposes. However, we cannot assure you that the method of our operations, or the nature or composition of our income or assets, will not change in the future and that we will not become a PFIC. Moreover, although there is legal authority for our position, there is also contrary authority and no assurance can be given that the Internal Revenue Service, or the IRS, will accept our position.

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

Under the Code, 50.0% of the gross transportation income of a vessel- owning or chartering corporation that is attributable to transportation that either begins or ends, but that does not both begin and end, in the United States is characterized as U.S. Source International Transportation Income. U.S. Source International Transportation Income generally is subject to a 4.0% U.S. federal income tax without allowance for deduction or, if such U.S. Source International Transportation Income is effectively connected with the conduct of a trade or business in the United States, U.S. federal corporate income tax (presently imposed at a 21.0% rate) as well as a branch profits tax (presently imposed at a 30.0% rate on effectively connected earnings) applies, unless the non-U.S. corporation qualifies for exemption from tax under Section 883 of the Code.

Based on an opinion of counsel, and certain assumptions and representations, we believe that we have qualified for this statutory tax exemption, and we will take this position for U.S. federal income tax return reporting purposes for our 2018 taxable year. However, there are factual circumstances, including some that may be beyond our control that could cause us to lose the benefit of this tax exemption, including the delisting of our securities from quotation on the NYSE which could cause us to lose the benefit of this tax exemption and thereby make us subject to U.S. federal income tax on our U.S. Source International Transportation Income. See Risks Related to Our Units The New York Stock Exchange may delist our securities from trading on its exchange, which could limit your ability to trade our securities and subject us to additional trading restrictions . Furthermore, our board of directors could determine that it is in our best interests to take an action that would result in this tax exemption not applying to us in the future. In addition, our conclusion that we qualify for this exemption, as well as the conclusions in this regard of our counsel, Thompson Hine LLP, is based upon legal authorities that do not expressly contemplate an organizational structure such as ours; specifically, although we have elected to be treated as a corporation for U.S. federal income tax purposes, we are organized as a limited partnership under Marshall Islands law. Therefore, we can give no assurances that the IRS will not take a different position regarding our qualification for this tax exemption.

If we were not entitled to the Section 883 exemption for any taxable year, we generally would be subject to a 4.0% U.S. federal gross income tax with respect to our U.S. Source International Transportation Income or, if such U.S. Source International Transportation Income were effectively connected with the conduct of a trade or business in the United States, U.S. federal corporate income tax as well as a branch profits tax for those years. Our failure to qualify for the Section 883 exemption could have a negative effect on our business and would result in decreased earnings available for distribution to our unitholders.

Actions taken by holders of our common units could result in our being treated as a controlled foreign corporation, which could have adverse U.S. federal income tax consequences to certain U.S. holders.

Although we believe that Navios Partners was not a controlled foreign corporation (a CFC) as of December 31, 2018, or at any time during 2018, tax rules recently enacted by the Tax Cuts and Jobs Act, including the imposition of so-called downward attribution for purposes of determining whether a non-U.S. corporation is a CFC, may result in Navios Partners being treated as a CFC for U.S. federal income tax purposes in the future. Through downward attribution, U.S. subsidiaries of Navios Holdings are treated as constructive owners of the equity interests of Navios Partners for purposes of determining whether Navios Partners is a CFC. If, in the future, U.S. holders (including U.S. subsidiaries of Navios Holdings, as discussed above) that each own 10.0% or more (by vote or value) of the equity of Navios Partners own in the aggregate more than 50% of the equity of Navios Partners (by vote or value), in each case, directly, indirectly or constructively, Navios Partners should become a CFC.

U.S. holders who at all times own less than 10% of our equity should not be affected. However, if we were to become a CFC, any U.S. holder owning 10% or more (by vote or value), directly, indirectly, or constructively (but not through downward attribution), of our equity could be subject to U.S. federal income tax in respect of a portion of our earnings. Any U.S. holder of Navios Partners that owns 10% or more (by vote or value), directly, indirectly or constructively, of the equity of Navios Partners should consult its own tax advisor regarding U.S. federal tax consequences that may result from Navios Partners being treated as a CFC (*see United States Federal Income Taxation of U.S. Holders Controlled Foreign Corporation*).

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You may be subject to income tax in one or more non-U.S. countries, including Greece, as a result of owning our common units if, under the laws of any such country, we are considered to be carrying on business there. Such laws may require you to file a tax return with and pay taxes to those countries.

We intend that our affairs and the business of each of our controlled affiliates will be conducted and operated in a manner that minimizes income taxes imposed upon us and these controlled affiliates or which may be imposed upon you as a result of owning our common units. However, because we are organized as a partnership, there is a risk in some jurisdictions that our activities and the activities of our subsidiaries may be attributed to our unitholders for tax purposes and, thus, that you will be subject to tax in one or more non-U.S. countries, including Greece, as a result of owning our common units if, under the laws of any such country, we are considered to be carrying on business there. If you are subject to tax in any such country, you may be required to file a tax return with and to pay tax in that country based on your allocable share of our income. We may be required to reduce distributions to you on account of any withholding obligations imposed upon us by that country in respect of such allocation to you. The United States may not allow a tax credit for any foreign income taxes that you directly or indirectly incur.

We believe we can conduct our activities in such a manner that our unitholders should not be considered to be carrying on business in one or more non-U.S. countries including Greece solely as a consequence of the acquisition, holding, disposition or redemption of our common units. However, the question of whether either we or any of our controlled affiliates will be treated as carrying on business in any particular country will be largely a question of fact to be determined based upon an analysis of contractual arrangements, including the Management Agreement and the Administrative Services Agreement we entered into with the Manager, and the way we conduct business or operations, all of which may change over time. Furthermore, the laws of Greece or any other country may change in a manner that causes that country s taxing authorities to determine that we are carrying on business in such country and are subject to its taxation laws. Any foreign taxes imposed on us or any subsidiaries will reduce our cash available for distribution.

We have been organized as a limited partnership under the laws of the Republic of the Marshall Islands, which does not have a well-developed body of partnership law; as a result, unitholders may have more difficulty in protecting their interests than would unitholders of a similarly organized limited partnership in the United States.

Our partnership affairs are governed by our partnership agreement and by the Marshall Islands Act. The provisions of the Marshall Islands Act resemble provisions of the limited partnership laws of a number of states in the United States, most notably Delaware. The Marshall Islands Act also provides that it is to be applied and construed to make it uniform with Delaware law and, so long as it does not conflict with the Marshall Islands Act or decisions of the Marshall Islands courts, interpreted according to the non-statutory law (or case law) of the State of Delaware. There have been, however, few, if any, court cases in the Marshall Islands interpreting the Marshall Islands Act, in contrast to Delaware, which has a fairly well-developed body of case law interpreting its limited partnership statute. Accordingly, we cannot predict whether Marshall Islands courts would reach the same conclusions as the courts in Delaware. For example, the rights of our unitholders and the fiduciary responsibilities of our general partner under Marshall Islands law are not as clearly established as under judicial precedent in existence in Delaware. As a result, unitholders may have more difficulty in protecting their interests in the face of actions by our officers or directors than would unitholders of a similarly organized limited partnership in the United States.

Because we are organized under the laws of the Marshall Islands and our business is operated primarily from our office in Monaco, 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 all of our assets are located outside of the United States. Our business is operated primarily from our office in Monaco. In addition, our general partner is a Marshall Islands limited liability company, and our directors and officers generally are or will be 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 you to bring an action against us or against these individuals in the United States if you believe that your 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, the Monaco and other jurisdictions may prevent or restrict you from enforcing a judgment against our assets or the assets of our general partner or our directors or officers.

Our partnership agreement limits our general partner s and our directors fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors.

Our partnership agreement contains provisions that reduce the standards to which our general partner and directors would otherwise be held by Marshall Islands law. For example, our partnership agreement:

permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Where our partnership agreement permits, our general partner may consider only the interests and factors that it desires, and in such cases it has no fiduciary duty or obligation to give any consideration to any interest of, or factors affecting us, our affiliates or our unitholders. Decisions made by our general partner in its individual capacity will be made by its sole owner, Navios Holdings. Specifically, pursuant to our partnership agreement, our general partner will be considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the partnership;

appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units, general partner interest or incentive distribution rights or votes upon the dissolution of the partnership;

provides that our general partner and our directors are entitled to make other decisions in good faith if they reasonably believe that the decision is in our best interests;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the Conflicts Committee of our board of directors and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be fair and reasonable to us and that, in determining whether a transaction or resolution is fair and reasonable, our board of directors may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

provides that neither our general partner nor our officers or our directors will be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or directors or our officers or directors or those other persons engaged in actual fraud or willful misconduct.

In order to become a limited partner of our partnership, a common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above.

Our general partner has a limited call right that may require unitholders to sell their common units at an undesirable time or price.

If at any time our general partner and its affiliates, including Navios Holdings, own more than 80% of the common units, our general partner will have the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, unitholders may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. Unitholders may also incur a tax liability upon a sale of their units.

As of April 8, 2019, Navios Holdings directly owned 31,053,233 common units and 3,457,866 general partner units through our general partner (which Navios Holdings owns and controls), which together represent a 20.4% interest in us based on all outstanding common units and general partnership units.

Our general partner may transfer its general partner interest to, and the control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party without the consent of the unitholders. In addition, our partnership agreement does not restrict the ability of the members of our general partner from transferring their respective membership interests in our general partner to a third party. A different general partner may make decisions or operate our business in a manner that is different, and significantly less skilled and beneficial to us, and that could have a material adverse effect on our business, results of operations and financial condition, as

well as our cash flows, including cash available for distributions to our unitholders.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner, and even if our public unitholders are dissatisfied, they will be unable to remove our general partner without Navios Holdings consent, unless Navios Holdings ownership share in us is decreased; all of which could diminish the trading price of our common units.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner.

The vote of the holders of at least 66 2/3 % of all the then outstanding common units, voting together as a single class is required to remove the general partner. Navios Holdings currently owns approximately 18.3% of the total number of outstanding common units.

Common unitholders elect only four of the seven members of our board of directors. Our general partner in its sole discretion has the right to appoint the remaining three directors.

Election of the four directors elected by unitholders is staggered, meaning that the members of only one of three classes of our elected directors are selected each year. In addition, the directors appointed by our general partner will serve for terms determined by our general partner.

A director appointed by our general partner may be removed from our board of directors at any time without cause only by our general partner and with cause by either our general partner, the vote of holders of a majority of all classes of equity interests in us voting as a single class or the majority vote of the other members of our board. A director elected by our common unitholders may be removed from our board of directors at any time with cause by the vote of holders of a majority of our outstanding common units or the majority vote of the other members of our board. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor business decisions such as charges of poor management of our business by the directors appointed by our general partner.

Our partnership agreement contains provisions limiting the ability of unitholders to call meetings of unitholders, to nominate directors and to acquire information about our operations as well as other provisions limiting the unitholders ability to influence the manner or direction of management.

Unitholders voting rights are further restricted by the partnership agreement provision providing that if any person or group owns beneficially more than 4.9% of the common units then outstanding, any such common units owned by that person or group in excess of 4.9% may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, except for purposes of nominating a person for election to our board, determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such common unitholders in excess of 4.9% will be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates and persons who acquired common units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

We have substantial latitude in issuing equity securities without unitholder approval.

Unitholders may not have limited liability if a court finds that unitholder action constitutes control of our business.

As a limited partner in a partnership organized under the laws of the Marshall Islands, unitholders could be held liable for our obligations to the same extent as a general partner if they participate in the control of our business. Our general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to our general partner.

We can borrow money to pay distributions, it would reduce the amount of credit available to operate our business.

Our partnership agreement will allow us to make borrowings to make distributions. Accordingly, we can make distributions on all our units even though cash generated by our operations may not be sufficient to pay such

distributions. Any borrowings by us to make distributions will reduce the amount of borrowings we can make for operating our business.

Our management will have broad discretion with respect to the use of the proceeds resulting from the issuance of common units under the continuous offering program.

Our management will have broad discretion in the application of the net proceeds from continuous offering program and could spend such proceeds in ways that do not improve our results of operations or enhance the value of our common units. The failure by our management to apply these funds effectively could result in financial losses and cause the price of our common units to decline. Pending their use, we may invest the net proceeds from continuous offering program in a manner that does not produce income or that loses value.

Our general partner and its affiliates, including Navios Holdings, own a significant interest in us and have conflicts of interest and limited fiduciary and contractual duties, which may permit them to favor their own interests to the detriment of unitholders.

Navios Holdings indirectly owns an approximate 2.1% general partner interest in us through our general partner, which Navios Holdings owns and controls, and directly owns an approximate 18.3% limited partner interest in us. The general partner interest and the limited partner interest are represented in units. The general partner unit, however, does not have the same economic rights as a common unit. The general partner unit will not entitle our general partner to participate in our distributions, profits or losses. The interests of Navios Holdings may be different from your interests. This concentration of ownership may delay, deter or prevent acts that would be favored by our other unit holders or deprive unit holders of an opportunity to receive a premium for their common units as part of a sale of our business, and it is possible that the interests of the controlling unit holders may in some cases conflict with our interests and the interests of our other unit holders.

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Further, certain of our officers and/or directors are officers and/or directors of Navios Holdings and its affiliates, and our Chief Executive Officer is also the Chief Executive Officer of Navios Acquisition, Navios Containers, and Navios Holdings. As such these individuals have fiduciary duties to Navios Holdings, Navios Containers, and Navios Acquisition which may cause them to pursue business strategies that disproportionately benefit Navios Holdings, Navios Containers, and Navios Acquisition or which otherwise are not in our best interests or those of our unitholders. Conflicts of interest may arise between Navios Holdings, Navios Containers, and Navios Acquisition, and their respective affiliates including our general partner, on the one hand, and us and our unitholders on the other hand. As a result of these conflicts, our general partner and its affiliates may favor their own interests over the interests of our unitholders. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our general partner or Navios Holdings or its affiliates to pursue, in the operation of their businesses, a business strategy that favors us or utilizes our assets, and the officers and directors of Navios Holdings and its affiliates have a fiduciary duty to make decisions in the best interests of the stockholders and/or unitholders of Navios Holdings and its affiliates, which may be contrary to our interests;

- our general partner and our directors have limited liabilities and reduced their fiduciary duties under the laws of the Marshall Islands, while the remedies available to our unitholders are also restricted, and, as a result of purchasing common units, unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our general partner and our directors, all as set forth in the partnership agreement;

- either or both of our general partner and our board of directors are involved in determining the amount and timing of our asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and reserves, each of which can affect the amount of cash that is available for distribution to our unitholders;

- our general partner is authorized to cause us to borrow funds in order to permit the payment of cash distributions;

- our general partner is entitled to reimbursement of all reasonable costs incurred by it and its affiliates for our benefit;

- our partnership agreement does not restrict us from paying our general partner or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf; and

- our general partner may exercise its right to call and purchase our common units if it and its affiliates own more than 80% of our common units.

Although a majority of our directors will be elected by common unitholders, our general partner will likely have substantial influence on decisions made by our board of directors.

Our officers face conflicts in the allocation of their time to our business.

Certain of our executive officers and/or directors also serve as executive officers and/or directors of Navios Holdings and its affiliates. Navios Holdings, Navios Containers, and Navios Acquisition conduct substantial businesses and activities of their own in which we have no economic interest. If these separate activities are significantly greater than our activities, there will be material competition for the time and effort of our officers, who also provide services to Navios Acquisition, Navios Holdings, Navios Containers, and their respective affiliates. Our officers are not required to work full-time on our affairs and , in the future, we may have additional officers that also provide services to Navios Holdings and its affiliates. Based solely on the anticipated relative sizes of our fleet and the fleet owned by the Navios Holdings and its affiliates over the next twelve months, we estimate that certain our officers may spend a substantial portion of their monthly business time dedicated to the business activities of the Navios Holdings and their affiliates. However, the actual allocation of time could vary significantly from time to time depending on various circumstances and needs of the businesses, such as the relative levels of strategic activities of the businesses.

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Fees and cost reimbursements, which the Manager determines for services provided to us, represent significant percentage of our revenues, are payable regardless of profitability and reduce our cash available for distributions.

Under the terms of our existing Management Agreement, we pay a fixed daily fee for shipmanagement services provided to us by the Manager. This fixed daily fee covers all of our vessels operating expenses, other than certain extraordinary fees and costs, and covers all costs incurred in providing certain commercial and technical management services. We expect that we will reimburse the Manager for all drydocking expenses it incurs in connection with the management of our fleet, which may result in significantly higher fees. The term of the Management Agreement is until December 31, 2022.

In addition, the Manager provides us with administrative services, including the services of our officers and directors, pursuant to the Administrative Services Agreement which has a term until December 31, 2022, and we reimburse the Manager for all costs and expenses reasonably incurred by it in connection with the provision of those services. The exact amount of these future costs and expenses are unquantifiable at this time.

All of the fees we are required to pay to the Manager under the Management Agreement and Administrative Services Agreement are payable regardless of our profitability. If we desire to terminate either of these agreements before its scheduled expiration, we must provide twelve months prior notice to the Manager. As a result, our ability to make short-term adjustments to manage our costs by terminating one or both these agreements may be limited which could cause our results of operations and ability to pay cash distributions to unitholders to be materially and adversely affected.

For detailed information on the amount of management fees owed under the Management Agreement, please see the section entitled, Item 5. Operating and Financial Review and Prospects A. Operating results Management fees .

Item 4. Information on the Partnership

A. History and Development of the Partnership

Navios Partners is an international owner and operator of dry cargo vessels, formed on August 7, 2007 under the laws of the Republic of the Marshall Islands. Navios GP L.L.C. (the General Partner), a wholly owned subsidiary of Navios Holdings, was also formed on that date to act as the general partner of Navios Partners and received a 2.0% general partner interest in Navios Partners.

Navios Partners is engaged in the seaborne transportation services of a wide range of dry cargo commodities including iron ore, coal, grain and fertilizer and also containers, chartering its vessels generally under medium to long-term charters. The operations of Navios Partners are managed by the Manager from its offices in Piraeus, Greece, Singapore and Monaco.

Pursuant to the initial public offering (IPO) on November 16, 2007, Navios Partners entered into the following agreements:

(a) the Management Agreement with the Manager pursuant to which the Manager provides Navios Partners commercial and technical management services;

(b) the Administrative Services Agreement with the Manager pursuant to which the Manager provides Navios Partners administrative services; and

(c) the Omnibus Agreement with Navios Holdings, governing, among other things, when Navios Partners and Navios Holdings may compete against each other as well as rights of first offer on certain drybulk carriers.

Financing Arrangements

On April 5, 2019, Navios Partners entered into a new credit facility with DNB Bank ASA of up to $40.0 million (divided into two tranches) in order to refinance two Capesize vessels. The credit facility has a term of approximately 5.0 years and bears interest at LIBOR plus 275 bps per annum. No amount has yet been drawn under this facility.

On February 12, 2019, Navios Partners entered into a new credit facility with DVB Bank S.E. of up to $66.0 million (divided into four tranches) in order to refinance four Capesize vessels. The credit facility has a term of approximately 5.0 years and bears interest at LIBOR plus 260 bps per annum. No amount has yet been drawn under this facility.

On April 5, 2019, Navios Partners entered into a sale and leaseback agreement with an unrelated third party of $20.0 million, for the Navios Sol, a 2009-built Capesize vessel of 180,274 dwt. The sale and leaseback agreement has a term of 10.0 years and an average daily payment of $6,250. This results at an implied fixed interest rate of 6.6%. Navios Partners has the option to buy the vessel starting at the end of year four which de-escalates until maturity to $6.3 million. The purchase obligation at maturity of $6.3 million is lower than the scrap value of the vessel. This financing structure has no financial covenants and no loan-to-value requirements.

In December 2018, Navios Partners entered into two sale and leaseback agreements with unrelated third parties of $25.0 million in total, for the Navios Fantastiks, a 2005-built Capesize vessel and the Navios Beaufiks, a 2004-built Capesize vessel. The sale and leaseback agreements have an average term of 5.4 years and an age adjusted amortization profile of approximately 25 years. The bareboat lease provides an average daily payment of $5,200 per vessel. This results at an implied fixed interest rate of 7.6%. Navios Partners has the option to buy the vessels starting at the end of year three which de-escalates until maturity to $6.3 million per vessel. The purchase obligation at maturity of $6.3 million per vessel is lower than the scrap value of the vessels. This financing structure has no financial covenants and no loan-to-value requirements.

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Distributions

Cash Distribution

In January 2019, the Board of Directors of Navios Partners authorized its quarterly cash distribution for the three month period ended December 31, 2018 of $0.02 per unit. The distribution was paid on February 14, 2019 to all unitholders of common and general partner units of record as of February 11, 2019, which included the unitholders of restricted common units issued on February 1, 2019. The aggregate amount of the declared distribution was $3.5 million.

$4.2 million in kind Distribution

On December 3, 2018, Navios Partners distributed 855,001 units of Navios Containers to the unitholders of Navios Partners, approximately 2.5% of the Navios Containers outstanding equity. The amount of the distribution was $4.2 million based on the last trading price of Navios Containers shares in the Norwegian Over-the-Counter (N-OTC) market as of November 23, 2018. In connection with this transaction, Navios Partners recognized an other-than-temporary impairment of $0.6 million on the units distributed, which was presented under the caption Equity in net earnings of affiliated companies in the Consolidated Statements of Operations. Following the distribution, Navios Partners owns approximately 33.5% of the equity in Navios Containers.

Listing Developments

On March 13, 2019, Navios Partners received notice from the New York Stock Exchange, Inc. (the NYSE) that it was not in compliance with the NYSE s continued listing standards because the average closing price of its common stock was less than $1.00 per unit over a consecutive 30 trading-day period. Pursuant to the NYSE s rules, Navios Partners had a six-month cure period following receipt of the notice to bring its stock price per unit and average unit price above $1.00. Navios Partners currently intends to cure this deficiency within the prescribed timeframe set out in the NYSE s Listed Company Manual. During this time, the Company s common stock will continue to be listed and trade on the NYSE. The NYSE s notification does not affect the Company s SEC reporting requirements.

Equity Offerings and Issuances

In February 2019, Navios Partners authorized the granting of 380,952 restricted common units, which were issued on February 1, 2019, to its directors and officers, which are based solely on service conditions and vest over four years. Navios Partners also issued 7,775 general partnership units to its general partner for net proceeds of $0.01 million.

In January 2019, the Board of Directors of Navios Partners authorized a common unit repurchase program for up to $50.0 million of the Company s common units over a two year period. Common unit repurchases will be made from time to time for cash in open market transactions at prevailing market prices or in privately negotiated transactions. The timing and amount of repurchases under the program will be determined by Navios Partners management based upon market conditions and other factors. Repurchases may be made pursuant to a program adopted under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The program does not require any minimum repurchase or any specific number of common units and may be suspended or reinstated at any time in Navios Partners discretion and without notice. The Board of Directors will review the program periodically. Repurchases will be subject to restrictions under Navios Partners credit facilities. As of April 8, 2019, Navios Partners has repurchased 3,946,156 common units, for a total cost of approximately $3.8 million, out of which 3,407,097 common units have been cancelled.

In December 2018, Navios Partners authorized the granting of 1,464,494 restricted common units, which were issued on December 24, 2018, to its directors and officers, which are solely based on service conditions and vest over four years. Navios Partners also issued 29,888 general partnership units to its general partner for net proceeds of $0.03 million. There were no restricted common units exercised, forfeited or expired the year ended December 31, 2018. As of December 31, 2018, no restricted common units were vested.

On February 21, 2018, Navios Partners completed a public offering of 18,422,000 common units at $1.90 per unit and raised gross proceeds of approximately $35.0 million, of which approximately $5.0 million was purchased by Navios Holdings. The net proceeds of this offering, including the underwriting discount and the offering costs of $1.6 million in total, were approximately $33.4 million. Pursuant to this offering, Navios Partners issued 375,959 general partnership units to its general partner. The net proceeds from the issuance of the general partnership units were $0.7 million.

Sales of Vessels

On March 21, 2019, Navios Partners agreed to sell the Navios Galaxy I, a 2001-built Panamax vessel of 74,195 dwt, to an unrelated third party for a net sale price of approximately $6.0 million. The sale is expected to be completed by the end of April 2019.

B. Business Overview

Introduction

We are an international owner and operator of dry cargo vessels formed by Navios Holdings (NYSE: NM), a vertically integrated seaborne shipping and logistics company with over 60 years of operating history in the dry cargo shipping industry. Our vessels are generally chartered-out under medium to long-term time charters with an average remaining term of approximately two years to a strong group of counterparties, including SwissMarine Services S.A., Cargill International S.A., Kawasaki Kisen Kaisha Ltd., Uniper Global Commodities and Hyundai Merchant Marine Co., Ltd.

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Our Fleet

Navios Partners controls 16 Panamax vessels, 14 Capesize vessels, three Ultra-Handymax vessels and five Containerships, including one Panamax charter-in vessel, which is expected to be delivered in the second half of 2019. Our fleet of dry cargo vessels has an average age of 10.1 years for drybulk vessels and containerships, which approximates the current industry average of about 9.8 years for drybulk vessels and 12.4 years for containerships, respectively (both industry averages as of February 1, 2019). Panamax vessels are highly flexible vessels capable of carrying a wide range of dry cargo commodities, including iron ore, coal, grain and fertilizer and being accommodated in most major discharge ports, while Capesize vessels are primarily dedicated to the carriage of iron ore and coal. Ultra-Handymax vessels are similar to Panamax vessels although with less carrying capacity and generally have self-loading and discharging gear on board to accommodate undeveloped ports. Containerships are specifically constructed to transport containerized cargo. We may from time to time purchase additional vessels, including vessels from Navios Holdings and other affiliates.

We generate revenues by charging our customers for the use of our vessels to transport their dry cargo commodities. In general, the vessels in our fleet are chartered-out under time charters, which range in length from one to twelve years at inception. From time to time, we operate vessels in the spot market until the vessels have been chartered under long-term charters.

The following table provides summary information about our fleet as of April 8, 2019:

Owned Drybulk Vessels	Type	Built	Capacity (DWT)	Charter-Out Rate[1]	Profit Share[2]	Expiration Date[3]
Navios Soleil	Ultra-Handymax	2009	57,337	$		Spot
Navios La Paix	Ultra-Handymax	2014	61,485	$	111% average BSI 58 10TC	September 2019
Navios Christine B	Ultra-Handymax	2009	58,058	$	100% average BSI 58 10TC	January 2020
Navios Galaxy I[6]	Panamax	2001	74,195	$ 6,888	No	April 2019
Navios Hyperion	Panamax	2004	75,707	$	100% average BPI 4TC	September 2019
Navios Alegria	Panamax	2004	76,466	$ 11,875	No	April 2019
				$	99.5% average BPI 4TC	April 2020
Navios Orbiter	Panamax	2004	76,602	$	100% average BPI 4TC	February 2020
Navios Helios	Panamax	2005	77,075	$	100% average BPI 4TC	October 2020
Navios Sun	Panamax	2005	76,619	$	100% average BPI 4TC	February 2021
Navios Hope	Panamax	2005	75,397	$ 9,240	No	June 2019
				$	100% average BPI 4TC	February 2021
Navios Sagittarius	Panamax	2006	75,756	$ 10,450	No	October 2019
Navios Harmony	Panamax	2006	82,790	$ 12,350	No	June 2019
Navios Prosperity I	Panamax	2007	75,527	$ 6,650	No	April 2019

Navios Libertas	Panamax	2007	75,511	$		Spot
Navios Altair I	Panamax	2006	74,475	$ 7,838	No	April 2019
Navios Symmetry	Panamax	2006	74,381	$ 7,125	No	April 2019
				$ 9,500	No	September 2019
Navios Apollon I	Panamax	2005	87,052	$ 13,015	No	May 2019
				$	113% average BPI 4TC	April 2020
Navios Sphera	Panamax	2016	84,872	$ 10,395	No	June 2019
				$	120% average BPI 4TC	March 2021
Navios Beaufiks	Capesize	2004	180,310	$	100% average BCI 5TC	July 2019
Navios Symphony	Capesize	2010	178,132	$	102% average BCI 5TC	August 2019
Navios Fantastiks	Capesize	2005	180,265	$ 18,911	No	August 2023
Navios Aurora II	Capesize	2009	169,031	$	99.05% average BCI C5	October 2019
Navios Pollux	Capesize	2009	180,727	$	100% of pool earnings	June 2019
Navios Sol	Capesize	2009	180,274	$	108% average BCI 5TC	January 2020
Navios Fulvia	Capesize	2010	179,263	$	100.25% average BCI 5TC	January 2020
Navios Buena Ventura	Capesize	2010	179,259	$	101% average BCI 5TC	January 2020
Navios Melodia	Capesize	2010	179,132	$ 29,356	Profit sharing 50% above $37,500/day based on Baltic Exchange Capesize TC Average	September 2022
Navios Luz	Capesize	2010	179,144	$	100% average BCI 5TC	January 2020
Navios Ace	Capesize	2011	179,016	$	107% average BCI 5TC	January 2020
Navios Aster	Capesize	2010	179,314	$ 20,710	No	November 2019
Navios Joy	Capesize	2013	181,389	$ 16,958	No	February 2020
Navios Mars	Capesize	2016	181,259	$ 22,610	No	February 2022

Chartered-in vessel to be delivered	**Type**	**Built**	**Capacity (DWT)**	**Charter-Out Rate[(1)]**	**Profit Share[(2)]**	**Expiration Date[(3)]**
Navios Libra[(4)]	Panamax	2019	81,000		No	

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Owned Containerships	Type	Built	TEU	Charter-Out Rate(1)	Profit Share(2)	Expiration Date(3)(5)
Hyundai Hongkong	Container	2006	6,800	$ 24,095	No	December 2019
				$ 30,119	No	December 2023
Hyundai Singapore	Container	2006	6,800	$ 24,095	No	December 2019
				$ 30,119	No	December 2023
Hyundai Tokyo	Container	2006	6,800	$ 24,095	No	December 2019
				$ 30,119	No	December 2023
Hyundai Shanghai	Container	2006	6,800	$ 24,095	No	December 2019
				$ 30,119	No	December 2023
Hyundai Busan	Container	2006	6,800	$ 24,095	No	December 2019
				$ 30,119	No	December 2023

(1) Daily charter-out rate per day, net of commissions or settlement and insurance proceeds, where applicable.
(2) Index rates include commissions.
(3) Expected redelivery basis midpoint of full redelivery period, excluding Navios Partners extension options, not declared yet.
(4) Expected to be delivered in the second half of 2019.
(5) Upon acquisition, the vessels are fixed on ten/twelve year charters with Navios Partners option to terminate after year seven.
(6) Expected to be sold by the end of April 2019.

Our Competitive Strengths

We believe that our future prospects for success are enhanced by the following aspects of our business:

Stable cash flows. We believe that by maintaining medium to long-term, fixed-rate nature charters will provide a stable base of revenue (during high market periods we seek to fix longer term charters and during low market periods we seek shorter period employment in order to take advantage of any market up turn). In addition, we believe that the potential opportunity to purchase additional vessels from Navios Holdings and other affiliates and through the secondary market provides future growth in our revenue and distributable cash flow. We believe that our management agreement, which has been extended until December 31, 2022 and provides for a fixed management fee until December 31, 2019, will continue to provide us with predictable expenses.

Strong relationship with Navios Holdings. We believe our relationship with Navios Holdings and its affiliates provides us with numerous benefits that are key to our long-term growth and success, including Navios Holdings expertise in commercial management and Navios Holdings reputation within the shipping industry and its network of strong relationships with many of the world s dry cargo raw material producers, agricultural traders and exporters, industrial end-users, shipyards, and shipping companies. We also benefit from Navios Holdings expertise in technical management through its in-house technical manager, which provides efficient operations and maintenance for our vessels at costs below the industry average for vessels of a similar age. Navios Holdings expertise in fleet management is reflected in Navios Holdings history of a low number of off-hire days and in its record of no material incidents giving rise to loss of life or pollution or other environmental liability.

High-quality, flexible fleet. Our fleet consists of 16 Panamax vessels, 14 Capesize vessels, three Ultra-Handymax vessels and five Containerships, including one Panamax charter-in vessel which is expected to be delivered in the second half of 2019. The average age of the vessels in our fleet approximates the average age of the world drybulk fleet. Our combined fleet had an average age of 10.1 years as of April 2019 (average age of 9.9 years for drybulk fleet and 12.7 years for containers fleet), compared to a current industry average age of about 9.8 years for the drybulk fleet and 12.4 years for the containers fleet (both industry averages as of April 1, 2019). Capesize vessels are primarily dedicated to the carriage of iron ore and coal. Panamax vessels are highly flexible vessels capable of carrying a wide range of drybulk commodities, including iron ore, coal, grain and fertilizer, and of being accommodated in most major discharge ports. Ultra-Handymax vessels are similar to Panamax vessels although with less carrying capacity and generally have self-loading and discharging gear on board to accommodate undeveloped ports. Containerships are designed to carry manufactured, finished or semi-finished goods in steel shipping containers on specific routes. We believe that our high-quality, flexible fleet provides us with a competitive advantage in the dry cargo time charter market, where vessel age, flexibility and quality are of significant importance in competing for business.

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Operating visibility through long-term charters with strong counterparties. Our vessels are chartered-out under time charters with average remaining charter duration of approximately two years to a diverse group of counterparties consisting of, amongst others, SwissMarine Services S.A., Cargill International S.A., Kawasaki Kisen Kaisha Ltd., Uniper Global Commodities and Hyundai Merchant Marine Co., Ltd. We believe our existing charter coverage provides us with predictable contracted revenues and operating visibility.

Business Strategies

Our primary business objective is to increase quarterly distributions per unit over time by executing the following strategies:

Pursue stable cash flows through long-term charters for our fleet. We intend to utilize medium to long-term, fixed-rate charters for our existing fleet. Currently, the vessels in our fleet have average remaining charter duration of approximately two years. We will seek to opportunistically re-charter our vessels in order to add incremental stable cash flow and improve the long-term charter terms.

Continue to grow and diversify our fleet of owned and chartered-in vessels. We seek to make strategic acquisitions to expand our fleet in order to capitalize on the demand for container and drybulk vessels. We have the right to purchase certain additional drybulk vessels currently owned or chartered-in by Navios Holdings when those vessels are fixed under long-term charters for a period of three or more years. In addition, we may seek to expand and diversify our fleet through the open market purchase of owned and chartered-in drybulk vessels with charters of three or more years.

Capitalize on our relationship with Navios Holdings and expand our charters with recognized charterers. We believe that we can use our relationship with Navios Holdings and its established reputation in order to obtain favorable long-term time charters and attract new customers. We will continue to increase the number of vessels we charter to our existing charterers, as well as enter into charter agreements with new customers, in order to develop a portfolio that is diverse from a customer, geographic and maturity perspective.

Provide superior customer service by maintaining high standards of performance, reliability and safety. Our customers seek transportation partners that have a reputation for high standards of performance, reliability and safety. We intend to use Navios Holdings operational expertise and customer relationships to further expand a sustainable competitive advantage with consistent delivery of superior customer service.

Our Customers

We provide or will provide seaborne shipping services under long-term time charters with customers that we believe are creditworthy. For the year ended December 31, 2018, HMM represented approximately 24.5% of total revenues. For the year ended December 31, 2017, HMM and Yang Ming accounted for approximately 26.8% and 12.0%, respectively, of our total revenues. For the year ended December 31, 2016, HMM, Yang Ming and Mediterranean Shipping Co. S.A. accounted for 29.6%, 13.0% and 11.6%, respectively, of our total revenues. No other customers accounted for 10% or more of total revenues for any of the years presented.

Although we believe that if any one of our charters were terminated, we could recharter the related vessel at the prevailing market rate relatively quickly, the permanent loss of a significant customer or a substantial decline in the amount of services requested by a significant customer could harm our business, financial condition and results of operations if we were unable to recharter our vessel on a favorable basis due to then-current market conditions, or otherwise.

Competition

The drybulk shipping market is extensive, diversified, competitive and highly fragmented, divided among approximately 1,972 independent drybulk carrier owners. The world s active drybulk fleet consists of approximately 11,400 vessels, aggregating approximately 846.7 million dwt as of April 1, 2019. As a general principle, the smaller the cargo carrying capacity of a drybulk carrier, the more fragmented is its market, both with regard to charterers and vessel owner/operators. Even among the larger drybulk owners and operators, whose vessels are mainly in the larger sizes, only ten companies are known to have fleets of 100 vessels or more: China COSCO Shipping, Nippon Yusen Kaisha, Fredriksen Group, Wisdom Marine, China Merchants, Kawasaki Kisen, Pacific Basin Shipping, Mitsui O.S.K. Lines, Oldendorff Carriers and Star Bulk Carriers. There are about 40 owners known to have fleets of between 30 and 100 vessels. However, vessel ownership is not the only determining factor of fleet control. Many owners of bulk carriers charter their vessels out for extended periods, not just to end users (owners of cargo), but also to other owner/operators and to tonnage pools. Such operators may, at any given time, control a fleet many times the size of their owned tonnage. Navios Holdings is one such operator; others include Cargill, Pacific Basin Shipping, Bocimar, Zodiac Maritime, Louis Dreyfus/Cetragpa, Cobelfret, Torvald Klaveness and Swiss Marine.

The container shipping market is extensive, diversified, competitive and fragmented, divided among approximately 635 liner operators and independent owners. The world s active containership fleet consists of approximately 5,270 vessels, aggregating approximately 22.1 million TEU as of April 1, 2019. As a general principle, the smaller the cargo carrying capacity of a containership, the more fragmented is its market, both with regard to charterers and vessel owner/operators. Even among the larger liner companies and containership owners and operators, whose vessels are mainly in the larger sizes, only ten companies are known to control fleets of 97 vessels or more: AP Moller, Mediterranean Shipping Co. (MSC), China COSCO Shipping, CMA CGM, Evergreen, Pacific International Lines, Hapag Lloyd, Seaspan, Imabari Shipbuilding and Wan Hai Lines. There are about 40 owners known to control fleets of between 26 and 83 vessels. However, vessel ownership is not the only determining factor of fleet control. Liner companies, who control the movement of containers on land and at sea, own vessels directly and charter in vessels on short and long-term charters. Many owners/managers of containerships charter their vessels out for extended periods but do not control the movement of any containers, the so called tonnage providers. Liner companies may, at any given time, control a fleet many times the size of their owned tonnage. AP Moller and MSC are such liner operators; whereas Peter Dohle, Seaspan and others including Navios Maritime Partners are tonnage providers.

It is likely that we will face substantial competition for long-term charter business from a number of experienced companies. Many of these competitors will have significantly greater financial resources than we do. It is also likely that we will face increased numbers of competitors entering into our transportation sectors, including in the container and drybulk sectors. Many of these competitors have strong reputations and extensive resources and experience. Increased competition may cause greater price competition, especially for long-term charters.

Time Charters

A time charter is a contract for the use of a vessel for a fixed period of time at a specified daily rate. Under a time charter, the vessel owner provides crewing and other services related to the vessel s operation, the cost of which is included in the daily rate and the customer is responsible for substantially all of the vessel voyage costs. All of the vessels in our fleet are hired out under time charters, and we intend to continue to hire out our vessels under time charters. The following discussion describes the material terms common to all of our time charters.

Basic Hire Rate

Basic hire rate refers to the basic payment from the customer for the use of the vessel. The hire rate is generally payable semi-monthly, in advance, in U.S. dollars as specified in the charter.

Expenses

The charterer generally pays the voyage expenses, which include all expenses relating to particular voyages, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions.

Off-hire

When the vessel is off-hire, the charterer generally is not required to pay the basic hire rate, and we are responsible for all costs. Prolonged off-hire may lead to vessel substitution or termination of the time charter. A vessel generally will be deemed off-hire if there is a loss of time due to, among other things:

- operational deficiencies; drydocking for repairs, maintenance or inspection; equipment breakdowns; or delays due to accidents, crewing strikes, certain vessel detentions or similar problems; or

- the ship owner s failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

Under some of our charters, the charterer is permitted to terminate the time charter if the vessel is off-hire for an extended period, which is generally defined as a period of 90 or more consecutive off-hire days. Under some circumstances, an event of force majeure may also permit the charterer to terminate the time charter or suspend payment of charter hire.

Termination

We are generally entitled to suspend performance under the time charters covering our vessels if the customer defaults in its payment obligations. Under some of our time charters, either party may terminate the charter in the event of war in specified countries or in locations that would significantly disrupt the free trade of the vessel. Some of our time charters covering our vessels require us to return to the charterer, upon the loss of the vessel, all advances paid by the charterer but not earned by us.

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Classification, Inspection and Maintenance

Every sea going 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 or to the regulations of the country concerned. For maintenance of the class, 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, at intervals of 12 months from 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 a half years after commissioning and each class renewal. Intermediate surveys may be carried out on 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 its steel structure. 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 ship owner has the option of arranging with the classification society for the vessel s integrated 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.

Management of Ship Operations, Administration and Safety

Navios Holdings provides, through its wholly-owned subsidiary, Navios ShipManagement Inc., referred to as the Manager herein, expertise in various functions critical to our operations. Pursuant to the Management Agreement and the Administrative Services Agreement with the Manager, we have access to human resources, financial and other administrative functions, including:

bookkeeping, audit and accounting services;

- administrative and clerical services;
- banking and financial services; and
- client and investor relations.

Technical management services are also provided, including:

- commercial management of the vessel;
- vessel maintenance and crewing;
- purchasing and insurance; and
- shipyard supervision.

For more information on the management agreement we have with the Manager and the Administrative Services Agreement we have with the Manager, please read Item 7. Unitholders and Related Party Transactions .

Crewing

The Manager crews its vessels primarily with Filipino, Ukrainian, Polish, Russian, Indian, Georgian, Romanian and Sri Lankan officers and Filipino, Georgian, Romanian, Ethiopian, Indian and Ukrainian seamen. For these nationalities, officers and seamen are referred to the Manager by local crewing agencies. The Manager is also responsible for travel and payroll of the crew. The crewing agencies handle each seaman s training. The Manager requires that all of its seamen have the qualifications and licenses required to comply with international regulations and shipping conventions.

Risk of Loss and Liability Insurance

General

The operation of any cargo vessel includes risks such as mechanical failure, physical damage, collision, property loss, cargo loss or damage, 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. The OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel 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 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 and Machinery and War Risk Insurances

We have marine hull and machinery and war risk insurance, which include coverage of the risk of actual or constructive total loss, for all of our owned vessels. Each of the owned vessels is covered up to at least fair market value, with a deductible of $0.1 million per Handymax and Panamax vessels and $0.2 million per Capesize vessels for the hull and machinery insurance. We have also extended our war risk insurance to include war loss of hire for any loss of time to the vessel, including for physical repairs, caused by a warlike incident and piracy seizure for up to 270 days of detention / loss of time. There are no deductibles for the war risk insurance or the war loss of hire cover.

We have arranged, as necessary, increased value insurance for our vessels. With the increased value insurance, in case of total loss of the vessel, we will be able to recover the sum insured under the increased value policy in addition to the sum insured under the hull and machinery policy. Increased value insurance also covers excess liabilities that are not recoverable in full by the hull and machinery policies by reason of underinsurance. We do not expect to maintain loss of hire insurance for our vessels. Loss of hire insurance covers business interruptions that result in the loss of use of a vessel.

Protection and Indemnity Insurance

Protection and indemnity insurance is expected to be provided by mutual protection and indemnity associations, or P&I Associations, who indemnify members in respect of discharging their tortious, contractual or statutory third-party legal liabilities arising from the operation of an entered ship. Such liabilities include but are not limited to third-party liability and other related expenses from injury or death of crew, passengers and other third parties, 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 and always provided in accordance with the applicable associations rules and members agreed terms and conditions.

Navios Partners fleet is currently entered for protection and indemnity insurance with International Group associations where, in line with all International Group Clubs, coverage for oil pollution is limited to $1.0 billion per event. The 13 P&I Associations that comprise the International Group insure approximately 95% of the world s commercial tonnage and have entered into a pooling agreement to collectively reinsure each association s liabilities. Each vessel that Navios Partners acquires will be entered with P&I Associations of the International Group. Under the International Group reinsurance program for the current policy year, each P&I club in the International Group is responsible for the

first $10.0 million of every claim. In every claim the amount in excess of $10.0 million and up to $80.0 million is shared by the clubs under the pooling agreement. Any claim in excess of $80.0 million is reinsured by the International Group in the international reinsurance market under the General Excess of Loss Reinsurance Contract. This policy currently provides an additional $2.0 billion of coverage for non-oil pollution claims. Further to this, an additional reinsurance layer has been placed by the International Group for claims up to $1.0 billion in excess of $2.08 billion, i.e. $3.08 billion in total. For passengers and crew claims, the overall limit is $3.0 billion for any one event on any one vessel with a sub-limit of $2.0 billion for passengers. With the exception of pollution, passenger or crew claims, should any other P&I claim exceed Group reinsurance limits, the provisions of all International Group Club s overspill claim rules will operate and members of any International Group Club will be liable for additional contributions in accordance with such rules. To date, there has never been an overspill claim, or one even nearing this level.

As a member of the P&I Associations, which is a member of the International Group, Navios Partners will be subject to calls payable to the associations based on the individual fleet record, the associations overall 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. The P&I Associations policy year commences on February 20th. Calls are levied by means of Estimated Total Premiums (ETP) and the amount of the final installment of the ETP varies according to the actual total premium ultimately required by the club for a particular policy year. Members have a liability to pay supplementary calls which might be levied by the board of directors of the club if the ETP is insufficient to cover amounts paid out by the club.

Should a member leave or entry cease with any of the associations, at the Club s Managers discretion, they may be also be liable to pay release calls or provide adequate security for the same amount. Such calls are levied in respect of potential outstanding Club/Member liabilities on open policy years and include but are not limited to liabilities for deferred calls and supplementary calls.

Uninsured Risks

Not all risks are insured and not all risks are insurable. The principal insurable risks which nonetheless remain uninsured across our fleet are loss of hire and strikes, except in cases of loss of hire due to war or a piracy event or due to presence or suspected presence of Contraband on board. Specifically, Navios Partners does not insure these risks because the costs are regarded as disproportionate. These insurances provide, subject to a deductible, a limited indemnity for hire that would not be receivable by the ship owner for reasons set forth in the policy. Should a vessel on time charter, where the vessel is paid a fixed hire day by day, suffer a serious mechanical breakdown, the daily hire will no longer be payable by the charterer. The purpose of the loss of hire insurance is to secure the loss of hire during such periods. In the case of strikes insurance, if a vessel is being paid a fixed sum to perform a voyage and the ship becomes strike bound at a loading or discharging port, the insurance covers the loss of earnings during such periods.

However, in some cases when a vessel is transiting high risk war and/or piracy areas, we arrange war loss of hire insurance to cover up to 270 days of detention/loss of time. When our charterers engage in legally permitted trading in locations which may still be subject to sanctions or boycott, such as Iran, Syria and Sudan, our insurers may be contractually or by operation of law prohibited from honoring our insurance contract for such trading, which could result in reduced insurance coverage for losses incurred by the related vessels. Furthermore, our insurers and we may be prohibited from posting or otherwise be unable to post security in respect of any incident in such locations, resulting in the loss of use of the relevant vessel and negative publicity for our Company which could negatively impact our business, results of operations, cash flows and share price.

There are no deductibles for the war loss of hire cover in case of piracy and contraband cover.

Even if our insurance coverage is adequate to cover our losses, if we suffer a loss of a vessel, we may not be able to obtain a timely replacement for any lost vessel. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. For example, more stringent environmental regulations have led to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also on the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage. A catastrophic oil spill or marine disaster could exceed our insurance coverage, which could have a material adverse effect on our business, results of operations and financial condition. Any uninsured or underinsured loss could harm our business and financial condition. In addition, the insurance may be voidable by the insurers as a result of certain actions, such as vessels failing to maintain required certification.

Credit Risk Insurance

On November 15, 2012 (as amended in March 2014), Navios Holdings and Navios Partners entered into an agreement (the Navios Holdings Guarantee) by which Navios Holdings will provide supplemental credit default insurance with a maximum cash payment of $20.0 million. The final settlement of the amount due will take place at any time but in no case later than December 31, 2019, in accordance with a letter of agreement effective as of December 29, 2017. During the year ended December 31, 2018, the Company did not submit any claims to Navios Holdings for charterers default under this agreement. During the years ended December 31, 2017 and 2016, the Company submitted claims for charterers default under this agreement to Navios Holdings for a total amount of $7.2 million and $9.2 million,

respectively, net of applicable deductions, of which $7.6 million and $9.6 million was recorded as Other income . Net of the $2.0 million write down, the claim amounted to $17.6 million, including accrued interest and discount unwinding of $0.4 million for the year ended December 31, 2018, presented under the caption Amounts due from related parties-short term in the Consolidated Balance Sheets.

Regulation

Sources of applicable rules and standards

Shipping is one of the world s most heavily regulated industries, and, in addition, it is subject to many industry standards. Government regulation significantly affects the ownership and operation of vessels. These regulations consist mainly of rules and standards established by international conventions, but they also include national, state, and local laws and regulations in force in jurisdictions where vessels may operate or are registered, and which are commonly more stringent than international rules and standards. This is the case particularly in the United States and, increasingly, in Europe.

A variety of governmental and private entities subject vessels to both scheduled and unscheduled inspections. These entities include local port authorities (the U.S. Coast Guard, harbor masters or equivalent entities), classification societies, flag state administration (country vessel of registry), and charterers, particularly terminal operators. Certain of these entities require vessel owners to obtain permits, licenses, and certificates for the operation of their vessels. Failure to maintain necessary permits or approvals could require a vessel owner to incur substantial costs or temporarily suspend operation of one or more of its vessels.

Heightened levels of environmental and quality concerns among insurance underwriters, regulators, and charterers continue to lead to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to stricter environmental standards. Vessel owners are required to maintain operating standards for all vessels that will emphasize operational safety, quality maintenance, continuous training of officers and crews and compliance with U.S. and international regulations.

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The International Maritime Organization, or IMO, has adopted a number of international conventions concerned with ship safety and with preventing, reducing or controlling pollution from ships. These fall into two main categories, consisting firstly of those concerned generally with ship safety standards, and secondly of those specifically concerned with measures to prevent pollution.

Ship safety regulation

In the former category the primary international instrument is the Safety of Life at Sea Convention of 1974, as amended, or SOLAS, together with the regulations and codes of practice that form part of its regime. Much of SOLAS is not directly concerned with preventing pollution, but some of its safety provisions are intended to prevent pollution as well as promote safety of life and preservation of property. These regulations have been and continue to be regularly amended as new and higher safety standards are introduced with which we are required to comply.

An amendment of SOLAS introduced the International Safety Management (ISM) Code, which has been effective since July 1998. Under the ISM Code the party with operational control of a vessel is required to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel s management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by the flag state for the vessel, under the ISM Code. Noncompliance with the ISM Code and other IMO regulations, such as the mandatory ship energy efficiency management plan (SEEMP) which is akin to a safety management plan and came into effect on January 1, 2013, may subject a ship owner to increased liability, may lead to decreases in available insurance coverage for affected vessels, and may result in the denial of access to, or detention in, some ports. For example, the United States Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in ports in the United States and European Union.

Another amendment of SOLAS, made after the terrorist attacks in the United States on September 11, 2001, introduced special measures to enhance maritime security, including the International Ship and Port Facilities Security Code (ISPS Code).

Our owned fleet maintains ISM and ISPS certifications for safety and security of operations. Each vessel s certificate must be periodically renewed and compliance must be periodically verified. In addition, the Manager voluntarily implements and maintains certifications pursuant to the International Organization for Standardization, or ISO, for its office and ships covering both quality of services and environmental protection (ISO 9001 and ISO 14001, respectively).

International regulations to prevent pollution from ships

In the second main category of international regulation, the primary instrument is the International Convention for the Prevention of Pollution from Ships, or MARPOL, which imposes environmental standards on the shipping industry set out in Annexes I-VI of MARPOL. These contain regulations for the prevention of pollution by oil (Annex I), by noxious liquid substances in bulk (Annex II), by harmful substances in packaged forms within the scope of the International Maritime Dangerous Goods Code (Annex III), by sewage (Annex IV), by garbage (Annex V), and by air emissions (Annex VI).

These regulations have been and continue to be regularly amended as new and more stringent standards of pollution prevention are introduced with which we are required to comply. For example, MARPOL Annex VI, together with the NOx Technical Code established thereunder, sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. It 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 emissions. Originally adopted in September 1997, Annex VI came into force in May 2005 and was amended in October 2008 (as was the NOx Technical Code) to provide for progressively more stringent limits on such emissions from 2010 onwards.

The revised Annex VI provides, in particular, for a reduction of the global sulfur cap. After considering the issue for many years, the IMO announced on October 27, 2016 that it was proceeding with a requirement for 0.5% m/m sulfur content in marine fuel (down from current levels of 3.5%) outside the ECAs starting on January 1, 2020. Under Annex VI, the 2020 date was subject to review as to the availability of the required fuel oil. Annex VI required the fuel availability review to be completed by 2018 but was ultimately completed in 2016. Therefore, by 2020, ships will be required to remove sulfur from emissions through the use of emission control equipment, or purchase marine fuel with 0.5% sulfur content, which may see increased demand and higher prices due to supply constraints. Installing pollution control equipment or using lower sulfur fuel could result in significantly increased costs to our company. Similarly Annex VI requires Tier III standards for NOx emissions to be applied to ships constructed and engines installed in ships operating in NOx ECAs from January 1, 2016. We anticipate incurring costs to comply with these more stringent standards by implementing measures such as fuel switching, vessel modification adding distillate fuel storage capacity, or addition of exhaust gas cleaning scrubbers, and may require installation and operation of further control equipment at significantly increased cost.

The revised Annex VI further allows for designation, in response to proposals from member parties, of Emission Control Areas (ECAs) that impose accelerated and/or more stringent requirements for control of sulfur oxide, particulate matter, and nitrogen oxide emissions. Thus far, ECAs have been formally adopted for the Baltic Sea area (limits SOx emissions only); the North Sea area including the English Channel (limiting SOx emissions only) and the North American ECA (which came into effect from August 1, 2012 limiting SOx, NOx and particulate matter emissions). In October 2016, the IMO approved the designation of the North Sea and Baltic Sea as ECAs for NOx under Annex VI as well, which is scheduled for adoption in 2017 and would take effect in January 2021. The United States Caribbean Sea ECA entered into force on January 1, 2013 and has been effective since January 1, 2014, limiting SOx, NOx and particulate matter emissions. For the currently-designated ECAs, much lower sulfur limits on fuel oil content are being phased in (0.1% from January 1, 2015).

At its 68th session (2015), the Marine Environmental Protection Committee (the MEPC) amended the 2014 Guidelines on EEDI survey and certification as well as the method of calculating of EEDI for new ships, the latter of which was again amended at the 70th session (2016). At its 70th session, the MEPC also adopted mandatory requirements for ships of 5,000 gross tonnage or greater to collect fuel consumption data for each type of fuel used, and report the data to the flag State after the end of each calendar year. At the 72nd MEPC session (April 2018), the committee adopted the goal of reducing annual greenhouse gas emissions from ships by at least 50% by 2050 as compared to 2008 levels, which if implemented could significantly increase operational costs associated with equipment upgrades and fuel costs.

The revised Annex I to the MARPOL Convention entered into force in January 2007. It incorporates various amendments to the MARPOL Convention and imposes construction requirements for oil tankers delivered on or after January 1, 2010. On August 1, 2007, Regulation 12A (an amendment to Annex I) came into force imposing performance standards for accidental oil fuel outflow and requiring oil fuel tanks to be located inside the double-hull in all ships with an aggregate oil fuel capacity of 600 cubic meters and above, and which are delivered on or after August 1, 2010, including ships for which the building contract is entered into on or after August 1, 2007 or, in the absence of a contract, for which keel is laid on or after February 1, 2008. We intend that all of our newbuilt tanker vessels, if any, will comply with Regulation 12A.

Greenhouse gas emissions

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of certain gases, generally referred to as greenhouse gases, which are suspected of contributing to global warming. Currently, the greenhouse gas emissions from international shipping do not come under the Kyoto Protocol.

In December 2011, UN climate change talks took place in Durban and concluded with an agreement referred to as the Durban Platform for Enhanced Action. In preparation for the Durban Conference, the International Chamber of Shipping (ICS) produced a briefing document, confirming the shipping industry s commitment to cut shipping emissions by 20% by 2020, with significant further reductions thereafter. The ICS called on the participants in the Durban Conference to give the IMO a clear mandate to deliver emissions reductions through market-based measures, for example a shipping industry environmental compensation fund. Notwithstanding the ICS s request for global regulation of the shipping industry, the Durban Conference did not result in any proposals specifically addressing the shipping industry s role in climate change.

Although regulation of greenhouse gas emissions in the shipping industry was discussed during the 2015 UN Climate Change Conference in Paris (the Paris Conference), the agreement reached among the 195 nations did not expressly reference the shipping industry. Following the Paris Conference, the IMO announced it would continue its efforts on

this issue at the MEPC, and at its 70th session, the MEPC approved a Roadmap for developing a comprehensive GHG emissions reduction strategy for ships, which includes the goal of adopting an initial strategy and emission reduction commitments in 2018. The Roadmap also provides for additional studies and further intersessional work, to be continued at the 71st session in 2017, with a goal of adopting a revised strategy in 2023 to include short-, mid- and long-term reduction measures and schedules for implementation. In April 2018, the committee charged with creating the reduction strategy must finalize the initial draft of the strategy and submit a report to MEPC.

On August 3, 2017, the U.S. formally submitted a notice of withdrawal from the Paris Agreement. Thus far, no other nations have withdrawn from the Paris Agreement, so it remains to be seen whether the withdrawal will significantly impact greenhouse gas developments moving forward. The United Nations Katowice Climate Change Conference occurred December 2-14, 2018. The key objective of the meeting was to begin adopting the implementation guidelines of the Paris Climate Change Agreement.

On June 28, 2013, the EC adopted a communication setting out a strategy for progressively including greenhouse gas emissions from maritime transport in the EU s policy for reducing its overall GHG emissions. The first step proposed by the EC was an EU regulation (as defined below) to an EU-wide system for the monitoring, reporting and verification of carbon dioxide emissions from large ships starting in 2018. EU Regulation 2015/757 was adopted on April 29, 2015 and took effect on July 1, 2015, with monitoring, reporting and verification requirements beginning on January 1, 2018. This Regulation appears to be indicative of an intent to maintain pressure on the international negotiating process. The EC also adopted an Implementing Regulation, which entered into force in November 2016, setting templates for monitoring plans, emissions reports and compliance documents pursuant to Regulation 2015/757.

Other international regulations to prevent pollution

In addition, the IMO, the United States and states within the United States have proposed or implemented requirements relating to the management of ballast water to prevent the harmful effects of foreign invasive species. In February 2004, the IMO adopted the International Convention for the Control and Management of Ships Ballast Water and Sediments (the BWM Convention). 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, as well as other obligations including recordkeeping requirements and implementation of a Ballast Water and Sediments Management Plan. The BWM Convention entered into force on September 8, 2017. As of February 11, 2019, the BWM Convention had 79 contracting states for 80.94% of world gross tonnage. New ships constructed after September 8, 2017 must comply on delivery with the BWM Convention. For vessels constructed prior to September 8, 2017, installation of ballast water management systems must take place at the first renewal survey following September 8, 2017 (the date the BWM Convention entered into force). Ships built before September 8, 2017 must comply with IMO discharge standards by the due date for their IOPPC renewal survey under MARPOL Annex 1. All ships must meet the IMO ballast water discharge standard by September 8, 2024. The BWM Convention requires ships to manage ballast water in a manner that removes, renders harmless or avoids the update or discharge of aquatic organisms and pathogens within ballast water and sediment. Recently updated Ballast Water and Sediment Management Plan guidance includes more robust testing and performance specifications. The entry of the BWM Convention and revised guidance, as well as similar ballast water treatment requirements in certain jurisdictions (such as the United States and states within the United States), will likely result in substantial compliance costs relating to the installation of equipment on our vessels to treat ballast water before it is discharged and other additional ballast water management and reporting requirements. In the United States, the Vessel Incidental Discharge Act (VIDA) was signed into law on December 4, 2018, which requires the U.S. Coast Guard to address the regulation of discharges incidental to the normal operation of commercial vessels into navigable waters, including management of ballast water. This change is expected to result in a simplification of the current patch-work state of ballast water regulation in the United States, which is currently variably regulated by the U.S. Environmental Protection Agency and the various states.

European regulations

European regulations in the maritime sector are in general based on international law. However, since the *Erika* incident in 1999, the European Community has become increasingly active in the field of regulation of maritime safety and protection of the environment. It has been the driving force behind a number of amendments of MARPOL (including, for example, changes to accelerate the time-table for the phase-out of single hull tankers, and to prohibit the carriage in such tankers of heavy grades of oil), and if dissatisfied either with the extent of such amendments or with the time-table for their introduction it has been prepared to legislate on a unilateral basis. It should be noted, for instance, that the EU has its own regime as far as ship emissions are concerned and whilst it does in some respects reflect the IMO regime, this is not always the case. As far as sulfur dioxide emissions are concerned, for example, the EU regulation has not just caught up with the IMO limits for sulfur in ECAs, but it continues to have certain elements that exceed IMO regulations (e.g., as of January 1, 2015, EU Member States must ensure that ships in the Baltic, the North Seam and the English Channel are using gas oils with a sulfur content of no more than 0.10%).

In some instances where it has done so, international regulations have subsequently been amended to the same level of stringency as that introduced in Europe, but the risk is well established that EU regulations may from time to time impose burdens and costs on ship owners and operators which are additional to those involved in complying with international rules and standards. In December 2016, the EU signed into law the National Emissions Ceiling (NEC) Directive, which entered into force on December 31, 2016. The NEC must be implemented by individual members states through particular laws in each state by June 30, 2018. The NEC aims to set stricter emissions limits on SO2,

ammonia, non-methane volatile organic compounds, NOx and fine particulate (PM2.5) by setting new upper limits for emissions of these pollutants, starting in 2020. While the NEC is not specifically directed toward the shipping industry, the EU specifically mentions the shipping industry in its announcement of the NEC as a contributor to emissions of PM2.5, SO2 and NOx. Implementation of new laws by member states to reduce emissions may ultimately result in increased costs to us to comply with the more stringent standards.

In some areas of regulation the EU has introduced new laws without attempting to procure a corresponding amendment of international law. Notably, it adopted in 2005 a directive on ship-source pollution, imposing criminal sanctions for pollution not only where this is caused by intent or recklessness (which would be an offense under MARPOL), but also where it is caused by serious negligence. The directive could therefore result in criminal liability being incurred in circumstances where it would not be incurred under international law. Experience has shown that in the emotive atmosphere often associated with pollution incidents, retributive attitudes towards ship interests have found expression in negligence being alleged by prosecutors and found by courts. Moreover, there is skepticism that the notion of serious negligence is likely to prove any narrower in practice than ordinary negligence. Criminal liability for a pollution incident could not only result in us incurring substantial penalties or fines but may also, in some jurisdictions, facilitate civil liability claims for greater compensation than would otherwise have been payable.

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United States environmental regulations and laws governing civil liability for pollution

Environmental legislation in the United States merits particular mention as it is in many respects more onerous than international laws, representing a high-water mark of regulation with which ship owners and operators must comply, and of liability likely to be incurred in the event of non-compliance or an incident causing pollution.

U.S. federal legislation, including notably the Oil Pollution Act of 1990, or OPA, establishes an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including cargo or bunker oil spills from tankers. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States territorial sea and its 200 nautical mile exclusive economic zone. Under OPA, vessel owners, operators and bareboat charterers 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 substantial threats of discharges, of oil from their vessels. In addition to potential liability under OPA as the relevant federal legislation, vessel owners may in some instances incur liability on an even more stringent basis under state law in the particular state where the spillage occurred.

Title VII of the Coast Guard and Maritime Transportation Act of 2004, or the CGMTA, amended OPA to require the owner or operator of any non-tank vessel of 400 gross tons or more, that carries oil of any kind as a fuel for main propulsion, including bunkers, to prepare and submit a response plan for each vessel on or before August 8, 2005. The implementing regulations took effect on October 30, 2013. The vessel response plans must include detailed information on actions to be taken by vessel personnel to prevent or mitigate any discharge or substantial threat of such a discharge of ore from the vessel due to operational activities or casualties.

OPA liability limits are periodically adjusted for inflation, and the U.S. Coast Guard issued a final rule on November 19, 2015 to reflect increases in the Consumer Price Index. With this adjustment, OPA currently limits liability of the responsible party for single-hull tank vessels over 3,000 gross tons to the greater of $3,500 per gross ton or $25.846 million (this amount is reduced to $7.05 million if the vessel is less than 3,000 gross tons). For tank vessels over 3,000 gross tons, other than a single-hull vessel, liability is limited to $2,200 per gross ton or $18.8 million (or $4.7 million for a vessel less than 3,000 gross tons), whichever is greater. Under the OPA, these liability limits do not apply if an incident was directly caused by violation of applicable United States federal safety, construction or operating regulations or by a responsible party s gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities.

In response to the Deepwater Horizon incident in the Gulf of Mexico, in 2010 the U.S. Congress proposed, but did not formally adopt, legislation to amend OPA to mandate stronger safety standards and increased liability and financial responsibility for offshore drilling operations. While Congressional activity on this topic is expected to continue to focus on offshore facilities rather than on vessels generally, it cannot be known with certainty what form any such new legislative initiatives may take.

In addition, the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, which applies to the discharge of hazardous substances (other than oil) whether on land or at sea, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of $300 per gross ton or $0.5 million for vessels not carrying hazardous substances as cargo or residue, unless the incident is caused by gross negligence, willful misconduct, or a violation of certain regulations, in which case liability is unlimited.

Similarly, in response to the Deepwater Horizon incident, the EU issued Directive 2013/30/EU of the European Parliament and of the Council of June 12, 2013 on safety of offshore oil and gas operations. The objective of this Directive is to reduce as far as possible the occurrence of major accidents relating to offshore oil and gas operations and to limit their consequences, thus increasing the protection of the marine environment and coastal economies against pollution, establishing minimum conditions for safe offshore exploration and exploitation of oil and gas and limiting possible disruptions to Union indigenous energy production, and to improve the response mechanisms in case of an accident. Member states had to implement the Directive by July 19, 2015. As far as the environment is concerned, the UK has various regulations such as: the Offshore Petroleum Activities (Offshore Safety Directive) (Environmental Functions) Regulations 2015 (OSDEF), the 2015 amendments to the Merchant Shipping (Oil Pollution Preparedness, Response and Cooperation Convention) Regulations 1998 (OPRC 1998) and other environmental Directive requirements, specifically the Environmental Management System. The Offshore Petroleum Licensing (Offshore Safety Directive) Regulations 2015 will implement the licensing Directive requirements.

We currently maintain, for each of our owned vessels, insurance coverage against pollution liability risks in the amount of $1.0 billion per incident. The insured risks include penalties and fines as well as civil liabilities and expenses resulting from accidental pollution. However, this insurance coverage is subject to exclusions, deductibles and other terms and conditions. If any liabilities or expenses fall within an exclusion from coverage, or if damages from a catastrophic incident exceed the $1.0 billion limitation of coverage per incident, our cash flow, profitability and financial position could be adversely impacted.

Under OPA, an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum liability under OPA. Under the self-insurance provisions, the ship owner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the U.S. Coast Guard regulations by providing a certificate of responsibility from third party entities that are acceptable to the U.S. Coast Guard evidencing sufficient self-insurance.

The U.S. Coast Guard s regulations concerning certificates of financial responsibility provide, in accordance with OPA, that claimants may bring suit directly against an insurer or guarantor that furnishes certificates of financial responsibility. If such insurer or guarantor is sued directly, it is prohibited from asserting any contractual defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the willful misconduct of the responsible party. Certain organizations, which had typically provided certificates of financial responsibility under pre-OPA laws, including the major protection and indemnity organizations, have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses. This requirement may have the effect of limiting the availability of the type of coverage required by the Coast Guard and could increase our costs of obtaining this insurance as well as the costs of our competitors that also require such coverage.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states environmental laws impose unlimited liability for oil spills. In some cases, states which have enacted such legislation have not yet issued implementing regulations defining vessels owners responsibilities under these laws.

The United States Clean Water Act (CWA) prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under CERCLA. The EPA regulates the discharge of ballast water and other substances incidental to the normal operation of vessels in U.S. waters using a Vessel General Permit (VGP) system pursuant to the CWA, in order to combat the risk of harmful organisms that can travel in ballast water carried from foreign ports and to minimize the risk of water pollution through numerous specified effluent streams incidental to the normal operation of vessels. On March 28, 2013 the EPA adopted the 2013 VGP which took effect on December 19, 2013. The VGP imposes a numeric standard to control the release of non-indigenous invasive species in ballast water discharges. In addition, through the CWA certification provisions that allow U.S. states to place additional conditions on use of the VGP within state waters, a number of states have proposed or implemented a variety of stricter ballast water requirements including, in some states, specific treatment standards.

On December 4, 2018, the Vessel Incidental Discharge Act (VIDA) was signed into law, which establishes a new framework for regulation of discharges incidental to the normal operation of commercial vessels into navigable waters of the United States, including management of ballast water. Under VIDA, the U.S. EPA is required to develop performance standards within two years and then requires the U.S. Coast Guard to develop regulations for the implementation and enforcement of those standards within the following two years. This change is expected to result in a simplification of the current patch-work of ballast water regulation in the United States, which is currently variably regulated by the U.S. Environmental Protection Agency and the various states. As a result of the passage of VIDA, the current VGP will remain in force until the U.S. Coast Guard finalizes its regulations under VIDA.

Coast Guard regulations require commercial ships operating in U.S. waters to manage ballast water by meeting certain requirements, which include using a U.S. type-approved Ballast Water Management System (BWMS), temporarily

using a foreign-type BWMS that has been accepted by the Coast Guard, using ballast water obtained from a U.S. Public Water System, discharge ballast water into a shore-side facility or not discharge ballast water within 12 nautical miles. Vessel owners/operators may request an extension to the compliance deadline by showing that, despite all efforts, it cannot comply with one of the approved systems or compliance methods. There are numerous foreign-approved Ballast Water Treatment Systems (BWTS) in the Coast Guard s list of approved Alternate Management Systems. The Coast Guard has type approved numerous Ballast Water Management Systems (BWMS), which claim to meet the range of requirements that most vessel owners and operators described in their extension requests in the past. Due to the increase in approvals, it will become more difficult to receive compliance extensions and thus could result in significant costs to install an approved BWTS. Failure to comply with U.S. ballast water regulations, including installation of BWTS by September 8, 2017, could result in civil or criminal fines or penalties.

The Federal Clean Air Act (CAA) requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to CAA vapor control and recovery standards (VCS) for cleaning fuel tanks and conducting other operations in regulated port areas, and to CAA emissions standards for so-called Category 3 marine diesel engines operating in U.S. waters. In April 2010, EPA adopted regulations implementing the provision of MARPOL Annex VI regarding

emissions from Category 3 marine diesel engines. Under these regulations, both U.S. and foreign-flagged ships must comply with the applicable engine and fuel standards of Annex VI, including the stricter North America ECA standards which took effect in August 2012, when they enter U.S. ports or operate in most internal U.S. waters including the Great Lakes. Annex VI requirements are discussed in greater detail above under International regulations to prevent pollution from ships. We may incur costs to install control equipment on our vessels to comply with the new standards.

Also under the CAA, since 1990 the U.S. Coast Guard has regulated the safety of VCSs that are required under EPA and state rules. Our vessels operating in regulated port areas have installed VCSs that are compliant with EPA, state and U.S. Coast Guard requirements. On July 16, 2013, the U.S. Coast Guard adopted regulations that made its VCS requirements more compatible with new EPA and State regulations, reflected changes in VCS technology, and codified existing U.S. Coast Guard guidelines. We intend to comply with all applicable state and U.S. federal regulations in the ports where our vessels call.

International laws governing civil liability for oil pollution damage

We operate a fleet of dry cargo vessels that are subject to national and international laws governing pollution from such vessels. Several international conventions impose and limit pollution liability from vessels. An owner of a tanker vessel carrying a cargo of persistent oil as defined by the International Convention for Civil Liability for Oil Pollution Damage (the CLC) is subject under the convention to strict liability for any pollution damage caused in a contracting state by an escape or discharge from cargo or bunker tanks. This liability is subject to a financial limit calculated by reference to the tonnage of the ship, and the right to limit liability may be lost if the spill is caused by the ship owner s intentional or reckless conduct. Liability may also be incurred under the CLC for a bunker spill from the vessel even when she is not carrying such cargo, but is in ballast.

When a tanker is carrying clean oil products that do not constitute persistent oil that would be covered under the CLC, liability for any pollution damage will generally fall outside the CLC and will depend on other international conventions or domestic laws in the jurisdiction where the spillage occurs. The same principle applies to any pollution from the vessel in a jurisdiction which is not a party to the CLC. The CLC applies in over 100 jurisdictions around the world, but it does not apply in the United States, where the corresponding liability laws such as the OPA discussed above, are particularly stringent.

In 2001, the IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, which imposes strict liability on shipowners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker oil. The Bunker Convention defines bunker oil as any hydrocarbon mineral oil, including lubricating oil, used or intended to be used for the operation or propulsion of the ship, and any residues of such oil. The Bunker Convention also requires registered owners of ships over a certain size 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 Convention on Limitation of Liability for Maritime Claims of 1976, as amended, or the 1976 Convention). The Bunker Convention became effective in contracting states on November 21, 2008 and, as of February 11, 2019, had 91 contracting states, representing 92.85% of the gross tonnage of the world s merchant fleet. In other jurisdictions liability for spills or releases of oil from ships bunkers continues to be determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

The Bunker Convention also provides vessel owners a right to limit their liability, depending on the applicable national or international regime. The 1976 Convention is the most widely applicable international regime limiting maritime pollution liability. Rights to limit liability under the 1976 Convention are forfeited where a spill is caused by

a ship owner s intentional or reckless conduct. Certain jurisdictions have ratified the IMO s Protocol of 1996 to the 1976 Convention, referred to herein as the Protocol of 1996. The Protocol of 1996 provides for substantially higher liability limits in those jurisdictions than the limits set forth in the 1976 Convention. Finally, some jurisdictions, such as the United States, are not a party to either the 1976 Convention or the Protocol of 1996, and, therefore, a ship owner s rights to limit liability for maritime pollution in such jurisdictions may be uncertain.

Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created ISPS Code. Among the various requirements are:

- on-board installation of automatic information systems (AIS) to enhance vessel-to-vessel and vessel-to-shore communications;

- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

Furthermore, additional security measures could be required in the future which could have a significant financial impact on us. The U.S. Coast Guard 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 International Ship Security Certificate, or ISSC, that attests to the vessel s compliance with SOLAS security requirements and the ISPS Code. We will implement the various security measures addressed by the MTSA, SOLAS and the ISPS Code and take measures for the vessels to attain compliance with all applicable security requirements within the prescribed time periods. Although management does not believe these additional requirements will have a material financial impact on our operations, there can be no assurance that there will not be an interruption in operations to bring vessels into compliance with the applicable requirements and any such interruption could cause a decrease in charter revenues. Furthermore, additional security measures could be required in the future which could have a significant financial impact on us.

Taxation of the Partnership

United States Taxation

The following is a discussion of the material U.S. federal income tax considerations applicable to us. This discussion is based upon provisions of the Code, final and temporary regulations thereunder (Treasury Regulations), and administrative rulings and court decisions, all as in effect currently and during our year ended December 31, 2017 and all of which are subject to change, possibly with retroactive effect. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. The following discussion is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations applicable to us.

Election to be Treated as a Corporation: We have elected to be treated as a corporation for U.S. federal income tax purposes. As such, we are subject to U.S. federal income tax on our income to the extent it is from U.S. sources or otherwise is effectively connected with the conduct of a trade or business in the Unites States as discussed below.

Taxation of Operating Income: Substantially all of our gross income is attributable to the transportation of drybulk and related products. For this purpose, gross income attributable to transportation (Transportation Income) includes income derived from, or in connection with, the use, the hiring for use, or the leasing for use (if any) of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes both time charter income and bareboat charter income (if any).

Transportation Income that is attributable to transportation that either begins or ends, but that does not both begin and end in the United States (U.S. Source International Transportation Income) is considered to be 50.0% derived from sources within the United States. Transportation Income attributable to transportation that both begins and ends in the United States (U.S. Source Domestic Transportation Income) is considered to be 100.0% derived from sources within the United States. Transportation Income attributable to transportation exclusively between non-U.S. destinations is considered to be 100.0% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally is not subject to U.S. federal income tax.

We believe that we did not earn any U.S. Source Domestic Transportation Income for our fiscal year ended December 31, 2018 and expect that we will not earn any such income for future years. However, certain of our activities gave rise to U.S. Source International Transportation Income, and future expansion of our operations could result in an increase in the amount of U.S. Source International Transportation Income, which generally would be subject to U.S. federal income taxation, unless the exemption from U.S. federal income taxation under Section 883 of the Code (the Section 883 Exemption) applied.

The Section 883 Exemption: In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (the Section 883 Regulations), it will not be subject to the net basis and branch profit taxes or the 4.0% gross basis tax described below on its U.S. Source International Transportation Income. The Section 883 Exemption applies only to U.S. Source International Transportation Income and does not apply to U.S. Source Domestic Transportation Income. We qualify for the Section 883 Exemption if, among other matters, we meet the following three requirements:

We are organized in a jurisdiction outside the United States that grants an equivalent exemption from tax to corporations organized in the United States with respect to the types of U.S. Source International Transportation Income that we earn (an Equivalent Exemption);

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We satisfy the Publicly Traded Test (as described below) or the Qualified Shareholder Stock Ownership Test (as described below); and

We meet certain substantiation, reporting and other requirements.

We are organized under the laws of the Republic of the Marshall Islands. The U.S. Treasury Department has recognized the Republic of the Marshall Islands as a jurisdiction that grants an Equivalent Exemption with respect to the type of income we have earned and are expected to earn. Consequently, our U.S. Source International Transportation Income (including for this purpose, any such income earned by our subsidiaries, that have elected to be disregarded as entities separate from us for U.S. federal income tax purposes) will be exempt from U.S. federal income taxation provided we meet the Publicly Traded Test or the Qualified Shareholder Stock Ownership Test and we satisfy certain substantiation, reporting and other requirements.

In order to meet the Publicly Traded Test , the equity interests in the non-U.S. corporation at issue must be primarily traded and regularly traded on an established securities market either in the United States or in a jurisdiction outside the United States that grants an Equivalent Exemption. The Section 883 Regulations generally provide, in pertinent part, that a class of equity interests in a non-U.S. corporation will be considered to be primarily traded on an established securities market in a given country if the number of units of such class that are traded during any taxable year on all established securities markets in that country exceeds the number of units in such class that are traded during that year on established securities markets in any other single country. Equity interests in a non-U.S. corporation will be considered to be regularly traded on an established securities market under the Section 883 Regulations provided one or more classes of such equity interests representing more than 50.0% of the aggregate vote and value of all of the outstanding equity interests in the non-U.S. corporation satisfy certain listing and trading volume requirements. These listing and trading volume requirements are satisfied with respect to a class of equity interests listed on an established securities market provided trades in such class are effected, other than in de minimis quantities, on such market on at least 60 days during the taxable year and the aggregate number of units in such class that are traded on such market or markets during the taxable year are at least 10% of the average number of units outstanding in that class during the taxable year (with special rules for short taxable years). In addition, a class of equity interests traded on an established securities market in the United States will be considered to satisfy the listing and trading volume requirements if the equity interests in such class are regularly quoted by dealers making a market in such class (within the meaning of the Section 883 Regulations). Notwithstanding these rules, a class of equity that would otherwise be treated as regularly traded on an established securities market will not be so treated if, for more than half of the number of days during the taxable year, one or more 5.0% unitholders (i.e., unitholders owning, actually or constructively, at least 5.0% of the vote and value of that class) own in the aggregate 50.0% or more of the vote and value of that class (the Closely Held Block Exception), unless the corporation can establish that a sufficient proportion of such 5.0% unitholders are Qualified Shareholders (as defined below) so as to preclude other persons who are 5.0% unitholders from owning 50.0% or more of the value of that class for more than half the days during the taxable year.

Because substantially all of our common units are and have been traded on the NYSE, which is considered to be an established securities market, our common units are and have been primarily traded on an established securities market for purposes of the Publicly Traded Test.

Further, although the matter is not free from doubt, based upon our expected cash flow and distributions on our outstanding equity interests, we believe that our common units represented more than 50.0% of the total value of all of our outstanding equity interests, and we believe that we satisfied the trading volume requirements described previously for our fiscal year ended December 31, 2018. We believe that we did not lose eligibility for the Section 883 Exemption as a result of the Closely Held Block Exception for such year, and consequently, we believe we satisfied

the Publicly Traded Test for our fiscal year ended December 31, 2018.

While there can be no assurance that we will continue to satisfy the requirements for the Publicly Traded Test in the future, and our board of directors could determine that it is in our best interests to take an action that would result in our not being able to satisfy the Publicly Traded Test, we presently expect, subject to the possibility that our common units may be delisted by a qualifying exchange, to continue to satisfy the requirements for the Publicly Traded Test and the Section 883 Exemption for future years. Please see below for a discussion of the consequences in the event we do not satisfy the Publicly Traded Test or otherwise fail to qualify for the Section 883 Exemption.

Please also see the risk factor entitled D. Risk Factors Risks Related to Our Units The New York Stock Exchange may delist our securities from trading on its exchange, which could limit your ability to trade our securities and subject us to additional trading restrictions .

The Net Basis Tax and Branch Profits Tax: If we earn U.S. Source International Transportation Income and the Section 883 Exemption does not apply, the U.S. source portion of such income may be treated as effectively connected with the conduct of a trade or business in the United States (Effectively Connected Income) if we have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of bareboat charter income (if any), is attributable to a fixed place of business in the United States.

We believe that, for our fiscal year ended December 31, 2018, none of our U.S. Source International Transportation Income was attributable to regularly scheduled transportation or received pursuant to bareboat charters. As a result, we believe that none of our U.S. Source International Transportation Income for such year would be treated as Effectively Connected Income even in the event we

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did not qualify for the Section 883 Exemption. However, there is no assurance that we will not earn income pursuant to regularly scheduled transportation or bareboat charters attributable to a fixed place of business in the United States in the future, which would result in such income being treated as Effectively Connected Income. In addition, any U.S. Source Domestic Transportation Income may be treated as Effectively Connected Income. Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (presently imposed at a 21.0% rate) as well as 30.0% branch profits tax imposed under Section 884 of the Code. In addition, a 30.0% branch interest tax could be imposed on certain interest paid or deemed paid by us.

On the sale of a vessel that has produced Effectively Connected Income, we could be subject to the net basis corporate income tax as well as branch profits tax with respect to the gain recognized up to the amount of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the gain is not attributable to an office or other fixed place of business maintained by us in the United States under U.S. federal income tax principles.

The 4.0% Gross Basis Tax: If the Section 883 Exemption does not apply and the net basis tax does not apply, we would be subject to a 4.0% U.S. federal income tax on the U.S. source portion of our gross U.S. Source International Transportation Income, without benefit of deductions.

Marshall Islands Taxation

Based on the opinion of Reeder and Simpson, P.C., our counsel as to matters of the law of the Republic of the Marshall Islands, because we, our operating subsidiary and our controlled affiliates do not, and do not expect to, conduct business or operations in the Republic of the Marshall Islands, neither we nor our controlled affiliates will be subject to income, capital gains, profits or other taxation under current Marshall Islands law. As a result, distributions by our operating subsidiary and our controlled affiliates to us will not be subject to Marshall Islands taxation.

Other Tax Jurisdictions

Certain of Navios Partners subsidiaries are incorporated in countries which impose taxes, such as Malta, however such taxes are immaterial to Navios Partners operations.

In accordance with the currently applicable Greek law, foreign flagged vessels that are managed by Greek or foreign ship management companies having established an office in Greece are subject to duties towards the Greek state which are calculated on the basis of the relevant vessel s tonnage. The payment of said duties exhausts the tax liability of the foreign ship owning company and the relevant manager against any tax, duty, charge or contribution payable on income from the exploitation of the foreign flagged vessel.

C. Organizational Structure

Please read exhibit 8.1 to this Annual Report for a list of our significant subsidiaries as of December 31, 2018.

Affiliates included in the financial statements accounted for under the equity method:

In the consolidated financial statements of Navios Partners, Navios Europe Inc. (Navios Europe I), in which Navios Partners has an ownership interest of 5.0%, is included as an affiliate and is accounted for under the equity method, for such periods during which Navios Europe I was an affiliate of Navios Partners. As of December 31, 2018, Navios Partners had 0% voting interest in Navios Europe I.

In the consolidated financial statements of Navios Partners, Navios Europe (II) Inc. (Navios Europe II), in which Navios Partners has an ownership interest of 5.0%, is included as an affiliate and is accounted for under the equity method, for such periods during which Navios Europe II was an affiliate of Navios Partners. As of December 31, 2018, Navios Partners had 0% voting interest in Navios Europe II.

In the consolidated financial statements of Navios Partners, Navios Containers, in which Navios Partners has an ownership interest of 33.5% as of December 31, 2018, is included as an affiliate and is accounted for under the equity method, for such periods during which Navios Containers was an affiliate of Navios Partners.

D. Property, plants and equipment

Other than our vessels, we do not have any material property, plants or equipment.

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Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

Overview

We are an international owner and operator of dry cargo vessels, formed in August 2007 by Navios Holdings, a vertically integrated seaborne shipping and logistics company with over 60 years of operating history in the dry cargo shipping industry. We have been a public company since November 2007.

In January 2019, the Board of Directors of Navios Partners authorized a common unit repurchase program for up to $50.0 million of the Company s common units over a two year period. Common unit repurchases will be made from time to time for cash in open market transactions at prevailing market prices or in privately negotiated transactions. The timing and amount of repurchases under the program will be determined by Navios Partners management based upon market conditions and other factors. Repurchases may be made pursuant to a program adopted under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The program does not require any minimum repurchase or any specific number of common units and may be suspended or reinstated at any time in Navios Partners discretion and without notice. The Board of Directors will review the program periodically. Repurchases will be subject to restrictions under Navios Partners credit facilities. As of April 8, 2019, Navios Partners has repurchased 3,946,156 common units, for a total cost of approximately $3.8 million, out of which 3,407,097 common units have been cancelled.

As of April 8, 2019, there were outstanding 166,028,113 common units and 3,457,866 general partnership units. Navios Holdings owns approximately 20.4% interest in Navios Partners, which includes the approximately 2.1% general partner interest.

Please see Item 4. Information on the Partnership .

Fleet Development

On December 14, 2018, Navios Partners completed the sale of the Navios Libra II, a 1995-built Panamax vessel of 70,136 dwt. The vessel was sold to an unrelated third party for a net sale price of $4.6 million.

On December 4, 2018, Navios Partners completed the sale of the Navios Felicity, a 1997-built Panamax vessel of 73,867 dwt. The vessel was sold to an unrelated third party for a net sale price of $4.7 million.

On August 31, 2018, Navios Partners acquired from its affiliate, Navios Holdings, the Navios Sphera, a 2016-built Panamax vessel of 84,872 dwt and the Navios Mars, a 2016-built Capesize vessel of 181,259 dwt, for an acquisition cost $79.0 million, in total.

On July 2, 2018, Navios Partners completed the sale of the YM Unity and the YM Utmost, two 2006-built containerships of 8,204 TEU each. The vessels were sold to its affiliate, Navios Containers, for a total sale price of $67.0 million.

On June 7, 2018, Navios Partners acquired from an unrelated third party the Navios Altair I, a 2006-built Panamax vessel of 74,475 dwt, for an acquisition cost of $11.8 million.

On May 21, 2018, Navios Partners acquired from an unrelated third party the Navios Symmetry, a 2006-built Panamax vessel of 74,381 dwt, for an acquisition cost of $11.8 million.

On May 9, 2018, Navios Partners acquired from an unrelated third party the Navios Apollon I, a 2005-built Panamax vessel of 87,052 dwt, for an acquisition cost of $13.4 million.

On December 21, 2017, Navios Partners completed the sale of the Navios Gemini S, a 1994-built Panamax vessel of 68,636 dwt. The vessel was sold to an unrelated third party for a net sale price of $4.1 million.

In November 2017, Navios Partners entered into a 10-year bareboat charter-in agreement for a Panamax vessel of approximately 81,000 dwt. Navios Partners has the option to acquire the vessel after the end of the fourth year. The vessel is expected to be delivered in the second half of 2019. As of December 31, 2018, Navios Partners has paid the amount of $5.5 million, of which $2.8 million was paid during the year ended December 31, 2017.

On September 20, 2017, Navios Partners acquired from an unrelated third party the Navios Symphony, a 2010-built Capesize vessel of 178,132 dwt, for an acquisition cost of $28.0 million.

On August 21, 2017, Navios Partners acquired from an unrelated third party the Navios Aster, a 2010-built Capesize vessel of 179,314 dwt, for an acquisition cost of $28.9 million.

On August 11, 2017, Navios Partners acquired from a related third party the Navios Christine B, a 2009-built Ultra-Handymax vessel of 58,058 dwt, for an acquisition cost of $14.0 million.

On July 17, 2017, Navios Partners acquired from an unrelated third party the Navios Sol, a 2009-built Capesize vessel of 180,274 dwt, for an acquisition cost of $28.6 million.

On July 10, 2017, Navios Partners acquired from an unrelated third party the Navios Libertas, a 2007-built Panamax vessel of 75,511 dwt, for an acquisition cost of $13.7 million.

On June 9, 2017, Navios Partners acquired from an unrelated third party the Navios Ace, a 2011-built Capesize vessel of 179,016 dwt, for an acquisition cost of $31.4 million.

On June 7, 2017, Navios Partners acquired from an unrelated third party the Navios Prosperity I, a 2007-built Panamax vessel of 75,527 dwt, for an acquisition cost of $13.7 million.

On April 21, 2017, Navios Partners completed the sale of the Navios Apollon, a 2000-built Ultra-Handymax vessel of 52,073 dwt. The vessel was sold to an unrelated third party for a net sale price of $4.8 million.

On January 12, 2017, Navios Partners completed the sale of the MSC Cristina, a 2011-built Containership of 13,100 TEU. The vessel was sold to an unrelated third party for a net sale price of $125.0 million.

On December 30, 2016, Navios Partners acquired from an unrelated third party the Navios Beaufiks, a 2004-built Capesize vessel of 180,310 dwt, for an acquisition cost of $15.4 million.

The historical results discussed below, and the historical financial statements and related notes included elsewhere in this annual report, present operating results of the fleet for the periods beginning from January 1, 2016 to December 31, 2018.

		Country of	Statements of Operations					
Company name	**Vessel name**	**incorporation**	**2018**		**2017**		**2016**	
Libra Shipping Enterprises Corporation[5]	Navios Libra II	Marshall Is.	1/01	12/14	1/01	12/31	1/01	12/31
Alegria Shipping Corporation	Navios Alegria	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Felicity Shipping Corporation[6]	Navios Felicity	Marshall Is.	1/01	12/04	1/01	12/31	1/01	12/31
Gemini Shipping Corporation[1]	Navios Gemini S	Marshall Is.			1/01	12/21	1/01	12/31
Galaxy Shipping Corporation	Navios Galaxy I	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Aurora Shipping Enterprises Ltd.	Navios Hope	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31

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Company name	Vessel name	Country of incorporation	Statements of Operations					
			2018		2017		2016	
Palermo Shipping S.A.[2]	Navios Apollon	Marshall Is.			1/01	4/21	1/01	12/31
Fantastiks Shipping Corporation	Navios Fantastiks	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Sagittarius Shipping Corporation	Navios Sagittarius	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Hyperion Enterprises Inc.	Navios Hyperion	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Chilali Corp.	Navios Aurora II	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Surf Maritime Co.	Navios Pollux	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Pandora Marine Inc.	Navios Melodia	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Customized Development S.A.	Navios Fulvia	Liberia	1/01	12/31	1/01	12/31	1/01	12/31
Kohylia Shipmanagement S.A.	Navios Luz	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Orbiter Shipping Corp.	Navios Orbiter	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Floral Marine Ltd.	Navios Buena Ventura	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Golem Navigation Limited	Navios Soleil	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Kymata Shipping Co.	Navios Helios	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Joy Shipping Corporation	Navios Joy	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Micaela Shipping Corporation	Navios Harmony	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Pearl Shipping Corporation	Navios Sun	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Velvet Shipping Corporation	Navios La Paix	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Perigiali Navigation Limited	Navios Beaufiks	Marshall Is.	1/01	12/31	1/01	12/31	12/30	12/31
Finian Navigation Co.	Navios Ace	Marshall Is.	1/01	12/31	6/09	12/31		
Ammos Shipping Corp.	Navios Prosperity I	Marshall Is.	1/01	12/31	6/07	12/31		
Wave Shipping Corp.	Navios Libertas	Marshall Is.	1/01	12/31	7/10	12/31		
Casual Shipholding Co.	Navios Sol	Marshall Is.	1/01	12/31	7/17	12/31		
Avery Shipping Company	Navios Symphony	Marshall Is.	1/01	12/31	9/20	12/31		
Coasters Ventures Ltd.	Navios Christine B	Marshall Is.	1/01	12/31	8/11	12/31		
Ianthe Maritime S.A.	Navios Aster	Marshall Is.	1/01	12/31	8/21	12/31		
Rubina Shipping Corporation	Hyundai Hongkong	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Topaz Shipping Corporation	Hyundai Singapore	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Beryl Shipping Corporation	Hyundai Tokyo	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Cheryl Shipping Corporation	Hyundai Shanghai	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Christal Shipping Corporation	Hyundai Busan	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Fairy Shipping Corporation[3]	YM Utmost	Marshall Is.	1/01	7/02	1/01	12/31	1/01	12/31
Limestone Shipping Corporation[3]	YM Unity	Marshall Is.	1/01	7/02	1/01	12/31	1/01	12/31
Dune Shipping Corp.[4]	MSC Cristina	Marshall Is.			1/01	1/12	1/01	12/31
Citrine Shipping Corporation		Marshall Is.						
Cavalli Navigation Inc.		Marshall Is.						
Seymour Trading Limited	Navios Altair I	Marshall Is.	6/07	12/31				
Goldie Services Company	Navios Symmetry	Marshall Is.	5/21	12/31				
Andromeda Shiptrade Limited	Navios Apollon I	Marshall Is.	5/09	12/31				
Esmeralda Shipping Corporation	Navios Sphera	Marshall Is.	8/31	12/31				
Triangle Shipping Corporation	Navios Mars	Marshall Is.	8/31	12/31				
Chartered-in vessels								
Cavos Navigation Co.	Navios Libra	Marshall Is.						

Other								
Prosperity Shipping Corporation		Marshall Is.						
Aldebaran Shipping Corporation		Marshall Is.						
JTC Shipping and Trading Ltd.[7]	Holding Company	Malta	1/01	12/31	1/01	12/31	1/01	12/31
Navios Maritime Partners L.P.	N/A	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Navios Maritime Operating LLC.	N/A	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31
Navios Partners Finance (US) Inc.	Co-Borrower	Delaware	1/01	12/31	1/01	12/31	1/01	12/31
Navios Partners Europe Finance Inc.	Sub-Holding Company	Marshall Is.	1/01	12/31	1/01	12/31	1/01	12/31

(1) The vessel was sold on December 21, 2017 (see Note 7 Vessels, net).

(2) The vessel was sold on April 21, 2017 (see Note 7 Vessels, net).

(3) The vessels were sold on July 2, 2018 (see Note 7 Vessels, net).

(4) The vessel was sold on January 12, 2017 (see Note 7 Vessels, net).

(5) The vessel was sold on December 14, 2018 (see Note 7 Vessels, net).

(6) The vessel was sold on December 4, 2018 (see Note 7 Vessels, net).

(7) Not a vessel-owning subsidiary and only holds right to charter-in contracts.

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Our Charters

We generate revenues by charging our customers for the use of our vessels to transport their dry cargos. In general, the vessels in our fleet are chartered-out under time charters, which range in length from one to twelve years at inception. From time to time, we operate vessels in the spot market until the vessels have been chartered under long-term charters.

For the year ended December 31, 2018, HMM represented approximately 24.5% of total revenues. For the year ended December 31, 2017, HMM and Yang Ming accounted for approximately 26.8% and 12.0%, respectively, of our total revenues. For the year ended December 31, 2016, HMM, Yang Ming and Mediterranean Shipping Co. S.A. accounted for 29.6%, 13.0% and 11.6%, respectively, of our total revenues. No other customers accounted for 10% or more of total revenues for any of the years presented. We believe that the combination of the long-term nature of our charters (which provide for the receipt of a fixed fee for the life of the charter) and our management agreement with the Manager, a wholly-owned subsidiary of Navios Holdings (which provides for a fixed management fee until December 31, 2019), provides us with a strong base of stable cash flows.

Our revenues are driven by the number of vessels in the fleet, the number of days during which the vessels operate and our charter hire rates, which, in turn, are affected by a number of factors, including:

- the duration of the charters;
- the level of spot and long-term market rates at the time of charter;
- decisions relating to vessel acquisitions and disposals;
- the amount of time spent positioning vessels;
- the amount of time that vessels spend undergoing repairs and upgrades in drydock;
- the age, condition and specifications of the vessels; and
- the aggregate level of supply and demand in the dry cargo shipping industry.

Time charters are available for varying periods, ranging from a single trip (spot charter) to long-term which may be many years. In general, a long-term time charter assures the vessel owner of a consistent stream of revenue. Operating the vessel in the spot market affords the owner greater spot market opportunity, which may result in high rates when vessels are in high demand or low rates when vessel availability exceeds demand. We intend to operate our vessels in the long-term charter market. Vessel charter rates are affected by world economics, international events, weather conditions, strikes, governmental policies, supply and demand and many other factors that might be beyond our control.

We could lose a customer or the benefits of a charter if:

- the customer fails to make charter payments because of its financial inability, disagreements with us or otherwise;

- the customer exercises certain rights to terminate the charter of the vessel;

- the customer terminates the charter because we fail to deliver the vessel within a fixed period of time, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or we default under the charter; or

- a prolonged force majeure event affecting the customer, including damage to or destruction of relevant production facilities, war or political unrest prevents us from performing services for that customer.

Under some of our time charters, either party may terminate the charter contract in the event of war in specified countries or in locations that would significantly disrupt the free trade of the vessel. Some of the time charters covering our vessels require us to return to the charterer, upon the loss of the vessel, all advances paid by the charterer but not earned by us.

Vessel Operations

Under our charters, our vessel manager is generally responsible for commercial, technical, health and safety and other management services related to the vessels operation, and the charterer is responsible for bunkering and substantially all of the vessel voyage costs, including canal tolls and port charges.

Under the management agreement we entered into with the Manager, the Manager bears all of our vessel operating expenses in exchange for the payment of fees as described below. Under this agreement, the Manager is responsible for commercial, technical, health and safety and other management services related to the vessels operation, including chartering, technical support, maintenance and insurance. On November 14, 2017, Navios Partners extended the duration of its existing Management Agreement with the

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Manager until December 31, 2022 and the fixed rate for ship management services of its owned fleet through December 31, 2019, effective from January 1, 2018. The new management fees are: (a) $4,225 daily rate per Ultra-Handymax vessel; (b) $4,325 daily rate per Panamax vessel; (c) $5,250 daily rate per Capesize vessel; and (d) $6,700 daily rate per Container vessel of TEU 6,800. Costs associated with special surveys, drydocking expenses and certain extraordinary items under this agreement are reimbursed by Navios Partners at cost at occurrence.

Extraordinary costs and expenses include fees and costs resulting from:

time spent on insurance and salvage claims;

time spent vetting and pre-vetting the vessels by any charterers in excess of 10 days per vessel per year;

the deductible of any insurance claims relating to the vessels or for any claims that are within such deductible range;

the significant increase in insurance premiums which are due to factors such as acts of God outside the control of the Manager;

repairs, refurbishment or modifications, including those not covered by the guarantee of the shipbuilder or by the insurance covering the vessels, resulting from maritime accidents, collisions, other accidental damage or unforeseen events (except to the extent that such accidents, collisions, damage or events are due to the fraud, gross negligence or willful misconduct of the Manager, its employees or its agents, unless and to the extent otherwise covered by insurance);

expenses imposed due to any improvement, upgrade or modification to, structural changes with respect to the installation of new equipment aboard any vessel that results from a change in, an introduction of new, or a change in the interpretation of, applicable laws, at the recommendation of the classification society for that vessel or otherwise;

costs associated with increases in crew employment expenses resulting from an introduction of new, or a change in the interpretation of, applicable laws or resulting from the early termination of the charter of any vessel;

any taxes, dues or fines imposed on the vessels or the Manager due to the operation of the vessels;

expenses incurred in connection with the sale or acquisition of a vessel such as inspections and technical assistance; and

any similar costs, liabilities and expenses that were not reasonably contemplated by us and the Manager as being encompassed by or a component of the fixed daily fees at the time the fixed daily fees were determined.

Payment of any extraordinary fees or expenses to the Manager could significantly increase our vessel operating expenses and impact our results of operations.

During the remaining term of the Management Agreement, we expect that we will reimburse the Manager for all of the actual operating costs and expenses it incurs in connection with the management of our fleet.

Administrative Services

Under the Administrative Services Agreement we entered into with the Manager, we reimburse the Manager for reasonable costs and expenses incurred in connection with the provision of the services under this agreement within 15 days after the Manager submits to us an invoice for such costs and expenses, together with any supporting detail that may be reasonably required. Under this agreement which expires in December 2022, the Manager provides significant administrative, financial and other support services to us.

Trends and Factors Affecting Our Future Results of Operations

We believe the principal factors that will affect our future results of operations are the economic, regulatory, political and governmental conditions that affect the shipping industry generally and that affect conditions in countries and markets in which our vessels engage in business. Other key factors that will be fundamental to our business, future financial condition and results of operations include:

- the demand for seaborne transportation services;

- the ability of Navios Holdings commercial and chartering operations to successfully employ our vessels at economically attractive rates, particularly as our fleet expands and our charters expire;

- the effective and efficient technical management of our vessels;

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Navios Holdings ability to satisfy technical, health, safety and compliance standards of major commodity traders; and

the strength of and growth in the number of our customer relationships, especially with major commodity traders.

In addition to the factors discussed above, we believe certain specific factors will impact our combined and consolidated results of operations. These factors include:

the charter hire earned by our vessels under our charters;

our access to capital required to acquire additional vessels and/or to implement our business strategy;

our ability to sell vessels at prices we deem satisfactory;

our level of debt and the related interest expense and amortization of principal; and

the level of any distribution on our common units.

Please read Risk Factors for a discussion of certain risks inherent in our business.

A. Operating results

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

The following table presents consolidated revenue and expense information for the years ended December 31, 2018 and 2017. This information was derived from the audited consolidated revenue and expense accounts of Navios Partners for the respective periods.

	Year Ended December 31, 2018	Year Ended December 31, 2017
Time charter and voyage revenues (includes related party revenue of $0.1 million and $0.7 million for each of the years ended December 31, 2018 and 2017, respectively)	$ 231,361	$ 211,652
Time charter and voyage expenses	(10,024)	(4,158)
Direct vessel expenses	(6,180)	(7,172)
Management fees (entirely through related parties transactions)	(68,871)	(67,310)
General and administrative expenses	(18,458)	(17,163)

Depreciation and amortization		(58,334)		(72,760)
Vessel impairment losses		(44,344)		(32,677)
Interest expense and finance cost, net		(42,766)		(38,225)
Interest income		4,408		3,277
Gain on change in control				4,068
Other income		1,554		9,884
Other expense		(5,384)		(5,133)
Equity in net earnings of affiliated companies		3,957		866
Net loss	**$**	**(13,081)**	**$**	**(14,851)**
Less: Net income attributable to the noncontrolling interest				(239)
Net loss attributable to Navios Partners unitholders	**$**	**(13,081)**	**$**	**(15,090)**

Time charter and voyage revenues: Time charter and voyage revenues for Navios Partners for the year ended December 31, 2018 increased by $32.1 million, or 16.1%, to $231.4 million, as compared to $199.3 million for the same period in 2017. The increase in time charter and voyage revenues was mainly attributable to: (i) the increase in revenue following the acquisition of seven vessels in 2017 and five vessels in 2018; and (ii) the increase in the TCE rate to $16,458 per day for the year ended December 31, 2018, from $16,025 per day for the year ended December 31, 2017 due to the increase in the freight market. That increase was partially mitigated by the decrease in revenue due to the sales of the MSC Cristina, the Navios Apollon and the Navios Gemini S in 2017 and the YM Unity, the YM Utmost, the Navios Felicity and the Navios Libra II in 2018. The available days of the fleet increased to 13,448 days for the year ended December 31, 2018, as compared to 12,193 days for the year ended December 31, 2017, mainly due to the increased fleet.

Time charter and voyage revenues from Navios Containers for the period from April 28, 2017 (date of inception) to August 29, 2017 amounted to $12.4 million. Available days of the fleet were 627 days for the period from April 28, 2017 (date of inception) to August 29, 2017 and TCE rate for the period amounted to $19,338.

Time charter and voyage expenses: Time charter and voyage expenses for the year ended December 31, 2018 increased by $5.9 million to $10.0 million, as compared to $4.2 million for the year ended December 31, 2017. The increase was mainly attributable to a: (i) $3.6 million increase in bunkers expenses; (ii) $2.1 million increase in loading and discharging port expenses related to the freight voyages in 2018; and (iii) $0.4 million increase in brokers commissions due to the increased fleet and other voyage expenses. The increase was partially mitigated by a $0.2 million time charter and voyage expenses of Navios Containers for the period from April 28, 2017 (date of inception) to August 29, 2017.

Direct vessel expenses: Direct vessel expenses, comprising of the amortization of dry dock and special survey costs of certain vessels in our fleet, amounted to $6.2 million for the year ended December 31, 2018, as compared to $7.2 million for the year ended December 31, 2017, in total, out of which $6.7 million related to Navios Partners vessels and $0.5 million related to Navios Containers vessels.

Management fees: Management fees for the year ended December 31, 2018, increased by $1.6 million, or 2.3%, to $68.9 million, as compared to $67.3 million for the year ended December 31, 2017. The increase was mainly attributable to: (i) an $11.1 million increase in management fees paid to the Manager due to the increased number of owned vessels in Navios Partners fleet; and (ii) a $0.5 million increase in management fees due to the increase in daily rate pursuant to the amended management agreement in November 2017. The increase was partially mitigated by a: (i) $2.7 million decrease in management fees due to the sale of the YM Unity and the YM Utmost in July 2018; (ii) $0.1 million decrease in management fees due to the sale of the Navios Felicity and Navios Libra II in December 2018; (iii) $2.0 million decrease in management fees due to the sale of three vessels in 2017; (iv) $4.7 million management fees of Navios Containers for the period from April 28, 2017 (date of inception) to August 29, 2017; and (v) $0.4 million of management fees for the five MOL Containerships for the period from May 25, 2017 to June 8, 2017.

General and administrative expenses: General and administrative expenses increased by $1.3 million, or 7.5%, to $18.5 million for the year ended December 31, 2018, as compared to $17.2 million for the year ended December 31, 2017. The increase was mainly due to a: (i) $1.0 million increase in administrative fees paid to the Manager due to the increased number of owned vessels in Navios Partners fleet; (ii) $0.5 million increase in equity compensation expense; and (iii) $0.5 million increase in compensation to the directors and/ or officers of the Company (see Note 10 Accrued Expenses). The above increase was partially mitigated by a: (i) $0.1 million net decrease in legal and professional fees, as well as audit fees and other administrative expenses; and (ii) $0.7 million general and administrative expenses of Navios Containers for the period from April 28, 2017 (date of inception) to August 29, 2017.

For the year ended December 31, 2018 and 2017, the expenses charged by the Manager for administrative fees, including Navios Containers administrative fees for the period from April 28, 2017 (date of Navios Containers inception) to August 29, 2017, were $9.3 million and $8.9 million, respectively.

Depreciation and amortization: Depreciation and amortization amounted to $58.3 million for the year ended December 31, 2018 compared to $72.8 million for the year ended December 31, 2017. The decrease of $14.4 million was mainly attributable to a: (i) $6.8 million decrease in amortization of the Navios Aurora II favorable lease intangible which was fully amortized during the fourth quarter of 2017; (ii) $4.8 million amortization expense of the intangibles for the five MOL Containerships for the period from April 28, 2017 (date of inception) to August 29,

2017; (iii) $2.9 million decrease in depreciation expense due to the sale of the YM Unity and the YM Utmost in July 2018; (iv) $2.5 million decrease in depreciation expense of one of our vessels as a result of the impairment test performed in the fourth quarter of the fiscal year 2017; (v) $1.8 million decrease in depreciation expense due to the sale of two vessels in 2017; (vi) $0.8 million amortization expense of the intangibles for the five MOL Containerships for the period from May 25, 2017 to June 8, 2017; (vii) $0.3 million decrease in amortization of the Navios Sagittarius favorable lease intangible which was fully amortized during the fourth quarter of 2018; (viii) $0.2 million decrease in depreciation expense due to the sale of the Navios Libra II and the Navios Felicity in December 2018; and (ix) $0.1 million depreciation expense of the Navios Containers vessels for the period from April 28, 2017 (date of inception) to August 29, 2017. The above decrease was partially mitigated by a $5.8 million increase in depreciation expense due to the delivery of seven vessels in 2017 and five vessels in 2018. Depreciation of vessels is calculated using an estimated useful life of 25 and 30 years for drybulk vessels and containerships, respectively, from the date the vessel was originally delivered from the shipyard. Intangible assets are amortized over the contract periods, which range from one to twelve years, at inception.

Vessel impairment losses: During the year ended December 31, 2018, Navios Partners recognized: (i) an impairment loss of $37.9 million related to the sale of the YM Unity and the YM Utmost which was completed on July 2, 2018; (ii) an impairment loss of $5.3 million related to the sale of the Navios Felicity which was completed on December 4, 2018; and (iii) an impairment loss of $1.2 million related to the sale of the Navios Libra II which was completed on December 14, 2018. During the year ended December 31, 2017, Navios Partners recognized: (i) an impairment loss of $30.3 million for one of its vessels; and (ii) an impairment loss of $2.4 million related to the sale of the Navios Gemini S which was completed on December 21, 2017 (see Note 7 Vessels, net).

Interest expense and finance cost, net: Interest expense and finance cost, net for the year ended December 31, 2018 increased by $4.5 million, or 11.9%, to $42.8 million, as compared to $38.2 million for the year ended December 31, 2017. The increase was mainly due to a: (i) $7.5 million increase in interest expense related to Navios Partners credit facilities, mainly due to the increase of the weighted average interest rate for the year ended December 31, 2018 to 6.85% from 5.76% for the same period in 2017; and (ii) $0.4 million write-off of the deferred finance fees following the repayments of the DVB Credit Facility on July 2, 2018, the BNP Credit Facility and the March 2018 Credit Facility on December 13, 2018. The above increase was partially mitigated by a: (i) $2.3 million net decrease in the amortization of the deferred finance fees mainly due to the write-off of the deferred finance fees and discount following the refinancing of the Term Loan B Facility on March 14, 2017; (ii) $0.5 million write-off of the deferred finance fees following the repayment of the April 2015 Credit Facility on January 12, 2017; and (iii) $0.6 million interest expense and finance cost from Navios Containers for the period from April 28, 2017 (date of inception) to August 29, 2017. Navios Partners average loan balance amounted to $510.1 million for the year ended December 31, 2018 as compared to $499.8 million for the same period of 2017.

Interest income: Interest income increased by $1.1 million to $4.4 million for the year ended December 31, 2018, as compared to $3.3 million for the year ended December 31, 2017.

Other income: Other income for the year ended December 31, 2018 amounted to $1.6 million, as compared to $9.9 million for the year ended December 31, 2017. The decrease was mainly attributable to a $9.4 million decrease in relation to the claims submitted under the Navios Holdings Guarantee agreement. The above decrease was partially mitigated by a $1.1 million increase in other miscellaneous income.

Other expense: Other expense for the year ended December 31, 2018 amounted to $5.4 million as compared to $5.1 million for the year ended December 31, 2017. The decrease of $0.3 million was mainly attributable to a: (i) $1.5 million allowance for doubtful accounts; and (ii) $1.3 million loss related to the disposal of the MSC Cristina, both recognized in the first quarter of 2017. The above decrease was partially mitigated by a: (i) $2.0 million write down of the guarantee claim receivable; and (ii) $1.0 million increase in other miscellaneous expenses.

Equity in net earnings of affiliated companies: Equity net earnings of affiliated companies for the year ended December 31, 2018 amounted to $4.0 million as compared to $0.9 million for the year ended December 30, 2017. The amount of $4.0 million mainly consisted of a $4.5 million income related to the investment in Navios Containers partially mitigated by a $0.6 million other-than-temporary impairment on dividend in kind (see Note 20 Investment in Affiliates).

Net loss: Net loss for the year ended December 31, 2018 amounted to $(13.1) million compared to $(14.8) million for the year ended December 31, 2017. The decrease in net loss of $1.8 million was due to the factors discussed above.

Net income attributable to the noncontrolling interest: Net income attributable to the noncontrolling interest amounted to $(0.2) million for the period from April 28, 2017 (date of Navios Containers inception) to August 29, 2017.

Operating surplus: Navios Partners generated an Operating Surplus for the year ended December 31, 2018 of $77.9 million, as compared to $92.6 million for the year ended December 31, 2017. Operating Surplus is a non-GAAP financial measure used by certain investors to assist in evaluating a partnership s ability to make quarterly cash distributions (See Reconciliation of EBITDA and Adjusted EBITDA to Net Cash from Operating Activities, EBITDA and Operating Surplus contained herein).

Seasonality: Since Navios Partners vessels generally operate under long-term charters, the results of operations are not generally subject to the effect of seasonable variations in demand.

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

The following table presents consolidated revenue and expense information for the years ended December 31, 2017 and 2016. This information was derived from the audited consolidated revenue and expense accounts of Navios Partners for the respective periods.

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	Year Ended December 31, 2017 (In thousands of U.S dollars)	Year Ended December 31, 2016 (In thousands of U.S dollars)
Time charter and voyage revenues (includes related party revenue of $0.7 million and $1.9 million for the years ended December 31, 2017 and 2016, respectively)	$ 211,652	$ 190,524
Time charter and voyage expenses	(4,158)	(5,673)
Direct vessel expenses	(7,172)	(6,381)
Management fees (entirely through related parties transactions)	(67,310)	(59,209)
General and administrative expenses	(17,163)	(12,351)
Depreciation and amortization	(72,760)	(92,370)
Vessel impairment losses	(32,677)	(27,201)
Loss on sale of securities		(19,435)
Interest expense and finance cost, net	(38,225)	(31,247)
Interest income	3,277	541
Gain on change in control	4,068	
Other income	9,884	14,523
Other expense	(5,133)	(4,270)
Equity in net earnings of affiliated companies	866	
Net loss	**$ (14,851)**	**$ (52,549)**
Less: Net income attributable to the noncontrolling interest	$ (239)	
Net loss attributable to Navios Partners unitholders	**$ (15,090)**	**$ (52,549)**

Time charter and voyage revenues: Time charter and voyage revenues from Navios Partners for the year ended December 31, 2017 increased by $8.8 million, or 4.6%, to $199.3 million, as compared to $190.5 million for the same period in 2016. The increase in time charter and voyage revenues was primarily due to the increase in revenue following the acquisition of the seven drybulk vessels in 2017 and one vessel in December 2016. The above increase was partially mitigated by: (i) the decrease in revenue due to the sale of the MSC Cristina and the Navios Apollon; and (ii) the decrease in TCE to $16,025 per day for the year ended December 31, 2017, from $16,364 per day for the year ended December 31, 2016. The available days of the fleet increased to 12,193 days for the year ended December 31, 2017, as compared to 11,296 days for the year ended December 31, 2016, mainly due to the increased fleet.

Time charter and voyage revenues from Navios Containers for the period from April 28, 2017 (date of inception) to August 29, 2017 amounted to $12.4 million. Available days of the fleet were 627 days for the period from April 28, 2017 (date of inception) to August 29, 2017 and TCE for the period amounted to $19,338. There were no operations in the corresponding period in 2016.

Time charter and voyage expenses: Time charter and voyage expenses for the year ended December 31, 2017 decreased by $1.5 million, or 26.7%, to $4.2 million, as compared to $5.7 million for the year ended December 31, 2016. The decrease was mainly attributable to a: (i) $1.6 million decrease in bunkers expenses due to increased consumption resulted from the freight voyages in 2016 compared to 2017 when no freight voyages existed; and (ii) $0.1 million decrease in brokers commissions. The decrease was partially mitigated by a $0.2 million net increase in other voyage expenses.

Direct vessel expenses: Direct vessel expenses, comprising of the amortization of dry dock and special survey costs of certain vessels in our fleet, amounted to $7.2 million for the year ended December 31, 2017, out of which $6.7 million related to Navios Partners vessels and $0.5 million related to Navios Containers vessels. For the year ended December 31, 2016, direct vessel expenses of Navios Partners amounted to $6.4 million.

Management fees: Management fees for the year ended December 31, 2017, increased by $8.1 million, or 13.7%, to $67.3 million, as compared to $59.2 million for the year ended December 31, 2016. The increase was mainly attributable to a: (i) $7.3 million in management fees paid to the Manager due to the increased number of owned vessels in Navios Partners fleet; (ii) $4.7 million management fees of Navios Containers for the period from April 28, 2017 (date of inception) to August 29, 2017; and (iii) $0.4 million management fees for the five Containerships, first acquired by Navios Partners from Rickmers Trust. The increase was partially mitigated by $4.2 million decrease in management fees due to the sale of the MSC Cristina in January 2017, the Navios Apollon in April 2017 and the Navios Gemini S in December 2017.

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General and administrative expenses: General and administrative expenses increased by $4.8 million, or 39.0%, to $17.2 million for the year ended December 31, 2017, as compared to $12.4 million for the year ended December 31, 2016. The increase was mainly due to a: (i) $1.8 million increase in compensation to the directors and/ or officers of the Company (see Note 10 Accrued Expenses); (ii) $1.8 million related to equity compensation expense; (iii) $0.6 million increase in administrative fees paid to the Manager due to the increased number of vessels in Navios Partners fleet; and (iv) $0.7 million general and administrative expenses from Navios Containers for the period from April 28, 2017 (date of inception) to August 29, 2017. The above increase was partially mitigated by a $0.1 million decrease in legal and professional fees, as well as audit and recurring directors fees.

For the year ended December 31, 2017 and 2016, the expenses charged by the Manager for administrative fees, including Navios Containers administrative fees for the period from April 28, 2017 (date of Navios Containers inception) to August 29, 2017 were $8.9 million and $7.8 million, respectively.

Depreciation and amortization: Depreciation and amortization amounted to $72.8 million for the year ended December 31, 2017 compared to $92.4 million for the year ended December 31, 2016. The decrease of $19.6 million was mainly attributable to a: (i) $20.5 million accelerated amortization and $3.5 million decrease in amortization of the Navios Luz and the Navios Buena Ventura favorable lease intangibles which were written off during the third quarter of 2016; and (ii) $3.2 million decrease in depreciation expense due to the sale of the MSC Cristina in January 2017, the Navios Apollon in April 2017 and the Navios Gemini S in December 2017. The above decrease was partially mitigated by a: (i) $4.8 million amortization expense of Navios Containers intangibles for the period from April 28, 2017 (date of inception) to August 29, 2017; (ii) $0.6 million increase in depreciation expense due to the delivery of the Navios Beaufiks in the fourth quarter of 2016; (iii) $1.0 million increase in depreciation expense due to the delivery of the Navios Prosperity I and the Navios Ace in the second quarter of 2017; (iv) $1.8 million increase in depreciation expense due to the delivery of the Navios Libertas, the Navios Sol, the Navios Christine B, the Navios Aster and the Navios Symphony in the third quarter of 2017; (v) $0.8 million increase in amortization of the intangibles for the five Containerships, first acquired by Navios Partners from Rickmers Trust; and (vi) $0.1 million depreciation expense of the Navios Containers vessels for the period from April 28, 2017 (date of inception) to August 29, 2017. Depreciation of vessels is calculated using an estimated useful life of 25 and 30 years for drybulk and container vessels, respectively, from the date the vessel was originally delivered from the shipyard. Intangible assets are amortized over the contract periods, which range from one to twelve years, at inception.

Vessel impairment losses: During the year ended December 31, 2017, Navios Partners recognized: (i) an impairment loss of $30.3 million for one of its vessels; and (ii) an impairment loss of $2.4 million related to the sale of the Navios Gemini S which was completed on December 21, 2017. During the year ended December 31, 2016, Navios Partners recognized: (i) an impairment loss of $17.2 million related to the sale of the MSC Cristina, which was held for sale as of December 31, 2016; and (ii) an impairment loss of $10.0 million related to the sale of the Navios Apollon which was completed on April 21, 2017 (see Note 7 Vessels, net).

Loss on sale of securities: A loss of $19.4 million was recorded in relation to the loss on sale of the HMM securities as of December 31, 2016 (see Note 19 Notes Receivable).

Interest expense and finance cost, net: Interest expense and finance cost, net for the year ended December 31, 2017 increased by $7.0 million, or 22.3%, to $38.2 million, as compared to $31.2 million for the year ended December 31, 2016. The increase was mainly due to: (i) the increase in the Navios Partners weighted average interest rate of 5.76% for the year ended December 31, 2017 as compared to 4.67% for the same period in 2016; and (ii) $0.6 million interest expense and finance cost, net from Navios Containers. The increase was partially mitigated by the decrease of the Navios Partners average loan balance to $478.1 million for the year ended December 31, 2017 as compared to $558.1 million for the same period of 2016. As of December 31, 2017 and 2016, the outstanding loan balance under Navios Partners credit facilities was $499.8 million and $526.6 million, respectively.

Interest income: Interest income increased by $2.7 million to $3.3 million for the year ended December 31, 2017, as compared to $0.5 million for the year ended December 31, 2016. The increase of $2.7 million was mainly attributable to a: (i) $1.3 million increase of the interest income accrued under the loans granted to Navios Europe I and Navios Europe II; (ii) $0.2 million increase in 3.0% interest in relation to the HMM notes receivable (see Note 19 Notes Receivable); (iii) $1.0 million increase in 6.0% interest in relation to the MSC Cristina note receivable (see Note 19 Notes Receivable); and (iv) $0.2 million increase of the interest income accrued under the long-term note receivable from Navios Holdings in relation to the transfer of its rights on the Navios Europe I Navios Term Loans I and Navios Revolving Loans I to Navios Partners (see Note 18 Transactions with related parties and affiliates).

Gain on change in control: A gain on change in control amounted to $4.1 million for the year ended December 31, 2017 which is equal to the fair value of the Company s investment in Navios Containers of $30.0 million (including the cash paid for retaining a 39.9%) less the Company s 59.7% interest in Navios Containers net assets of approximately $43.5 million on August 29, 2017 (see Note 3 Acquisition/Deconsolidation).

Other income: Other income for the year ended December 31, 2017 amounted to $9.9 million compared to $14.5 million for the year ended December 31, 2016. The decrease was mainly attributable to a: (i) $2.0 million decrease in relation to the claims submitted under the Navios Holdings Guarantee agreement; and (ii) $2.1 million gain on debt repayment in relation to the prepayment of the July 2012 Credit Facility on November 10, 2016.

Other expense: Other expense increased by $0.9 million to $5.1 million for the year ended December 31, 2017, as compared to $4.3 million for the year ended December 31, 2016. The increase of $0.9 million was mainly attributable to: (i) $1.5 million allowance for doubtful accounts; and (ii) $1.3 million loss related to the disposal of the MSC Cristina. The increase was partially mitigated by a $1.9 million decrease in other miscellaneous expenses.

Equity in net earnings of affiliated companies: Equity net earnings of affiliated companies amounted to $0.9 million for the year ended December 31, 2017. The amount of $0.9 million mainly consisted of: a (i) $0.1 million loss related to the investment in Navios Europe I; (ii) a $0.1 million income related to the investment in Navios Europe II; and (iii) a $0.9 million income related to the investment in Navios Containers.

Net loss: Net loss for the year ended December 31, 2017 amounted to $14.8 million compared to $52.5 million for the year ended December 31, 2016. The decrease in net loss of $37.7 million was due to the factors discussed above.

Net income attributable to the noncontrolling interest: Net income attributable to the noncontrolling interest amounted to $0.2 million for the period from April 28, 2017 (date of Navios Containers inception) to August 29, 2017.

Operating surplus: Navios Partners generated an Operating Surplus for the year ended December 31, 2017 of $92.6 million, as compared to $85.0 million for the year ended December 31, 2016. Operating Surplus is a non-GAAP financial measure used by certain investors to assist in evaluating a partnership s ability to make quarterly cash distributions (See Reconciliation of EBITDA and Adjusted EBITDA to Net Cash from Operating Activities, EBITDA and Operating Surplus contained herein).

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Seasonality: Since Navios Partners vessels generally operate under long-term charters, the results of operations are not generally subject to the effect of seasonable variations in demand.

B. Liquidity and Capital Resources

Credit facilities

As of December 31, 2018, the total borrowings, net of deferred finance fees and discount under the Navios Partners credit facilities were $507.5 million.

Term Loan B Facility: In June 2013, Navios Partners completed the issuance of the $250.0 million Term Loan B Facility. On October 31, 2013 and November 1, 2013, Navios Partners completed the issuance of a $189.5 million add-on to its existing Term Loan B Facility.

During 2016, Navios Partners prepaid $25.0 million of the Term Loan B Facility. The prepayment was fully applied to the balloon payment. Following the prepayment of May 2016, an amount of $0.2 million was written-off from the deferred finance fees.

On March 14, 2017, Navios Partners completed the issuance of a new $405.0 million Term Loan B Facility. The new Term Loan B Facility bears an interest rate of LIBOR plus 500 bps, it is set to mature on September 14, 2020 and is repayable in equal quarterly installments of 1.25% of the initial principal amount. Navios Partners used the net proceeds of the Term Loan B Facility to: (i) refinance the existing Term Loan B; and (ii) pay fees and expenses related to the Term Loan B. Following the refinancing of the Term Loan B Facility, an amount of $1.9 million and $1.3 million was written-off from the deferred finance fees and discount, respectively. On August 10, 2017, Navios Partners completed the issuance of a $53.0 million add-on to its existing Term Loan B Facility. The add-on to the Term Loan B Facility bore the same terms as the Term Loan B Facility. Navios Partners used the net proceeds to partially finance the acquisition of three vessels.

The Term Loan B Facility is secured by first priority mortgages covering certain vessels owned by subsidiaries of Navios Partners, in addition to other collateral and guaranteed by each subsidiary of Navios Partners. During the year ended December 31, 2018, four drybulk vessels were released from security of the Term Loan B Facility and in exchange, five drybulk vessels and $2.0 million in cash substituted the released vessels, as collateral to the Term Loan B Facility.

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(768
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Municipal bonds
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2

1,073

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Mutual funds
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43,037

$
(1,108
)

28

$
324,941

$
(2,115
)

* Investments in U.S. Government agency and U.S. Government sponsored enterprises

Description of Securities	As of December 31, 2015								
	Less than 12 months			12 months or longer			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
	(In thousands)								
Collateralized mortgage obligations*	31	$ 300,202	$ (2,611)	8	$ 70,857	$ (2,344)	39	$ 371,059	$ (4,955)
Mortgage-backed securities*	28	247,160	(1,487)	3	27,947	(1,358)	31	275,107	(2,845)
Corporate securities	—	—	—	1	3,750	(796)	1	3,750	(796)
Municipal bonds	1	127	—	—	—	—	1	127	—
Mutual funds	1	13,269	(156)	—	—	—	1	13,269	(156)
	61	$ 560,758	$ (4,254)	12	$ 102,554	$ (4,498)	73	$ 663,312	$ (8,752)

* Investments in U.S. Government agency and U.S. Government sponsored enterprises

The Company evaluates securities for other-than-temporary-impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair values of the securities have been less than the cost of the securities, and management's intention to sell, or whether it is more likely than not that management will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer's financial condition, the Company considers, among other considerations, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

The Company has certain collateralized mortgage obligations, mortgage-backed securities, and corporate securities that were in a continuous unrealized loss position for twelve months or longer as of September 30, 2016. The corporate securities at September 30, 2016 had a total amortized cost of $19.6 million and an unrealized loss of $768 thousand at September 30, 2016. The last of the corporate securities are scheduled to mature in May 2047. These securities were rated investment grade and there were no credit quality concerns with the issuer. The collateralized mortgage obligations and mortgage-backed securities in a continuous loss position for twelve months or longer had an unrealized loss of $340 thousand and $0 thousand, respectively at September 30, 2016. These securities were issued by U.S. Government agency and U.S. Government sponsored enterprises and have high credit ratings of "AA" grade or better. Interest on the corporate securities and the U.S. Government agency and U.S. Government sponsored enterprise investments have been paid as agreed, and management believes this will continue in the future and that the securities will be repaid in full as scheduled. The market value declines for these securities were primarily due to movements in interest rates and are not reflective of management's expectations of the Company's ability to fully recover these investments, which may be at maturity. For these reasons, no OTTI was recognized on the corporate securities and the U.S. Government agency and U.S. Government sponsored collateralized mortgage obligations and mortgage-backed securities that were in an unrealized loss position at September 30, 2016.

The Company considers the losses on the investments in unrealized loss positions at September 30, 2016 to be temporary based on: 1) the likelihood of recovery; 2) the information relative to the extent and duration of the decline in market value; and 3) the Company's intention not to sell, and management's determination that it is more likely than not that the Company will not be required to sell a security in an unrealized loss position before recovery of its amortized cost basis.

7. Loans Receivable and Allowance for Loan Losses

The following is a summary of loans receivable by major category:

	September 30, 2016	December 31, 2015
	(In thousands)	
Loan portfolio composition		
Real estate loans:		
Residential	$60,280	$33,797
Commercial & industrial	7,887,734	4,912,655
Construction	210,857	123,030
Total real estate loans	8,158,871	5,069,482
Commercial business	1,829,785	980,153
Trade finance	182,128	99,163
Consumer and other	392,608	102,573
Total loans outstanding	10,563,392	6,251,371
Deferred loan fees	(2,195)	(3,030)
Loans receivable	10,561,197	6,248,341
Allowance for loan losses	(79,976)	(76,408)
Loans receivable, net of allowance for loan losses	$10,481,221	$6,171,933

The loan portfolio is made up of four segments: real estate loans, commercial business, trade finance and consumer and other. These segments are further segregated between loans accounted for under the amortized cost method (“Legacy Loans”) and previously acquired loans that were originally recorded at fair value with no carryover of the related pre-acquisition allowance for loan losses (“Acquired Loans”). Acquired Loans are further segregated between Purchased Credit Impaired Loans (loans with credit deterioration on the acquisition date and accounted for under ASC 310-30, or “PCIs”) and Acquired Performing Loans (loans that were pass graded on the acquisition date and the fair value adjustment is amortized over the contractual life under ASC 310-20, or “non-PCIs”).

The following table presents changes in the accretable discount on the PCI loans for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	$20,150	$21,389	$23,777	$24,051
Additions due to acquisitions during the period	8,713	—	8,713	—
Accretion	(2,630)	(2,978)	(8,133)	(9,211)
Changes in expected cash flows	40	7,042	1,916	10,613
Balance at end of period	$26,273	$25,453	$26,273	$25,453

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the PCI loans is the “accretable yield.” The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. The accretable yield will change from period to period due to the following: 1) estimates of the remaining life of acquired loans will affect the amount of future interest income; 2) indices for variable rates of interest on PCI loans may change; and 3) estimates of the amount of the contractual principal and interest that will not be collected (nonaccretable difference) may change.

The following tables detail the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2016 and 2015:

	Legacy				Acquired				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Three Months Ended September 30, 2016									
Balance, beginning of period	$43,666	$ 16,576	$2,449	$ 926	$12,607	$ 148	$ —	$ 53	$76,425
Provision (credit) for loan losses	(2,474)	7,444	(32)	970	527	72	—	(7)	6,500
Loans charged off	(132)	(3,219)	—	(162)	(435)	(10)	—	—	(3,958)
Recoveries of charge offs	432	539	—	2	8	27	—	1	1,009
Balance, end of period	$41,492	$ 21,340	$2,417	$ 1,736	$12,707	$ 237	$ —	$ 47	$79,976
Nine Months Ended September 30, 2016									
Balance, beginning of period	$42,829	$ 16,332	$3,592	$ 556	$12,823	$ 214	$ —	$ 62	$76,408
Provision (credit) for loan losses	(2,318)	9,792	(1,175)	1,370	633	(82)	—	(20)	8,200
Loans charged off	(151)	(5,845)	—	(278)	(758)	(43)	—	—	(7,075)
Recoveries of charge offs	1,132	1,061	—	88	9	148	—	5	2,443
Balance, end of period	$41,492	$ 21,340	$2,417	$ 1,736	$12,707	$ 237	$ —	$ 47	$79,976

	Legacy				Acquired				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Three Months Ended September 30, 2015									
Balance, beginning of period	$36,996	$ 15,778	$1,760	$ 1,029	$13,991	$ 500	$ —	$ 64	$70,118
Provision (credit) for loan losses	2,261	(266)	(86)	(470)	(729)	(110)	—	—	600
Loans charged off	(29)	(802)	(300)	(616)	(11)	(14)	—	(7)	(1,779)
Recoveries of charge offs	383	1,083	—	479	163	58	—	5	2,171
Balance, end of period	$39,611	$ 15,793	$1,374	$ 422	$13,414	$ 434	$ —	$ 62	$71,110
Nine Months Ended September 30, 2015									
Balance, beginning of period	$38,775	$ 15,986	$3,456	$ 427	$8,573	$ 485	$ —	$ 56	$67,758
Provision (credit) for loan losses	(136)	(1,038)	(794)	50	4,861	152	—	5	3,100
Loans charged off	(272)	(1,701)	(1,288)	(629)	(183)	(271)	—	(11)	(4,355)
Recoveries of charge offs	1,244	2,546	—	574	163	68	—	12	4,607

Balance, end of period	$39,611	$ 15,793	$1,374	$ 422	$13,414	$ 434	$	—	$ 62	$71,110

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The following tables disaggregate the allowance for loan losses and the loans outstanding by impairment methodology and general valuation methodology at September 30, 2016 and December 31, 2015:

	September 30, 2016								
	Legacy				Acquired				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	$1,916	$5,397	$1,413	$61	$107	$195	$—	$—	$9,089
Collectively evaluated for impairment	39,576	15,943	1,004	1,675	548	42	—	47	58,835
PCI loans	—	—	—	—	12,052	—	—	—	12,052
Total	$41,492	$21,340	$2,417	$1,736	$12,707	$237	$—	$47	$79,976
Loans outstanding:									
Individually evaluated for impairment	$62,609	$40,321	$8,439	$1,047	$14,153	$1,106	$—	$436	$128,111
Collectively evaluated for impairment	5,203,707	1,043,856	81,681	153,399	2,671,162	670,823	86,401	221,310	10,132,339
PCI loans	—	—	—	—	207,239	73,679	5,608	16,416	302,942
Total	$5,266,316	$1,084,177	$90,120	$154,446	$2,892,554	$745,608	$92,009	$238,162	$10,563,392

	December 31, 2015								
	Legacy				Acquired				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	$1,663	$4,188	$2,603	$—	$225	$128	$—	$—	$8,807
Collectively evaluated for impairment	41,166	12,144	989	556	616	86	—	62	55,619
PCI loans	—	—	—	—	11,982	—	—	—	11,982
Total	$42,829	$16,332	$3,592	$556	$12,823	$214	$—	$62	$76,408
Loans outstanding:									
Individually evaluated for impairment	$63,376	$40,352	$12,548	$812	$19,109	$1,235	$—	$658	$138,090
Collectively evaluated for impairment	4,717,300	896,041	86,615	60,570	200,753	22,660	—	20,533	6,004,472
PCI loans	—	—	—	—	68,944	19,865	—	20,000	108,809
Total	$4,780,676	$936,393	$99,163	$61,382	$288,806	$43,760	$—	$41,191	$6,251,371

As of September 30, 2016 and December 31, 2015, the reserve for unfunded commitments recorded in other liabilities was $2.8 million and $2.0 million, respectively. For the three months ended September 30, 2016 and 2015, the recognized provisions for credit losses related to unfunded commitments was $270 thousand and $220 thousand, respectively. For the nine months ended September 30, 2016 and 2015, the recognized provision for credit losses (benefits) related to unfunded commitments was $(191) thousand and $74 thousand, respectively.

The recorded investment in individually impaired loans was as follows:

	September 30, 2016	December 31, 2015
	(In thousands)	
With allocated allowance		
Without charge off	$68,989	$ 77,922
With charge off	1,124	155
With no allocated allowance		
Without charge off	54,877	57,585
With charge off	3,121	2,428
Allowance on impaired loans	(9,089)	(8,807)
Impaired loans, net of allowance	$119,022	$ 129,283

The following tables detail impaired loans (legacy and acquired loans that became impaired subsequent to being acquired) as of September 30, 2016 and December 31, 2015, for the three and nine months ended September 30, 2016 and 2015, and for the year ended December 31, 2015. Loans with no related allowance for loan losses are believed by management to have adequate collateral securing their carrying value.

	As of September 30, 2016			For the Nine Months Ended September 30, 2016		For the Three Months Ended September 30, 2016	
Total Impaired Loans	Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment*	Interest Income Recognized during Impairment	Average Recorded Investment*	Interest Income Recognized during Impairment
	(In thousands)						
With related allowance:							
Real estate—residential	$—	$ —	$ —	$—	$ —	$—	$ —
Real estate—commercial							
Retail	2,004	2,289	81	1,711	—	1,711	—
Hotel & motel	1,315	1,315	115	2,965	48	1,320	16
Gas station & car wash	1,046	1,058	292	1,051	28	1,052	9
Mixed use	207	734	26	386	5	208	2
Industrial & warehouse	537	537	—	551	18	542	6
Other	22,755	23,000	1,509	23,968	776	23,474	259
Real estate—construction	—	—	—	—	—	—	—
Commercial business	33,409	34,068	5,592	34,147	821	32,553	296
Trade finance	8,439	8,468	1,413	8,390	237	6,465	70
Consumer and other	401	401	61	338	2	548	1
	$70,113	$ 71,870	$ 9,089	$73,507	$ 1,935	$67,873	$ 659
With no related allowance:							
Real estate—residential	$—	$ —	$ —	$—	$ —	$—	$ —
Real estate—commercial							
Retail	9,610	10,082	—	10,243	296	9,381	95
Hotel & motel	9,815	14,201	—	8,813	163	9,776	54
Gas station & car wash	4,750	7,327	—	4,760	75	4,855	25
Mixed use	2,075	2,354	—	2,279	28	2,195	9
Industrial & warehouse	10,703	11,027	—	10,396	268	10,905	89
Other	10,645	12,214	—	11,312	177	9,912	59

Real estate—construction	1,300	1,441	—	1,328	—	1,300	—
Commercial business	8,018	10,247	—	11,030	79	13,111	26
Trade finance	—	—	—	1,113	—	2,225	—
Consumer and other	1,082	1,142	—	1,014	23	800	7
	$57,998	$ 70,035	$ —	$62,288	$ 1,109	$64,460	$ 364
Total	$128,111	$ 141,905	$ 9,089	$135,795	$ 3,044	$132,333	$ 1,023

* Unpaid contractual principal balance less charge offs, interest applied to principal and purchase discounts.

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Total Impaired Loans	For the Nine Months Ended September 30, 2015		For the Three Months Ended September 30, 2015	
	Average Recorded Investment*	Interest Income Recognized during Impairment	Average Recorded Investment*	Interest Income Recognized during Impairment
	(In thousands)			
With related allowance:				
Real estate—residential	$—	$ —	$—	$ —
Real estate—commercial				
Retail	3,767	42	3,128	14
Hotel & motel	11,966	378	11,440	126
Gas station & car wash	1,535	44	1,711	15
Mixed use	481	—	481	—
Industrial & warehouse	4,467	127	4,418	42
Other	9,581	409	10,317	137
Real estate—construction	—	—	—	—
Commercial business	31,856	925	29,856	304
Trade finance	4,625	159	4,741	51
Consumer and other	157	—	307	—
	$68,435	$ 2,084	$66,399	$ 689
With no related allowance:				
Real estate—residential	$—	$ —	$—	$ —
Real estate—commercial				
Retail	10,648	348	10,503	117
Hotel & motel	6,171	30	6,421	10
Gas station & car wash	3,668	50	4,091	17
Mixed use	2,373	28	2,953	9
Industrial & warehouse	10,491	235	9,064	79
Other	8,382	133	8,143	45
Real estate—construction	1,099	—	698	—
Commercial business	8,387	186	8,817	59
Trade finance	1,232	—	827	—
Consumer and other	1,138	20	1,191	7
	$53,589	$ 1,030	$52,708	$ 343
Total	$122,024	$ 3,114	$119,107	$ 1,032

*Unpaid contractual principal balance less charge offs, interest applied to principal and purchase discounts.

Impaired acquired loans	As of September 30, 2016			For the Nine Months Ended September 30, 2016		For the Three Months Ended September 30, 2016	
	Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment*	Interest Income Recognized during Impairment	Average Recorded Investment*	Interest Income Recognized during Impairment
	(In thousands)						
With related allowance:							
Real estate—residential	$—	$ —	$ —	$—	$ —	$—	$ —
Real estate—commercial							
Retail	1,734	2,019	73	1,277	—	1,386	—
Hotel & motel	—	—	—	—	—	—	—
Gas station & car wash	—	—	—	254	—	—	—
Mixed use	138	138	2	316	5	139	2
Industrial & warehouse	—	—	—	—	—	—	—
Other	341	346	32	324	13	344	4
Real estate—construction	—	—	—	—	—	—	—
Commercial business	366	412	195	486	—	396	—
Trade finance	—	—	—	—	—	—	—
Consumer and other	—	—	—	40	—	80	—
	$2,579	$ 2,915	$ 302	$2,697	$ 18	$2,345	$ 6
With no related allowance:							
Real estate—residential	$—	$ —	$ —	$—	$ —	$—	$ —
Real estate—commercial							
Retail	1,707	1,748	—	2,333	72	2,095	21
Hotel & motel	4,911	7,253	—	5,933	10	4,983	3
Gas station & car wash	1,586	1,824	—	1,490	75	1,589	25
Mixed use	61	73	—	219	—	166	—
Industrial & warehouse	991	1,251	—	1,075	7	1,038	2
Other	2,684	5,284	—	3,520	39	3,215	13
Real estate—construction	—	—	—	—	—	—	—
Commercial business	740	1,122	—	690	13	707	4
Trade finance	—	—	—	—	—	—	—
Consumer and other	436	487	—	459	7	361	2
	$13,116	$ 19,042	$ —	$15,719	$ 223	$14,154	$ 70
Total	$15,695	$ 21,957	$ 302	$18,416	$ 241	$16,499	$ 76

* Unpaid contractual principal balance less charge offs, interest applied to principal and purchase discounts.

Impaired acquired loans	For the Nine Months Ended September 30, 2015		For the Three Months Ended September 30, 2015	
	Average Recorded Investment*	Interest Income Recognized during Impairment	Average Recorded Investment*	Interest Income Recognized during Impairment
	(In thousands)			
With related allowance:				
Real estate—residential	$—	$ —	$—	$ —
Real estate—commercial				
Retail	2,001	42	1,875	14
Hotel & motel	—	—	—	—
Gas station & car wash	1,303	44	1,368	15
Mixed use	352	—	352	—
Industrial & warehouse	90	—	—	—
Other	920	12	799	4
Real estate—construction	—	—	—	—
Commercial business	697	12	682	4
Trade finance	—	—	—	—
Consumer and other	—	—	—	—
	$5,363	$ 110	$5,076	$ 37
With no related allowance:				
Real estate—residential	$—	$ —	$—	$ —
Real estate—commercial				
Retail	2,215	79	2,060	26
Hotel & motel	5,608	15	5,661	5
Gas station & car wash	516	18	512	6
Mixed use	195	—	278	—
Industrial & warehouse	1,311	7	1,142	2
Other	4,234	47	3,977	16
Real estate—construction	—	—	—	—
Commercial business	948	45	875	12
Trade finance	—	—	—	—
Consumer and other	622	5	621	2
	$15,649	$ 216	$15,126	$ 69
Total	$21,012	$ 326	$20,202	$ 106

* Unpaid contractual principal balance less charge offs, interest applied to principal and purchase discounts.

Total Impaired Loans	As of December 31, 2015			For the Year Ended December 31, 2015	
	Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment*	Interest Income Recognized during Impairment
	(In thousands)				
With related allowance:					
Real estate—residential	$—	$—	$ —	$—	$ —
Real estate—commercial					
Retail	1,871	1,984	230	3,388	—
Hotel & motel	4,697	4,707	158	10,512	230
Gas station & car wash	1,569	1,625	47	1,542	59
Mixed use	564	1,087	13	498	9
Industrial & warehouse	563	563	—	3,686	25
Other	24,603	24,851	1,440	12,585	1,110
Real estate—construction	—	—	—	—	—
Commercial business	31,527	31,832	4,316	31,790	998
Trade finance	12,548	12,548	2,603	6,209	527
Consumer and other	135	135	—	153	7
	$78,077	$ 79,332	$ 8,807	$70,363	$ 2,965
With no related allowance:					
Real estate—residential	$—	$—	$ —	$—	$ —
Real estate—commercial					
Retail	11,305	12,051	—	10,779	464
Hotel & motel	7,592	10,180	—	6,455	93
Gas station & car wash	3,754	6,435	—	3,685	107
Mixed use	2,382	2,604	—	2,375	51
Industrial & warehouse	8,967	10,608	—	10,186	254
Other	13,250	14,234	—	9,355	362
Real estate—construction	1,369	1,470	—	1,153	—
Commercial business	10,059	12,063	—	8,722	345
Trade finance	—	—	—	986	—
Consumer and other	1,335	1,431	—	1,177	26
	$60,013	$ 71,076	$ —	$54,873	$ 1,702
Total	$138,090	$ 150,408	$ 8,807	$125,236	$ 4,667

*Unpaid contractual principal balance less charge offs, interest applied to principal and purchase discounts.

Impaired acquired loans	As of December 31, 2015			For the Year Ended December 31, 2015	
	Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment*	Interest Income Recognized during Impairment
	(In thousands)				
With related allowance:					
Real estate—residential	$—	$ —	$ —	$—	$ —
Real estate—commercial					
Retail	1,171	1,173	197	1,835	—
Hotel & motel	—	—	—	—	—
Gas station & car wash	1,017	1,062	6	1,246	59
Mixed use	494	491	5	380	9
Industrial & warehouse	—	—	—	72	—
Other	306	306	17	797	16
Real estate—construction	—	—	—	—	—
Commercial business	566	645	128	671	15
Trade finance	—	—	—	—	—
Consumer and other	—	—	—	—	—
	$3,554	$ 3,677	$ 353	$5,001	$ 99
With no related allowance:					
Real estate—residential	$—	$ —	$ —	$—	$ —
Real estate—commercial					
Retail	2,642	2,756	—	2,301	105
Hotel & motel	7,014	9,303	—	5,889	73
Gas station & car wash	1,188	1,299	—	651	64
Mixed use	273	282	—	210	13
Industrial & warehouse	1,127	1,298	—	1,275	9
Other	3,876	4,615	—	4,162	53
Real estate—construction	—	—	—	—	—
Commercial business	668	1,039	—	892	55
Trade finance	—	—	—	—	—
Consumer and other	658	748	—	629	7
	$17,446	$ 21,340	$ —	$16,009	$ 379
Total	$21,000	$ 25,017	$ 353	$21,010	$ 478

* Unpaid contractual principal balance less charge offs, interest applied to principal and purchase discounts.

Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due and/or management deems the collectibility of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer whose financial condition has deteriorated are considered for nonaccrual status whether or not the loan is 90 days or more past due. Generally, payments received on nonaccrual loans are recorded as principal reductions. Loans are returned to accrual status only when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The following tables present past due loans by the number of days past due as of September 30, 2016 and December 31, 2015 by class of loans:

	As of September 30, 2016					
	Past Due and Accruing					
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total	Nonaccrual Loans [2]	Total Delinquent Loans
	(In thousands)					
Legacy Loans:						
Real estate—residential	$—	$ —	$ —	$—	$ —	$ —
Real estate—commercial						
Retail	729		—	729	1,923	2,652
Hotel & motel	—	388	—	388	973	1,361
Gas station & car wash	—	—	—	—	3,382	3,382
Mixed use	—	—	—	—	1,327	1,327
Industrial & warehouse	106	—	—	106	1,944	2,050
Other	1,291	164	—	1,455	4,290	5,745
Real estate—construction	—	—	—	—	1,300	1,300
Commercial business	985	460	—	1,445	11,608	13,053
Trade finance	359	—	—	359	3,275	3,634
Consumer and other	110	88	192	390	531	921
Subtotal	$3,580	$ 1,100	$ 192	$4,872	$ 30,553	$ 35,425
Acquired Loans: [1]						
Real estate—residential	$—	$ —	$ —	$—	$ —	$ —
Real estate—commercial						
Retail	1,730	—	—	1,730	1,781	3,511
Hotel & motel	—	—	—	—	4,643	4,643
Gas station & car wash	—	1,007	—	1,007	(123)	884
Mixed use	—	—	—	—	61	61
Industrial & warehouse	435	—	—	435	857	1,292
Other	589	—	—	589	1,697	2,286
Real estate—construction	—	—	—	—	—	—
Commercial business	696	162	—	858	859	1,717
Trade finance	—	—	—	—	—	—
Consumer and other	—	—	—	—	274	274
Subtotal	$3,450	$ 1,169	$ —	$4,619	$ 10,049	$ 14,668
TOTAL	$7,030	$ 2,269	$ 192	$9,491	$ 40,602	$ 50,093

[1] The Acquired Loans exclude PCI loans.

[2] Nonaccrual loans exclude the guaranteed portion of delinquent SBA loans that are in liquidation totaling $14.1 million.

	As of December 31, 2015					
	Past Due and Accruing					
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total	Nonaccrual Loans [2]	Total Delinquent Loans
	(In Thousands)					
Legacy Loans:						
Real estate—residential	$—	$ —	$ —	$—	$ —	$ —
Real estate—commercial						
Retail	574	—	—	574	2,383	2,957
Hotel & motel	854	—	—	854	318	1,172
Gas station & car wash	—	640	330	970	2,418	3,388
Mixed use	—	—	—	—	1,407	1,407
Industrial & warehouse	—	110	—	110	2,275	2,385
Other	—	—	—	—	2,930	2,930
Real estate—construction	—	—	—	—	1,369	1,369
Commercial business	905	770	—	1,675	13,393	15,068
Trade finance	—	—	—	—	1,731	1,731
Consumer and other	770	158	45	973	245	1,218
Subtotal	$3,103	$ 1,678	$ 375	$5,156	$ 28,469	$ 33,625
Acquired Loans: [1]						
Real estate—residential	$—	$ —	$ —	$—	$ —	$ —
Real estate—commercial						
Retail	2,572	—	—	2,572	2,113	4,685
Hotel & motel	—	—	—	—	5,072	5,072
Gas station & car wash	—	—	—	—	—	—
Mixed use	—	—	—	—	415	415
Industrial & warehouse	—	—	—	—	990	990
Other	—	—	—	—	2,684	2,684
Real estate—construction	—	—	—	—	—	—
Commercial business	310	39	—	349	476	825
Trade finance	—	—	—	—	—	—
Consumer and other	287	—	—	287	582	869
Subtotal	$3,169	$ 39	$ —	$3,208	$ 12,332	$ 15,540
TOTAL	$6,272	$ 1,717	$ 375	$8,364	$ 40,801	$ 49,165

[1] The Acquired Loans exclude PCI loans.

[2] Nonaccrual loans exclude guaranteed portion of delinquent SBA loans that are in liquidation totaling $18.7 million.

Loans accounted for under ASC 310-30 are generally considered accruing and performing loans and the accretable discount is accreted to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due are still considered to be accruing and performing loans. The loans may be classified as nonaccrual if the timing and amount of future cash flows is not reasonably estimable. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including, but not limited to, current financial information, historical payment experience, credit documentation, public information, and current economic trends. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all non-homogeneous loans. This analysis is performed at least on a quarterly basis. The definitions for risk ratings are as follows:

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Pass: Loans that meet a preponderance or more of the Company's underwriting criteria and evidence an acceptable level of risk.

- Special Mention: Loans that have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

- Substandard: Loans that are inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. Loans in this classification have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful/Loss: Loans that have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following tables present the risk rating for Legacy and Acquired Loans as of September 30, 2016 and December 31, 2015 by class of loans:

	As of September 30, 2016				
	Pass	Special Mention	Substandard	Doubtful/Loss	Total
	(In thousands)				
Legacy Loans:					
Real estate—residential	$32,124	$2,901	$ —	$ —	$35,025
Real estate—commercial					
Retail	1,279,197	14,325	13,372	—	1,306,894
Hotel & motel	1,182,036	12,436	7,513	—	1,201,985
Gas station & car wash	651,456	8,430	3,381	—	663,267
Mixed use	364,631	613	1,491	—	366,735
Industrial & warehouse	477,787	29,041	14,435	—	521,263
Other	951,764	32,444	34,106	—	1,018,314
Real estate—construction	139,148	12,385	1,300	—	152,833
Commercial business	995,315	49,615	39,106	141	1,084,177
Trade finance	74,780	5,951	9,389	—	90,120
Consumer and other	153,153	148	845	300	154,446
Subtotal	$6,301,391	$168,289	$ 124,938	$ 441	$6,595,059
Acquired Loans:					
Real estate—residential	$23,432	$1,822	$ —	$ —	$25,254
Real estate—commercial					
Retail	782,362	14,871	16,021	—	813,254
Hotel & motel	338,076	10,466	17,160	—	365,702
Gas station & car wash	256,208	7,618	12,024	—	275,850
Mixed use	120,890	8,654	9,262	8	138,814
Industrial & warehouse	338,183	35,762	11,406	338	385,689
Other	780,525	19,940	29,503	—	829,968
Real estate—construction	58,023	—	—	—	58,023
Commercial business	680,304	40,310	24,612	382	745,608
Trade finance	86,402	163	5,444	—	92,009
Consumer and other	229,435	998	5,966	1,763	238,162
Subtotal	$3,693,840	$140,604	$ 131,398	$ 2,491	$3,968,333
Total	$9,995,231	$308,893	$ 256,336	$ 2,932	$10,563,392

	As of December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful/Loss	Total
	(In thousands)				
Legacy Loans:					
Real estate—residential	$32,543	$465	$ —	$ —	$33,008
Real estate—commercial					
Retail	1,168,844	25,686	14,838	—	1,209,368
Hotel & motel	1,009,493	789	5,937	—	1,016,219
Gas station & car wash	610,749	6,192	3,758	—	620,699
Mixed use	326,902	1,191	2,610	—	330,703
Industrial & warehouse	461,938	10,099	11,966	—	484,003
Other	913,304	15,805	34,537	—	963,646
Real estate—construction	121,661	—	1,369	—	123,030
Commercial business	875,989	21,886	38,505	13	936,393
Trade finance	82,797	3,818	12,548	—	99,163
Consumer and other	60,549	14	812	7	61,382
Subtotal	$5,664,769	$85,945	$ 126,880	$ 20	$5,877,614
Acquired Loans:					
Real estate—residential	$508	$281	$ —	$ —	$789
Real estate—commercial					
Retail	91,076	2,364	14,926	—	108,366
Hotel & motel	21,306	4,339	13,835	—	39,480
Gas station & car wash	22,231	356	6,548	—	29,135
Mixed use	14,195	6,382	3,762	—	24,339
Industrial & warehouse	31,606	1,361	4,708	378	38,053
Other	38,311	366	9,967	—	48,644
Real estate—construction	—	—	—	—	—
Commercial business	27,413	1,149	14,835	363	43,760
Trade finance	—	—	—	—	—
Consumer and other	32,194	1,643	5,901	1,453	41,191
Subtotal	$278,840	$18,241	$ 74,482	$ 2,194	$373,757
Total	$5,943,609	$104,186	$ 201,362	$ 2,214	$6,251,371

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Reclassification to held for sale	(In thousands)			
Real estate - Commercial	$992	$—	$992	$685
Real estate - Construction	—	—	—	—
Commercial Business	—	—	—	—
Consumer	—	5,108	400	6,196
Total	$992	$5,108	$1,392	$6,881

The adequacy of the allowance for loan losses is determined by management based upon an evaluation and review of the credit quality of the loan portfolio, consideration of historical loan loss experience, relevant internal and external factors that affect the collection of a loan, and other pertinent factors.

Migration analysis is a formula methodology derived from the Bank's actual historical net charge off experience for each loan class (type) pool and risk grade. The migration analysis ("Migration Analysis") is centered on the Bank's internal credit risk rating system. Management's internal loan review and external contracted credit review examinations are used to determine and validate loan risk grades. This credit review system takes into consideration factors such as: borrower's background and experience; historical and current financial condition; credit history and payment performance; economic conditions and their impact on various industries; type, fair value and volatility of the fair value of collateral; lien position; and the financial strength of any guarantors.

A general loan loss allowance is provided on loans not specifically identified as impaired (“non-impaired loans”). The Bank’s general loan loss allowance has two components: quantitative and qualitative risk factors. The quantitative risk factors are based on a migration analysis methodology described above. The loans are classified by class and risk grade and the historical loss migration is tracked for the various classes. Loss experience is quantified for a specified period and then weighted to place more significance on the most recent loss history. That loss experience is then applied to the stratified portfolio at each quarter end. For PCI loans, a general loan loss allowance is provided to the extent that there has been credit deterioration since the date of acquisition.

Additionally, in order to systematically quantify the credit risk impact of other trends and changes within the loan portfolio, the Bank utilizes qualitative adjustments to the Migration Analysis within established parameters. The parameters for making adjustments are established under a Credit Risk Matrix that provides seven possible scenarios for each of the factors below. The matrix allows for up to three positive (Major, Moderate, and Minor), three negative (Major, Moderate, and Minor), and one neutral credit risk scenarios within each factor for each loan type pool. However, if information exists to warrant adjustment to the Migration Analysis, changes are made in accordance with the established parameters supported by narrative and/or statistical analysis. The Credit Risk Matrix and the nine possible scenarios enable the Bank to qualitatively adjust the Loss Migration Ratio by as much as 50 basis points in either direction (positive or negative) for each loan type pool. This matrix considers the following nine factors, which are patterned after the guidelines provided under the FFIEC Interagency Policy Statement on the Allowance for Loan and Lease Losses:

- Changes in lending policies and procedures, including underwriting standards and collection, charge off, and recovery practices;
- Changes in national and local economic and business conditions and developments, including the condition of various market segments;
- Changes in the nature and volume of the loan portfolio;
- Changes in the experience, ability and depth of lending management and staff;
- Changes in the trends of the volume and severity of past due loans, classified loans, nonaccrual loans, troubled debt restructurings and other loan modifications;
- Changes in the quality of our loan review system and the degree of oversight by the Directors;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- The effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated losses in our loan portfolio.

The Company also establishes specific loss allowances for loans that have identified potential credit risk conditions or circumstances related to a specific individual credit. The specific allowance amounts are determined by a method prescribed by ASC 310-10-35-22, “Measurement of Impairment.” The loans identified as impaired will be accounted for in accordance with one of the three acceptable valuation methods: 1) the present value of future cash flows discounted at the loan’s effective interest rate; 2) the loan’s observable market price; or 3) the fair value of the collateral, if the loan is collateral dependent. For the collateral dependent impaired loans, management obtains a new appraisal to determine the amount of impairment as of the date that the loan became impaired. The appraisals are based on an “as is” valuation. To ensure that appraised values remain current, management either obtains updated appraisals every twelve months from a qualified independent appraiser or an internal evaluation of the collateral is performed by qualified personnel. If the third party market data indicates that the value of the collateral property has declined since the most recent valuation date, management adjusts the value of the property downward to reflect current market conditions. If the fair value of the collateral is less than the recorded amount of the loan, management recognizes impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the underlying collateral, the loan is deemed to be collateral dependent and the amount of impairment is charged off against the allowance for loan losses.

The Company considers a loan to be impaired when it is probable that not all amounts due (principal and interest) will be collectible in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal

and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The significance of payment delays and payment shortfalls is determined on a case-by-case basis by taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

For commercial business loans, real estate loans and certain consumer loans, management bases the measurement of loan impairment on the present value of the expected future cash flows, discounted at the loan's effective interest rate or on the fair value of the loan's collateral if the loan is collateral dependent. Management evaluates most consumer loans for impairment on a

collective basis because these loans generally have smaller balances and are homogeneous in the underwriting of terms and conditions and in the type of collateral.

For PCI loans, the allowance for loan losses is based upon expected cash flows for these loans. To the extent that a deterioration in borrower credit quality results in a decrease in expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on an estimate of future credit losses over the remaining life of the loans. Provision for loan losses on acquired loans for the three months ended September 30, 2016 was $591 thousand of which $478 thousand was related to PCI loans. Provision for loan losses for the nine months ended September 30, 2016 was $531 thousand for acquired loans of which $445 thousand was related to PCI loans.

The following table presents loans by portfolio segment and impairment method at September 30, 2016 and December 31, 2015:

	As of September 30, 2016						
	Real Estate—Residential	Real Estate—Commercial	Real Estate—Construction	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)						
Impaired loans (gross carrying value)	$—	$75,462	$1,300	$41,427	$8,439	$1,483	$128,111
Specific allowance	$—	$2,023	$—	$5,592	$1,413	$61	$9,089
Loss coverage ratio	N/A	2.7 %	0.0 %	13.5 %	16.7 %	4.1 %	7.1 %
Non-impaired loans	$60,280	$7,812,272	$209,557	$1,788,358	$173,689	$391,125	$10,435,281
General allowance	$106	$50,894	$1,176	$15,985	$1,004	$1,722	$70,887
Loss coverage ratio	0.2 %	0.7 %	0.6 %	0.9 %	0.6 %	0.4 %	0.7 %
Total loans	$60,280	$7,887,734	$210,857	$1,829,785	$182,128	$392,608	$10,563,392
Total allowance for loan losses	$106	$52,917	$1,176	$21,577	$2,417	$1,783	$79,976
Loss coverage ratio	0.2 %	0.7 %	0.6 %	1.2 %	1.3 %	0.5 %	0.8 %

	As of December 31, 2015						
	Real Estate—Residential	Real Estate—Commercial	Real Estate—Construction	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)						
Impaired loans (gross carrying value)	$—	$81,117	$1,369	$41,586	$12,548	$1,470	$138,090
Specific allowance	$—	$1,888	$—	$4,316	$2,603	$—	$8,807
Loss coverage ratio	N/A	2.3 %	0.0 %	10.4 %	20.7 %	0.0 %	6.4 %
Non-impaired loans	$33,797	$4,831,538	$121,661	$938,567	$86,615	$101,103	$6,113,281
General allowance	$230	$52,617	$917	$12,231	$989	$617	$67,601
Loss coverage ratio	0.7 %	1.1 %	0.8 %	1.3 %	1.1 %	0.6 %	1.1 %
Total loans	$33,797	$4,912,655	$123,030	$980,153	$99,163	$102,573	$6,251,371
Total allowance for loan losses	$230	$54,505	$917	$16,547	$3,592	$617	$76,408
Loss coverage ratio	0.7 %	1.1 %	0.7 %	1.7 %	3.6 %	0.6 %	1.2 %

Under certain circumstances, the Company provides borrowers relief through loan modifications. These modifications are either temporary in nature ("temporary modifications") or are more substantive. At September 30, 2016, total modified loans were $72.5 million, compared to $72.2 million at December 31, 2015. The temporary modifications generally consist of interest only payments for a three to six month period, whereby principal payments are deferred. At the end of the modification period, the remaining principal balance is re-amortized based on the original maturity date. Loans subject to temporary modifications are generally downgraded to Special Mention or Substandard. At the end of the modification period, the loan either 1) returns to the original contractual terms; 2) is further modified and accounted for as a troubled debt restructuring in accordance with ASC 310-10-35; or 3) is disposed of through foreclosure or liquidation.

Troubled Debt Restructurings ("TDRs") of loans are defined by ASC 310-40, "Troubled Debt Restructurings by Creditors" and ASC 470-60, "Troubled Debt Restructurings by Debtors" and evaluated for impairment in accordance with ASC 310-10-35. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed on the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

A summary of TDRs on accrual and nonaccrual status by type of concession as of September 30, 2016 and December 31, 2015 is presented below:

	As of September 30, 2016								
	TDRs on Accrual				TDRs on Nonaccrual				
	Real Estate—Commercial	Commercial Business	Other	Total	Real Estate—Commercial	Commercial Business	Other	Total	Total
	(In thousands)								
Payment concession	$11,288	$ 135	$—	$11,423	$3,788	$ 1,697	$—	$5,485	$16,908
Maturity / amortization concession	3,453	18,467	5,776	27,696	1,364	7,157	3,506	12,027	39,723
Rate concession	7,735	1,762	85	9,582	5,755	408	158	6,321	15,903
Principal forgiveness	—	—	—	—	—	—	—	—	—
	$22,476	$ 20,364	$5,861	$48,701	$10,907	$ 9,262	$3,664	$23,833	$72,534

	As of December 31, 2015								
	TDRs on Accrual				TDRs on Nonaccrual				
	Real Estate—Commercial	Commercial Business	Other	Total	Real Estate—Commercial	Commercial Business	Other	Total	Total
	(In thousands)								
Payment concession	$11,604	$ 375	$—	$11,979	$3,891	$ 2,410	$—	$6,301	$18,280
Maturity / amortization concession	4,009	18,192	5,311	27,512	1,583	6,818	2,297	10,698	38,210
Rate concession	7,215	1,278	—	8,493	6,445	641	166	7,252	15,745
Principal forgiveness	—	—	—	—	—	—	—	—	—
	$22,828	$ 19,845	$5,311	$47,984	$11,919	$ 9,869	$2,463	$24,251	$72,235

TDRs on accrual status are comprised of loans that were accruing at the time of restructuring and for which the Bank anticipates full repayment of both principal and interest under the restructured terms. TDRs that are on nonaccrual status can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments as modified. Sustained performance includes the periods prior to the modification if the prior

performance met or exceeded the modified terms. TDRs on accrual status at September 30, 2016 were comprised of 22 commercial real estate loans totaling $22.5 million, 25 commercial business loans totaling $20.4 million, and 7 other loans totaling $5.9 million. TDRs on accrual status at December 31, 2015 were comprised of 24 commercial real estate loans totaling $22.8 million, 28 commercial business loans totaling $19.8 million and 4 consumer and other loans totaling $5.3 million. The Company expects that the TDRs on accrual status as of September 30, 2016, which were all performing in accordance with their restructured terms, to continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. TDRs that were restructured at market interest rates and had sustained performance as agreed under the modified loan terms may be reclassified as non-TDRs after each year end but are reserved for under ASC 310-10.

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The Company has allocated $4.5 million and $5.7 million of specific reserves to TDRs as of September 30, 2016 and December 31, 2015, respectively.

The following table presents loans by class modified as TDRs that occurred during the three and nine months ended September 30, 2016:

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Number of Loans	Pre-Modification	Post-Modification	Number of Loans	Pre-Modification	Post-Modification
	(Dollars in thousands)					
Legacy Loans:						
Real estate—commercial						
Retail	—	$ —	$ —	—	$ —	$ —
Hotel & motel	—	—	—	—	—	—
Gas station & car wash	—	—	—	—	—	—
Mixed use	—	—	—	—	—	—
Industrial & warehouse	—	—	—	—	—	—
Other	1	845	836	1	845	836
Real estate - construction	—	—	—	—	—	—
Commercial business	4	265	314	12	11,465	8,178
Trade finance	—	—	—	1	2,199	1,439
Consumer and other	—	—	—	1	—	101
Subtotal	5	$ 1,110	$ 1,150	15	$ 14,509	$ 10,554
Acquired Loans:						
Real estate—commercial						
Retail	1	$ 1,377	$ 1,344	1	$ 1,377	$ 1,344
Hotel & motel	—	—	—	—	—	—
Gas station & car wash	—	—	—	—	—	—
Mixed use	—	—	—	—	—	—
Industrial & warehouse	—	—	—	—	—	—
Other	1	81	79	1	81	79
Real estate—construction	—	—	—	—	—	—
Commercial business	2	31	27	2	31	27
Trade finance	—	—	—	—	—	—
Consumer and other	—	—	—	1	30	26
Subtotal	4	$ 1,489	$ 1,450	5	$ 1,519	$ 1,476
Total	9	$ 2,599	$ 2,600	20	$ 16,028	$ 12,030

The specific reserves for the TDRs that occurred during the three and nine months ended September 30, 2016 totaled $183 thousand and $2.9 million, respectively, and there were no charge offs for the three and nine months ended September 30, 2016, respectively.

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The following table presents loans by class for TDRs that have been modified within the previous twelve months and have subsequently had a payment default during the three and nine months ended September 30, 2016:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Number of Loans	Balance	Number of Loans	Balance
	(Dollars In thousands)			
Legacy Loans:				
Real estate—commercial				
Retail	—	$ —	—	$ —
Gas station & car wash	—	—	—	—
Industrial & warehouse	—	—	—	—
Other	—	—	—	—
Commercial business	6	4,296	8	4,496
Trade finance	—	—	1	3,178
Consumer and other	—	—	—	—
Subtotal	6	$ 4,296	9	$ 7,674
Acquired Loans:				
Real estate—commercial				
Retail	—	$ —	—	$ —
Gas station & car wash	—	—	—	—
Hotel & motel	—	—	—	—
Mixed Use	—	—	—	—
Industrial & warehouse	—	—	—	—
Other	—	—	—	—
Commercial business	—	—	—	—
Trade finance	—	—	—	—
Consumer and other	1	26	1	26
Subtotal	1	$ 26	1	$ 26
	7	$ 4,322	10	$ 7,700

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. As of September 30, 2016, the specific reserves totaled $1.0 million and $2.4 million for the TDRs that had payment defaults during the three and nine months ended September 30, 2016. The total charge offs for the TDRs that had payment defaults during the three and nine months ended September 30, 2016 were $85 thousand and $115 thousand, respectively.

There were six Legacy Loans that subsequently defaulted during the three and nine months ended September 30, 2016 that were modified as follows: two Commercial Business loans totaling $401 thousand were modified through payment concessions, three Commercial Business loans totaling $4.1 million were modified through maturity concessions, and one Trade Finance loan totaling $3.2 million was modified through maturity concession.

There was one Acquired Loan totaling $26 thousand that defaulted during the three and nine months ended September 30, 2016 that was modified through maturity concession.

Covered Assets

On April 16, 2010, the Department of Financial Institutions closed Innovative Bank, California, and appointed the FDIC as its receiver. On the same date, the Bank assumed the banking operations of Innovative Bank from the FDIC under a purchase and assumption agreement and two related loss sharing agreements with the FDIC. These agreements provide for the sharing of losses and recoveries on the covered assets. The loss sharing provisions of the agreements expired on June 30, 2015, however, the Company will continue to reimburse the FDIC for recoveries on its covered assets until June 30, 2018.

Covered nonperforming assets totaled $2.7 million and $1.3 million at September 30, 2016 and December 31, 2015, respectively. These covered nonperforming assets are subject to the loss sharing agreements with the FDIC. The covered nonperforming assets at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
	(In thousands)	
Covered loans on nonaccrual status	$370	$ 1,118
Covered OREO	2,306	220
Total covered nonperforming assets	$2,676	$ 1,338
Acquired covered loans	$18,622	$ 22,989

Related Party Loans

In the ordinary course of business, the Company enters into loan transactions with certain of its directors or associates of such directors (“Related Parties”). The loans to Related Parties are on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties. In management’s opinion, these transactions did not involve more than normal credit risk or present other unfavorable features. All loans to Related Parties were current as of September 30, 2016 and December 31, 2015, and the outstanding principal balance as of September 30, 2016 and December 31, 2015 was $18.8 million and $3.8 million, respectively.

8. Borrowings

The Company maintains a line of credit with the FHLB of San Francisco for use as a secondary source of funds. The borrowing capacity with the FHLB is limited to the lower of 25% of the Bank's total assets which was $2.08 billion at September 30, 2016, and $2.36 billion at December 31, 2015. The terms of this credit facility require the Company to pledge eligible collateral with the FHLB equal to at least 100% of outstanding advances.

At September 30, 2016 and December 31, 2015, real estate secured loans with a carrying amount of approximately $3.46 billion and $3.13 billion, respectively, were pledged as collateral for borrowings from the FHLB. At September 30, 2016 and December 31, 2015, other than FHLB stock, no securities were pledged as collateral for borrowings from the FHLB.

At September 30, 2016 and December 31, 2015, FHLB advances totaled $754.7 million and $530.6 million, respectively, and had a weighted average interest rate of 1.19% and 1.15%, respectively, and had various maturities through July 2021. At September 30, 2016 and December 31, 2015, $20.3 million and $20.6 million, respectively, of the advances were putable advances with various putable dates and strike prices. The stated rate of FHLB advances as of September 30, 2016 ranged between 0.36% and 2.02%. At September 30, 2016, the Company had a remaining borrowing capacity of $1.32 billion.

At September 30, 2016, the contractual maturities for FHLB advances were as follows:

	Contractual Maturities	Maturity/ Put Date
	(In thousands)	
Due within one year	$180,299	$180,299
Due after one year through five years	574,440	574,440
	$754,739	$754,739

Through the acquisition of Wilshire, the Company acquired three FHLB advances totaling $200.0 million with an average weighted rate of 1.82%. Two of these advances totaling $100.0 million was paid off on August 1, 2016. The remaining $100.0 million FHLB advance is a term advances maturing on September 23, 2019 with a fixed rate of 2.48%. The remaining acquired advance was acquired at a premium of $4.7 million with $4.4 million remaining at September 30, 2016.

As a member of the FRB system, the Bank may also borrow from the FRB of San Francisco. The maximum amount that the Bank may borrow from the FRB's discount window is up to 95% of the outstanding principal balance of the qualifying loans and the fair value of the securities that are pledged. At September 30, 2016, the outstanding principal balance of the qualifying loans was $751.7 million, and the collateral value of investment securities was $1.1 million. There were no borrowings outstanding against this line as of September 30, 2016 and December 31, 2015.

9. Subordinated Debentures

At September 30, 2016, the Company had nine wholly owned subsidiary grantor trusts that had issued $126 million of pooled trust preferred securities. Trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in the indentures. The trusts used the net proceeds from the offering to purchase a like amount of subordinated debentures (the "Debentures"). The Debentures are the sole assets of the trusts. The Company's obligations under the subordinated debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the Debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date. The Company also has a right to defer consecutive payments of interest on the debentures for up to five years.

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The following table is a summary of trust preferred securities and Debentures at September 30, 2016:

Issuance Trust	Issuance Date	Trust Preferred Security Amount	Carrying Value of Subordinated Debentures	Rate Type	Current Rate	Maturity Date
		(Dollars in thousands)				
Nara Capital Trust III	6/5/2003	$5,000	$ 5,155	Variable	4.00 %	6/15/2033
Nara Statutory Trust IV	12/22/2003	5,000	5,155	Variable	3.53 %	1/7/2034
Nara Statutory Trust V	12/17/2003	10,000	10,310	Variable	3.81 %	12/17/2033
Nara Statutory Trust VI	3/22/2007	8,000	8,248	Variable	2.50 %	6/15/2037
Center Capital Trust I	12/30/2003	18,000	13,593	Variable	3.53 %	1/7/2034
Wilshire Statutory Trust II	3/17/2005	20,000	15,055	Variable	2.65 %	3/17/2035
Wilshire Statutory Trust III	9/15/2005	15,000	10,547	Variable	2.25 %	9/15/2035
Wilshire Statutory Trust IV	7/10/2007	25,000	17,138	Variable	2.23 %	9/15/2037
Saehan Capital Trust I	3/30/2007	20,000	14,347	Variable	2.46 %	6/30/2037
TOTAL ISSUANCE		$126,000	$ 99,548			

The Company's investment in the common trust securities of the issuer trusts of $4.0 million and $1.5 million at September 30, 2016 and December 31, 2015, respectively, is included in other assets. Although the subordinated debt issued by the trusts are not included as a component of stockholders' equity in the consolidated balance sheets, the debt is treated as capital for regulatory purposes. The trust preferred security debt issuances are includable in Tier I capital up to a maximum of 25% of capital on an aggregate basis. Any amount that exceeds 25% qualifies as Tier 2 capital. The Company acquired four subordinated debentures from the acquisition of Wilshire at the fair value of $56.9 million, which was net of purchase accounting discount of $25.5 million. The remaining discount on these debentures at September 30, 2016 was $25.4 million. All the acquired debentures are callable on quarterly basis.

10. Derivative Financial Instruments

The Company offers a loan hedging program to certain loan customers. Through this program, the Company originates a variable rate loan with the customer. The Company and the customer will then enter into a fixed interest rate swap. Lastly, an identical offsetting swap is entered into by the Company with a correspondent bank. These "back-to-back" swap arrangements are intended to offset each other and allow the Company to book a variable rate loan, while providing the customer with a contract for fixed interest payments. In these arrangements, the Company's net cash flow is equal to the interest income received from the variable rate loan originated with the customer. These customer swaps are not designated as hedging instruments and are recorded at fair value in other assets and other liabilities. The changes in fair value are recognized in the income statement in other income and fees.

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At September 30, 2016, the following interest rate swaps related to our loan hedging program were outstanding:

	As of September 30, 2016 (Dollars in thousands)
Interest rate swaps on loans with loan customers	
Notional amount	$198,776
Weighted average remaining term	7.4 years
Received fixed rate (weighted average)	4.27 %
Pay variable rate (weighted average)	2.95 %
Estimated fair value	$8,910
Back to back interest rate swaps with correspondent banks	
Notional amount	$198,776
Weighted average remaining term	7.4 years
Received variable rate (weighted average)	2.95 %
Pay fixed rate (weighted average)	4.27 %
Estimated fair value	$(8,910)

Subsequent to the acquisition of Wilshire, the Company began to enter into various stand-alone mortgage-banking derivatives in order to hedge the risk associated with the fluctuation of interest rates. Changes in fair value are recorded as mortgage banking revenue. Residential mortgage loans funded with interest rate lock commitments and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At September 30, 2016, we had approximately $34.2 million in interest rate lock commitments and $26.8 million in total forward sales commitments for the future delivery of residential mortgage loans. There were no interest rate lock commitments or forward sales commitments in quarters prior to the quarter ended September 30, 2016.

The following table reflects the notional amount and fair value of mortgage banking derivatives for the dates indicated:

	As of September 30, 2016	
(Dollars in Thousands)	Notional Amount	Fair Value
Assets:		
Interest rate lock commitments	$23,687	$322
Forward sale contracts related to mortgage banking:	$8,123	$24
Liabilities:		
Interest rate lock commitments	$3,165	$(18)
Forward sale contracts related to mortgage banking:	$18,729	$(64)

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11. Intangible Assets

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. At December 31, 2015, management assessed the qualitative factors related to goodwill for the year to determine whether it was more-likely-than-not that the fair value was less than its carrying amount. Based on the analysis of these factors, management determined that it was more-likely-than-not that the fair value of goodwill exceeded the carrying value and that the two-step impairment test was not needed. Goodwill is not amortized for book purposes and is not tax deductible.

The carrying amount of the Company's goodwill as of September 30, 2016 and December 31, 2015 was $464.4 million, and $105.4 million, respectively. There was no impairment of goodwill during the three and nine months ended September 30, 2016 and 2015. Goodwill recorded in the third quarter of 2016 from the acquisition of Wilshire totaled $359.0 million.

Core deposit intangible assets are amortized over their estimated lives, which range from seven to ten years. Amortization expense related to core deposit intangible assets totaled $565 thousand and $267 thousand for the three months ended September 30, 2016 and 2015, respectively. The amortization expense related to core deposit intangible assets totaled $990 thousand and $801 thousand for the nine months ended September 30, 2016 and 2015. The following table provides information regarding the core deposit intangibles at September 30, 2016:

		As of September 30, 2016	
	Amortization period	Gross Carrying Amount	Accumulated Amortization
		(In thousands)	
Core deposit—Center Financial Corporation acquisition	7 years	$4,100	$ (3,578)
Core deposit—PIB acquisition	7 years	603	(445)
Core deposit—Foster acquisition	10 years	2,763	(1,260)
Core deposit—Wilshire Bank acquisition	10 years	18,138	(353)
Total		$25,604	$ (5,636)

The acquisition of the Wilshire on July 29, 2016 resulted in goodwill totaling $359.0 million and core deposits intangibles of $18.1 million. The core deposits intangibles from the acquisition of Wilshire represents 0.87% of core deposits and is currently scheduled to amortize for a period of 10 year ending 2026.

Servicing assets are recognized when SBA or residential mortgage loans are sold with servicing retained with the income statement effect recorded in net gains on sales of SBA and other loans. Servicing assets are initially recorded at fair value based on the present value of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate based on the related note rate. The Company's servicing costs approximates the industry average servicing costs. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Management periodically evaluates servicing assets for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on loan type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount.

The changes in servicing assets for the three and nine months ended September 30, 2016 and 2015 were as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	$12,193	$10,935	$12,000	$10,341
Additions through originations of servicing assets	385	1,381	2,472	3,570
Additions through acquisition of Wilshire	16,203	—	16,203	—
Amortization	(2,252)	(811)	(4,146)	(2,406)
Balance at end of period	$26,529	$11,505	$26,529	$11,505

The Company utilizes the discounted cash flow method to calculate the initial excess servicing assets. The inputs used in determining the fair value of the servicing assets at September 30, 2016 and December 31, 2015 are presented below.

	September 30, 2016	December 31, 2015
	Range	Range
Weighted-average discount rate	5.54% ~ 6.07%	5.32% ~ 5.92%
Constant prepayment rate	7.20% ~ 9.00%	7.00% ~11.90%

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12. Income Taxes

The Company and its subsidiaries are subject to U.S. federal income tax, as well as state income taxes. The Company had total unrecognized tax benefits of $3.6 million and $1.8 million at September 30, 2016 and December 31, 2015, respectively that relate to uncertainties associated with federal and state income tax matters. Other than the accrued interest of $166 thousand related to uncertain tax positions from an acquired entity, the Company recognizes interest and penalties on income tax matters in income tax expense. The Company recorded approximately $376 thousand and $154 thousand for accrued interest and penalties (no portion was related to penalties) at September 30, 2016 and December 31, 2015, respectively.

Management believes it is reasonably possible that the unrecognized tax benefits may decrease by approximately $329 thousand in the next twelve months.

The statute of limitations for the assessment of income taxes related to the consolidated Federal income tax returns is closed for all tax years up to and including 2012. The expiration of the statute of limitations for the assessment of income and franchise taxes related to the various state income and franchise tax returns varies by state. The Company is currently under examination by the California Franchise Tax Board (FTB) for the 2012 and 2013 tax years. Wilshire Bancorp, Inc., an acquired entity, is currently under examination by the California Franchise Tax Board (FTB) for the 2011, 2012, and 2013 tax years and by the New York State Department of Taxation and Finance for the 2011, 2012, 2013, and 2014 tax years. While the outcome of the examinations is unknown, the Company expects no material adjustments.

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. Based on the analysis, the Company has determined that a valuation allowance for deferred tax assets was not required as of September 30, 2016.

13. Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value. The fair value inputs of the instruments are classified and disclosed in one of the following categories pursuant to ASC 820:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The quoted price shall not be adjusted for any blockage factor (i.e., size of the position relative to trading volume).

Level 2 - Pricing inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value is determined through the use of models or other valuation methodologies, including the use of pricing matrices. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Pricing inputs are unobservable for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Company uses the following methods and assumptions in estimating our fair value disclosures for financial instruments. Financial assets and liabilities recorded at fair value on a recurring and non-recurring basis are listed as follows:

Securities Available for Sale

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair values of the Company's Level 3 securities available for sale were measured using an income approach valuation technique. The primary inputs and assumptions used in the fair value measurement were derived from the securities' underlying collateral, which included discount rates, prepayment speeds, payment delays, and an assessment of the risk of default of the underlying collateral, among other factors. Significant increases or decreases in any of the inputs or assumptions would result in a significant increase or decrease in the fair value measurement.

Impaired Loans

The fair values of impaired loans are generally measured for impairment using the practical expedients permitted by FASB ASC 310-10-35 including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation, less costs to sell of 8.5%. For commercial and industrial and asset backed loans, independent valuations may be comprised of a 20-60% discount for accounts receivable and a 50-70% discount for inventory. These result in a Level 3 classification.

OREO

OREO is fair valued at the time the loan is foreclosed upon and the asset is transferred to OREO. The value is based primarily on third party appraisals, less costs to sell of 8.5% and result in a Level 3 classification of the inputs for determining fair value. OREO is reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted to lower of cost or market accordingly, based on the same factors identified above.

Loans held for sale

Loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments from investors, or based on recent comparable sales (Level 2 inputs), if available, and if not available, are based on

discounted cash flows using current market rates applied to the estimated life and credit risk (Level 3 inputs) or may be assessed based upon the fair value of the collateral, which is obtained from recent real estate appraisals (Level 3 inputs). These appraisals may utilize a single valuation

approach or a combination of approaches including the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in Level 3 classification of the inputs for determining fair value.

Mortgage banking derivatives

Mortgage banking derivative instruments consist of interest rate lock commitments and forward sale contracts that trade in liquid markets. The fair value is based on the prices available from third party investors. Due to the observable nature of the inputs used in deriving the fair value, the valuation of mortgage banking derivatives are classified as Level 2.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	September 30, 2016	Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets:				
Securities available for sale:				
GSE debt securities	$12,026	$ —	$ 12,026	$ —
GSE collateralized mortgage obligations	719,247	—	719,247	—
GSE mortgage-backed securities	717,560	—	717,560	—
Corporate securities	18,878	—	18,878	—
Municipal bonds	77,529	—	76,300	1,229
Mutual funds	13,479	13,479	—	—
Interest rate swaps	8,910	—	8,910	—
Liabilities:				
Interest rate swaps	8,910	—	8,910	—

December 31, 2015	Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		(Level 1)		
	(In thousands)			
Assets:				
Securities available for sale:				
GSE collateralized mortgage obligations	$449,980	$ —	$ 449,980	$ —
GSE mortgage-backed securities	498,047	—	498,047	—
Corporate securities	3,749	—	3,749	—
Municipal bonds	45,511	—	44,345	1,166
Mutual funds	13,269	13,269	—	—
Interest rate swaps	2,680	—	2,680	—
Liabilities:				
Interest rate swaps	2,680	—	2,680	—

There were no transfers between Level 1, 2 and 3 during the three and nine months ended September 30, 2016 and 2015. There was $948 thousand in gain recorded for the three months ended September 30, 2016, but no gains or losses recognized in earnings during the three months ended September 30, 2015. For the nine months ended September 30, 2016 and 2015, there were $948 thousand and $424 thousand in gains recorded in earnings, respectively.

The following table reflects the notional amount and fair value of mortgage banking derivatives for the date indicated:

(Dollars in Thousands)	As of September 30, 2016 Notional Amount	Fair Value
Assets:		
Interest rate lock commitments	$23,687	$322
Forward sale contracts related to mortgage banking	$8,123	$24
Liabilities:		
Interest rate lock commitments	$3,165	$(18)
Forward sale contracts related to mortgage banking	$18,729	$(64)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016:

	Nine Months Ended September 30, 2016	2015
	(In thousands)	
Beginning Balance, January 1	$1,166	$1,178
Total gains or (losses) included in other comprehensive income	63	(3)
Ending Balance, September 30	$1,229	$1,175

Assets measured at fair value on a non-recurring basis are summarized below:

	September 30, 2016	Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets:				

Impaired loans at fair value:				
Real estate loans	$42,013	$ —	$ —	$ 42,013
Commercial business	7,374	—	—	7,374
Trade finance	—	—	—	—
Consumer	158	—	—	158
Loans held for sale, net	16,784	—	16,784	—
OREO	10,193	—	—	10,193

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	December 2015	Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets:				
Impaired loans at fair value:				
Real estate loans	$18,251	$—	$—	$ 18,251
Commercial business	9,366	—	—	9,366
Trade Finance	15,540	—	—	15,540
Consumer	391	—	—	391
Impaired loans held for sale, net	348	—	348	—
OREO	18,308	—	—	18,308

For assets measured at fair value on a non-recurring basis, the total net gains (losses), which include charge offs, recoveries, specific reserves, and gains and losses on sales recognized are summarized below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Assets:				
Impaired loans at fair value:				
Real estate loans	$(154)	$(263)	$97	$182
Commercial business	(3,108)	328	(5,956)	3,252
Trade Finance	109	19	1,190	24
Consumer	(151)	754	(245)	(54)
Impaired loans held for sale, net	1,476	26	1,519	253
OREO	(162)	996	(1,408)	2,014

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Fair Value of Financial Instruments

Carrying amounts and estimated fair values of financial instruments, not previously presented, at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016		
	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using
	(In thousands)		
Financial Assets:			
Cash and cash equivalents	$443,903	$443,903	Level 1
Other investments	45,670	45,540	Level 3
Loans held for sale	58,186	60,256	Level 2
Loans receivable—net	10,481,221	10,561,131	Level 3
Customers' liabilities on acceptances	2,694	2,694	Level 2
Financial Liabilities:			
Noninterest bearing deposits	$2,903,658	$2,903,658	Level 2
Saving and other interest bearing demand deposits	3,623,447	3,623,447	Level 2
Time deposits	4,175,400	4,179,595	Level 2
FHLB advances	754,739	759,785	Level 2
Subordinated debentures	99,548	99,548	Level 2
Bank's liabilities on acceptances outstanding	2,694	2,694	Level 2

	December 31, 2015		
	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using
	(In thousands)		
Financial Assets:			
Cash and cash equivalents	$298,389	$298,389	Level 1
Other investments	47,895	47,919	Level 3
Loans held for sale	8,273	8,669	Level 2
Loans receivable—net	6,171,933	6,559,838	Level 3
Customers' liabilities on acceptances	1,463	1,463	Level 2
Financial Liabilities:			
Noninterest bearing deposits	$1,694,427	$1,694,427	Level 2
Saving and other interest bearing demand deposits	2,170,748	2,170,748	Level 2
Time deposits	2,475,801	2,478,858	Level 2
FHLB advances	530,591	532,137	Level 2
Subordinated debentures	42,327	44,084	Level 2
Bank's liabilities on acceptances outstanding	1,463	1,463	Level 2

The methods and assumptions used to estimate fair value are described as follows:

The carrying amount is the estimated fair value for cash and cash equivalents, savings and other interest bearing demand deposits, customer's and Bank's liabilities on acceptances, noninterest bearing deposits, short-term debt, secured borrowings and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The allowance for loan losses is considered to be a reasonable estimate of discount for credit quality concerns. Fair value of SBA loans held for sale is based on market quotes. For fair value of non-SBA loans held for sale, see the measurement method discussed previously. Fair value of time deposits and debt is based on current rates for similar financing. It was not practicable to determine the fair value of FRB stock or FHLB stock due to restrictions placed on their transferability.

The fair value of commitments to fund loans represents fees currently charged to enter into similar agreements

with similar remaining maturities and is not presented herein. The fair value of these financial instruments is not material to the consolidated financial statements.

14. Stockholders' Equity

On July 29, 2016 the Company acquired Wilshire in an all-stock transaction. Pursuant to the merger agreement, Wilshire shareholders received 0.7034 shares of the Company's common stock for each share of Wilshire stock owned. Based on this exchange ratio, $55.5 million shares of the Company's common stock were issued to Wilshire shareholders at $15.37 per share, the closing price of the Company's stock on July 29, 2016. As a result, $852.9 million in common stock was issued as consideration in the transaction and$3.4 million in additional paid-in capital was recorded to account for the fair value of stock options assumed. Total stockholders' equity at September 30, 2016 was $1.85 billion, compared to $938.1 million at December 31, 2015.

In June 2012, the Company redeemed all of the Fixed Rate Cumulative Perpetual Preferred Stock issued under the U.S. Treasury Department's TARP Capital Purchase Program.

The Company assumed certain warrants (related to the TARP Capital Purchase Plan) to purchase shares of the Company's common stock. On May 20, 2015, the U.S. Treasury Department completed an auction to sell certain of its warrant positions, and the Company submitted the winning bid to repurchase an outstanding warrant to purchase 350,767 shares of the Company's common stock. The Company repurchased this warrant for $1.2 million. As of September 30, 2016, the U.S. Treasury Department held one remaining warrant for the purchase of 19,703 shares of the Company's common stock.

The Company's Board of Directors paid quarterly dividends of $0.11 per common share for the third quarter of 2016 compared to $0.11 per common share for the third quarter of 2015.

The following table presents the quarterly changes to accumulated other comprehensive income (loss) for the three months ended September 30, 2016 and September 30, 2015:

	Three months ended,	
	September 30, 2016	September 30, 2015
	(In thousands)	
Balance at beginning of period	$10,974	$ (375)
Unrealized gains (losses) on securities available for sale and interest only strips	(2,848)	7,617
Reclassification adjustments for gains realized in income	(948)	—
Tax expense (benefit)	(1,239)	3,235
Total other comprehensive income (loss)	(2,557)	4,382
Balance at end of period	$8,417	$ 4,007

	Nine months ended,	
	September 30, 2016	September 30, 2015
	(In thousands)	
Balance at beginning of period	$(1,832)	$ 1,705
Unrealized gains on securities available for sale and interest only strips	19,347	4,426
Reclassification adjustments for gains realized in income	(948)	(424)
Tax expense	8,150	1,700
Total other comprehensive income	10,249	2,302
Balance at end of period	$8,417	$ 4,007

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15. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal and state 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 material and adverse effect on the Company's and the Bank's business, financial condition and results of operation, such as restrictions on growth or the payment of dividends or other capital distributions or management fees. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July, 2013, the federal bank regulatory agencies adopted final regulations, which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of Dodd-Frank and to implement Basel III international agreements reached by the Basel Committee. The final rules began for the Company and the Bank on January 1, 2015 and are subject to a phase-in period through January 1, 2019. The final rules that had an impact on the Company and the Bank include:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;
- A new category and a required 4.50% of risk-weighted assets ratio is established for “Common Equity Tier 1” as a subset of Tier 1 capital limited to common equity;
- A minimum non-risk-based leverage ratio is set at 4.00%, eliminating a 3.00% exception for higher rated banks;
- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities;
- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures; and
- A new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios is being phased in from 2016 to 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares, or pay discretionary bonuses. The capital conservation buffer for the Company was 0.625% in 2016, to be increased in 0.625% annually until 2019.

As of September 30, 2016, the ratios for the Company and the Bank are sufficient to meet the fully phased-in conservation buffer.

As of September 30, 2016 and December 31, 2015, the most recent regulatory notification categorized the Bank as “well-capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well-capitalized”, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier 1, and Tier I leverage ratios as set forth in the table below.

The Company's and the Bank's actual capital amounts and ratios are presented in the table below:

	Actual		Required For Capital Adequacy Purposes		Minimum Capital Adequacy With Capital Buffer		Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)							
As of September 30, 2016								
Common equity tier 1 capital (to risk weighted assets):								
Company	$1,374,055	11.96%	$517,104	4.50 %	$588,924	5.125%	N/A	N/A
Bank	$1,448,934	12.62%	$516,826	4.50 %	$588,607	5.125%	$746,526	6.50 %
Total capital (to risk-weighted assets):								
Company	$1,552,499	13.51%	$919,296	8.00 %	$991,116	8.625%	N/A	N/A
Bank	$1,531,734	13.34%	$918,801	8.00 %	$990,583	8.625%	$1,148,502	10.00%
Tier I capital (to risk-weighted assets):								
Company	$1,469,699	12.79%	$689,472	6.00 %	$761,292	6.625%	N/A	N/A
Bank	$1,448,934	12.62%	$689,101	6.00 %	$760,882	6.625%	$918,801	8.00 %
Tier I capital (to average assets):								
Company	$1,469,699	13.02%	$451,476	4.00 %	N/A	N/A	N/A	N/A
Bank	$1,448,934	12.84%	$451,411	4.00 %	N/A	N/A	$564,263	5.00 %

	Actual		Required For Capital Adequacy Purposes		Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of December 31, 2015						
Common equity tier 1 capital (to risk weighted assets):						
Company	$833,868	12.08%	$310,732	4.50 %	N/A	N/A
Bank	$866,652	12.56%	$310,627	4.50 %	$448,684	6.5 %
Total capital (to risk-weighted assets):						
Company	$953,132	13.80%	$552,412	8.00 %	N/A	N/A
Bank	$945,013	13.69%	$552,226	8.00 %	$690,283	10.00%
Tier I capital (to risk-weighted assets):						
Company	$874,771	12.67%	$414,309	6.00 %	N/A	N/A
Bank	$866,652	12.56%	$414,170	6.00 %	$552,226	8.00 %
Tier I capital (to average assets):						
Company	$874,771	11.53%	$303,528	4.00 %	N/A	N/A
Bank	$866,652	11.43%	$303,410	4.00 %	$379,262	5.00 %

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)
The following discussion and analysis should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2015 and the unaudited consolidated financial statements and notes set forth elsewhere in this Quarterly Report on Form 10-Q.

GENERAL

Selected Financial Data

The following tables set forth a performance overview concerning the periods indicated and should be read in conjunction with the unaudited consolidated financial statements and notes set forth elsewhere in this Quarterly Report on Form 10-Q and the following Results of Operations and Financial Condition sections in the MD&A.

	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands, except share and per share data)			
Income Statement Data:				
Interest income	$119,552	$79,059	$286,547	$230,688
Interest expense	16,078	10,298	40,401	29,413
Net interest income	103,474	68,761	246,146	201,275
Provision for loan losses	6,500	600	8,200	3,100
Net interest income after provision for loan losses	96,974	68,161	237,946	198,175
Noninterest income	14,146	11,183	33,627	32,714
Noninterest expense	67,846	36,755	148,244	114,446
Income before income tax provision	43,274	42,589	123,329	116,443
Income tax provision	17,169	17,497	50,212	47,053
Net income	$26,105	$25,092	$73,117	$69,390
Per Share Data:				
Earnings per common share - basic	$0.22	$0.32	$0.80	$0.87
Earnings per common share - diluted	$0.22	$0.32	$0.79	$0.87
Book value per common share (period end)	$13.70	$11.68	$13.70	$11.68
Cash dividends declared per common share	$—	$0.11	$0.33	$0.32
Tangible book value per common share (period end) (9)	$10.14	$10.32	$10.14	$10.32
Number of common shares outstanding (period end)	135,109,641	79,553,460	135,109,641	79,553,460
Weighted average shares - basic	116,622,920	79,552,873	91,940,070	79,545,681
Weighted average shares - diluted	116,951,074	79,584,536	92,266,245	79,606,224
Tangible common equity to tangible assets	10.52 %	10.99 %	10.52 %	10.99 %
Average Balance Sheet Data:				
Assets	$11,777,564	$7,424,598	$9,279,509	$7,284,661
Securities available for sale	1,406,919	877,054	1,171,816	824,088
Loans receivable and loans held for sale	9,292,814	5,918,005	7,347,740	5,760,376
Deposits	9,328,179	5,877,631	7,385,796	5,789,712
Stockholders' equity	1,585,100	915,702	1,167,747	904,166

	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	2016	2015	2016	2015
Selected Performance Ratios:				
Return on average assets [1]	0.89 %	1.35 %	1.05 %	1.27 %
Return on average stockholders' equity[1]	6.59 %	10.96 %	8.35 %	10.23 %
Return on average tangible equity [1] [8]	8.61 %	12.44 %	10.04 %	11.63 %
Dividend payout ratio (dividends per share / earnings per share)	50.00 %	34.38 %	41.25 %	36.78 %
Efficiency ratio [2]	57.68 %	45.98 %	52.99 %	48.91 %
Net interest spread	3.51 %	3.60 %	3.49 %	3.62 %
Net interest margin [3]	3.77 %	3.87 %	3.76 %	3.88 %

	As of September 30,	
	2016	2015
	(Dollars in thousands)	
Statement of Financial Condition Data - at Period End:		
Assets	$13,510,629	$7,583,002
Securities available for sale	1,558,719	972,962
Loans receivable	10,561,197	5,972,724
Deposits	10,702,505	6,028,865
FHLB advances	754,739	530,689
Subordinated debentures	99,548	42,284
Stockholders' equity	1,854,571	929,569
Regulatory Capital Ratios [4]		
Leverage capital ratio [5]	13.02 %	11.76 %
Tier 1 risk-based capital ratio	12.79 %	12.95 %
Total risk-based capital ratio	13.51 %	14.05 %
Common equity tier 1 capital ratio [10]	11.96 %	12.34 %
Asset Quality Ratios:		
Allowance for loan losses to loans receivable	0.76 %	1.19 %
Allowance for loan losses to nonaccrual loans	196.98 %	219.16 %
Allowance for loan losses to nonperforming loans[6]	89.36 %	82.00 %
Allowance for loan losses to nonperforming assets[7]	68.38 %	65.80 %
Nonaccrual loans to loans receivable	0.38 %	0.54 %
Nonperforming loans to loans receivable [6]	0.85 %	1.45 %
Nonperforming assets to loans receivable and OREO [7]	1.10 %	1.80 %
Nonperforming assets to total assets [7]	0.87 %	1.43 %
Legacy Portfolio:		
Nonaccrual loans to loans receivable	0.47 %	0.35 %
Nonperforming loans to loans receivable	1.18 %	1.29 %
Allowance for loan losses to loans receivable	1.04 %	1.04 %
Allowance for loan losses to nonaccrual loans	219.24 %	176.30 %
Allowance for loan losses to nonperforming loans	87.95 %	65.96 %

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	As of September 30,	
	2016	2015
Asset Quality Ratios (continued):		
Acquired Portfolio:		
Nonaccrual loans to loans receivable	0.24 %	2.83 %
Nonperforming loans to loans receivable	0.32 %	3.37 %
Allowance for loan losses to loans receivable	0.31 %	3.03 %
Allowance for loan losses to nonaccrual loans	129.28 %	107.08 %
Allowance for loan losses to nonperforming loans	97.45 %	89.81 %

(1) Annualized.

(2) Efficiency ratio is defined as noninterest expense divided by the sum of net interest income before provision for loan losses and noninterest income.

(3) Net interest margin is calculated by dividing annualized net interest income by average total interest earning assets.

(4) The ratios generally required to meet the definition of a "well-capitalized" institution under certain banking regulations are 5% leverage capital, 8% tier I risk-based capital, 10% total risk-based capital, and 6.5% common equity tier 1 capital.

(5) Calculations are based on average quarterly asset balances.

(6) Nonperforming loans include nonaccrual loans, Legacy and acquired loans past due 90 days or more and still accruing interest, and accruing restructured loans.

(7) Nonperforming assets consist of nonperforming loans and OREO.

(8) Average tangible equity is calculated by subtracting average goodwill and average core deposit intangibles assets from average stockholders' equity. This is a non-GAAP measure that we believe provides investors with information that is useful in understanding our financial performance and position.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Net income	$26,105	$25,092	$73,117	$69,390
Average stockholders' equity	$1,585,100	$915,702	$1,167,747	$904,166
Less: Average goodwill and core deposit intangible assets, net	(370,003)	(108,648)	(195,984)	(108,910)
Average tangible equity	$1,215,097	$807,054	$971,763	$795,256
Net income (annualized) to average tangible equity	8.59 %	12.44 %	10.03 %	11.63 %

(9) Tangible book value per common share is calculated by subtracting goodwill and core deposit intangible assets from total stockholders' equity and dividing the difference by the number of shares of common stock outstanding. This is a non-GAAP measure that we believe provides investors with information that is useful in understanding our financial performance and position.

	September 30, 2016	September 30, 2015
	(In thousands, except per share data)	
Total stockholders' equity	$1,854,571	$ 929,569
Less: Goodwill and core deposit intangible assets, net	(484,387)	(108,487)
Tangible common equity	$1,370,184	$ 821,082

Common shares outstanding	135,109,641	79,553,460
Tangible book value per common share	$10.14	$ 10.32

(10) The Common equity tier 1 capital ratio is calculated by dividing Tier 1 capital less non-common elements, including perpetual preferred stock and related surplus, minority interest in subsidiaries, trust preferred securities and mandatory convertible preferred securities by total risk-weighted assets less the disallowed allowance for loan losses.

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	September 30, 2016	September 30, 2015
	(Dollars in thousands)	
Tier 1 capital	$1,469,699	$860,404
Less: Trust preferred securities less unamortized acquisition discount	(95,644)	(40,859)
Common equity tier 1 capital	$1,374,055	$819,545
Total risk weighted assets less disallowed allowance for loan losses	$11,491,204	$6,641,660
Common equity tier 1 capital ratio	11.96%	12.34%

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Results of Operations

Overview

Total assets increased $5.60 billion from $7.91 billion at December 31, 2015 to $13.51 billion at September 30, 2016. The increase in total assets was primarily due the acquisition of Wilshire in the third quarter of 2016. The acquisition of Wilshire resulted in the addition of approximately $3.80 billion in loans, $478.9 million in investments, and $359.0 million in goodwill was recorded. In addition the Company acquired approximately $3.81 billion in deposits.

Net income for the third quarter of 2016 was $26.1 million, or $0.22 per diluted common share, compared to $25.1 million, or $0.32 per diluted common share, for the same period of 2015, which was an increase of $1.0 million, or 4.04%. The increase in net income was largely due to the addition of income from the interest earning assets acquired in the merger with Wilshire during the third quarter of 2016. Net interest income increased $34.7 million from the third quarter of 2015 compared to the third quarter of 2016. This increase was offset by an increase in non interest expense of $31.1 million for the same period.

Net income for the nine months ended September 30, 2016 was $73.1 million, or $0.79 per diluted common share, compared to $69.4 million, or $0.87 per diluted common share, for the same period of 2015, an increase of $3.7 million, or 5.37%. The increase in net income was primarily due to the acquisition of Wilshire during the third quarter of 2016.

The following table summarizes the accretion and amortization adjustments that are included in net interest income for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Accretion of discounts on acquired performing loans	$3,111	$2,496	$5,975	$7,194
Accretion of discounts on purchased credit impaired loans	1,673	1,723	5,074	4,972
Amortization of premiums on low income housing tax credit investments	(54)	—	(54)	—
Amortization of premiums on assumed FHLB advances	1,940	97	2,134	286
Accretion of discounts on assumed subordinated debt	(190)	(43)	(278)	(126)
Amortization of premiums on assumed time deposits and savings	2,336	34	2,379	158
Total	$8,816	$4,307	$15,230	$12,484

The annualized return on average assets was 0.89% for the third quarter of 2016 compared to 1.35% for the same period of 2015. The annualized return on average stockholders’ equity was 6.59% for the third quarter of 2016 compared to 10.96% for the same period of 2015. The efficiency ratio was 57.68% for the third quarter of 2016 compared to 45.98% for the same period of 2015.

The annualized return on average assets was 1.05% for the nine months ended September 30, 2016 compared to 1.27% for the same period of 2015. The annualized return on average stockholders' equity was 8.35% for the nine months ended September 30, 2016 compared to 10.23% for the same period of 2015. The efficiency ratio was 52.99% for the nine months ended September 30, 2016 compared to 48.91% for the same period of 2015.

Net Interest Income and Net Interest Margin

Net Interest Income

A principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments and the interest paid on deposits and borrowed funds. Net interest income expressed as a percentage of average interest earning assets is referred to as the net interest margin. The net interest spread is the yield on average interest earning assets less the cost of average interest bearing liabilities. Net interest income is affected by changes in the balances of interest earning assets and interest bearing liabilities and changes in the yields

earned on interest earning assets and the rates paid on interest bearing liabilities.

Comparison of Three Months Ended September 30, 2016 with the Same Period of 2015

Net interest income before provision for loan losses was $103.5 million for the third quarter of 2016, compared to $68.8 million for the same period of 2015, an increase of $34.7 million, or 50.4%.

Interest income for the third quarter of 2016 was $119.6 million, an increase of $40.5 million, or 51.2%, compared to $79.1 million for the same period of 2015. The increase in interest income was primarily attributed to the increase in loans and investments resulting from the acquisition of Wilshire during the third quarter of 2016.

Interest expense for the third quarter of 2016 was $16.1 million, an increase of $5.8 million, or 56.1% compared to $10.3 million for the same period of 2015. The increase in interest expense was primarily due to the acquisition of deposits and borrowings from the acquisition of Wilshire.

Comparison of Nine Months Ended September 30, 2016 with the Same Period of 2015

Net interest income before provision for loan losses was $246.1 million for the nine months ended September 30, 2016, compared to $201.3 million for the same period of 2015, an increase of $44.8 million, or 22.3%.

Interest income for the nine months ended September 30, 2016 was $286.5 million, an increase of $55.8 million, or 24.2%, compared to $230.7 million for the same period of 2015. The increase in interest income was primarily attributed to the increase in loans and investments resulting from the acquisition of Wilshire during the third quarter of 2016.

Interest expense for the nine months ended September 30, 2016 was $40.4 million, an increase of $11.0 million, or 37.4% compared to $29.4 million for the same period of 2015. The increased interest expense was primarily due to the acquisition of deposits and borrowings resulting from the acquisition of Wilshire.

Net Interest Margin

Our net interest margin is impacted by the weighted average rates we earn on interest earning assets and pay on interest bearing liabilities and the effect of acquisition accounting adjustments. The net interest margin for the third quarter of 2016 was 3.77%, a decrease of 10 basis points from 3.87% for the same period of 2015. Net interest margin for the nine months ended September 30, 2016 was 3.76%, a decrease of 12 basis points from 3.88% for the same period of 2015.

The change in our net interest margin and the impact from acquisition accounting adjustments for the three and nine months ended September 30, 2016 and 2015 is summarized in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net interest margin, excluding the effect of acquisition accounting adjustments	3.48%	3.60%	3.53%	3.61%
Acquisition accounting adjustments[1]	0.29%	0.27%	0.23%	0.27%
Reported net interest margin	3.77%	3.87%	3.76%	3.88%

[1] Acquisition accounting adjustments are calculated by subtracting net interest margin, excluding the effect of acquisition accounting adjustments, from reported net interest margin.

As noted in the table above, excluding the effect of acquisition accounting adjustments, the net interest margin for the third quarter of 2016 decreased 12 basis points to 3.48% from 3.60% for the same period of 2015. Excluding the effect of acquisition accounting adjustments, the net interest margin for the nine months ended September 30, 2016 decreased 8 basis points to 3.53% from 3.61% for the same period of 2015.

The acquisition related adjustments that impact net interest margin increased by $4.5 million, totaling $8.8 million during the third quarter of 2016, compared to $4.3 million for the same period of 2015. The acquisition related adjustments increased by $2.7 million when comparing the total adjustments of $15.2 million during the nine months ended September 30, 2016 to a total of $12.5 million in adjustments for the same period in 2015.

The weighted average yield on loans decreased to 4.80% for the third quarter of 2016 from 4.94% for the third quarter of 2015 and decreased to 4.84% for the nine months ended September 30, 2016 from 4.98% for the same period in 2015. The change in the yield was due to continued pricing pressure on loan interest rates and a 7 basis points and 9

basis points decline in the effects of acquisition accounting adjustments for the three and nine months ended September 30, 2016, respectively, as summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
The weighted average yield on loans, excluding the effect of acquisition accounting adjustments	4.55%	4.62%	4.60%	4.65%
Acquisition accounting adjustments[1]	0.25%	0.32%	0.24%	0.33%
Reported weighted average yield on loans	4.80%	4.94%	4.84%	4.98%

(1) Acquisition accounting adjustments are calculated by subtracting the weighted average yield on loans, excluding the effect of acquisition accounting adjustments, from the reported weighted average yield on loans.

Excluding the effect of acquisition accounting adjustments, the weighted average yield on loans for the third quarter of 2016 decreased 7 basis points to 4.55%, from 4.62% for the same period of 2015. Excluding the effects of acquisition accounting adjustments, the weighted average yield on loans for the nine months ended September 30, 2016 decreased 5 basis points to 4.60% from 4.65% for the same period of 2015. In addition to continued pricing pressures, the decline in loan yields was caused by a higher mix of lower yielding variable rate loans during the three and nine months ended September 30, 2016 as compared to the same period in 2015. At September 30, 2016, fixed rate loans accounted for 54% of the loan portfolio compared to 52% at September 30, 2015. The weighted average yield on the variable rate and fixed rate loan portfolios (excluding loan discount accretion) at September 30, 2016 was 4.10% and 4.50%, respectively, compared with 4.04% and 4.68% at September 30, 2015.

The weighted average yield on securities available for sale for the third quarter of 2016 was 1.89% compared to 2.12% for the same period of 2015. The weighted average yield on securities available for sale for the nine months ended September 30, 2016 was 2.05% compared to 2.11% for the same period of 2015. The decrease in weighted average yield was primarily attributable to the inclusion of the investment portfolio acquired from Wilshire, which had a lower average yield compared to the Company's legacy investment portfolio.

The weighted average cost of deposits for the third quarter of 2016 was 0.56%, a decrease of 1 basis point from 0.57% for the same period of 2015. The weighted average cost of deposits for the nine months ended September 30, 2016 was 0.60%, an increase of 4 basis points from 0.56% for the same period of 2015. The amortization of the premium on time deposits assumed in prior acquisitions affected the weighted average cost of deposits, as summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
The weighted average cost of deposits, excluding the effect of acquisition accounting adjustments	0.64 %	0.57%	0.64 %	0.56%
Acquisition accounting adjustments[1]	(0.08)%	0.00%	(0.04)%	0.00%
Reported weighted average cost of deposits	0.56 %	0.57%	0.60 %	0.56%

(1) Acquisition accounting adjustments are calculated by subtracting the weighted average cost on deposits, excluding the effect of acquisition accounting adjustments, from reported weighted average cost of deposits.

Excluding the amortization of premiums on time deposits assumed in acquisitions, the weighted average cost of deposits was 0.64% for the third quarter of 2016, compared to 0.57% for the same period of 2015 and 0.64% for the nine months ended September 30, 2016 compared to 0.56% for the same period of 2015. This increase was due to an increase in retail deposits, primarily money market and time deposits, as a result of our deposit campaigns and promotions.

The weighted average cost of FHLB advances for the third quarter of 2016 was 1.23%, an increase of 10 basis points from 1.13% for the same period of 2015. For the nine months ended September 30, 2016, the weighted average cost of FHLB advances was 1.20%, an increase of 9 basis points from 1.11% for the same period of 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
The weighted average cost of FHLB advances, excluding the effect of acquisition accounting adjustments	1.43 %	1.20 %	1.32 %	1.19 %
Acquisition accounting adjustments[1]	(0.20)%	(0.07)%	(0.12)%	(0.08)%
Reported weighted average cost of FHLB advances	1.23 %	1.13 %	1.20 %	1.11 %

[1] Acquisition accounting adjustments are calculated by subtracting the weighted average cost on FHLB advances, excluding the effect of acquisition accounting adjustments, from reported weighted average cost on FHLB advances.

Excluding amortization of premiums on FHLB advances assumed in acquisitions, the weighted average cost of FHLB advances increased to 1.43% for the third quarter of 2016 from 1.20% for the same period of 2015 and 1.32% for the nine months ended September 30, 2016 compared to 1.19% for the same period of 2015.

The following table presents our condensed consolidated average balance sheet information, together with interest rates earned and paid on the various sources and uses of funds for the periods indicated:

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate *	Average Balance	Interest Income/ Expense	Average Yield/ Rate *
	(Dollars in thousands)					
INTEREST EARNINGS ASSETS:						
Loans[1] [2]	$9,292,814	$112,132	4.80 %	$5,918,005	$73,650	4.94 %
Securities available for sale[3]	1,406,919	6,645	1.89 %	877,054	4,658	2.12 %
FRB and FHLB stock and other investments	237,981	775	1.30 %	265,044	751	1.11 %
Total interest earning assets	$10,937,714	$119,552	4.35 %	$7,060,103	$79,059	4.44 %
INTEREST BEARING LIABILITIES:						
Deposits:						
Demand, interest bearing	$2,924,340	$5,932	0.81 %	$1,695,709	$3,141	0.73 %
Savings	268,424	311	0.46 %	196,090	419	0.85 %
Time deposits:						
$100,000 or more	2,687,108	4,913	0.73 %	1,677,861	3,450	0.82 %
Other	913,292	1,861	0.81 %	677,338	1,380	0.81 %
Total time deposits	3,600,400	6,774	0.75 %	2,355,199	4,830	0.81 %
Total interest bearing deposits	6,793,164	13,017	0.76 %	4,246,998	8,390	0.78 %
FHLB advances	698,081	2,161	1.23 %	532,926	1,514	1.13 %
Other borrowings	78,828	900	4.47 %	40,716	394	3.79 %
Total interest bearing liabilities	7,570,073	$16,078	0.84 %	4,820,640	$10,298	0.85 %
Noninterest bearing demand deposits	2,535,015			1,630,633		
Total funding liabilities/cost of funds	$10,105,088		0.63 %	$6,451,273		0.63 %
Net interest income/net interest spread		$103,474	3.51 %		$68,761	3.60 %
Net interest margin			3.77 %			3.87 %
Net interest margin, excluding the effect of nonaccrual loan expense[4]			3.77 %			3.87 %
Net interest margin, excluding the effect of nonaccrual loan expense and prepayment fee income[4] [5]			3.73 %			3.85 %
Cost of deposits:						
Noninterest bearing demand deposits	$2,535,015	$—		$1,630,633	—	
Interest bearing deposits	6,793,164	13,017	0.76 %	4,246,998	8,390	0.78 %
Total deposits	$9,328,179	$13,017	0.56 %	$5,877,631	$8,390	0.57 %

* Annualized

(1) Interest income on loans includes loan fees.

(2) Average balances of loans consist of loans receivable and loans held for sale.

(3) Interest income and yields are not presented on a tax-equivalent basis.

(4) Nonaccrual interest income reversed was $147 thousand and $0 for the three months ended September 30, 2016 and 2015, respectively.

(5) Loan prepayment fee income excluded was $1.02 million and $333 thousand for the three months ended September 30, 2016 and 2015, respectively.

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate *	Average Balance	Interest Income/ Expense	Average Yield/ Rate *
	(Dollars in thousands)					
INTEREST EARNINGS ASSETS:						
Loans[1] [2]	$7,347,740	$266,336	4.84 %	$5,760,376	$214,537	4.98 %
Securities available for sale[3]	1,171,816	18,051	2.06 %	824,088	13,067	2.11 %
FRB and FHLB stock and other investments	230,993	2,160	1.25 %	343,686	3,084	1.18 %
Total interest earning assets	$8,750,549	$286,547	4.37 %	$6,928,150	$230,688	4.45 %
INTEREST BEARING LIABILITIES:						
Deposits:						
Demand, interest bearing	$2,310,000	$14,083	0.81 %	$1,643,539	$8,779	0.71 %
Savings	211,255	962	0.61 %	195,072	1,260	0.86 %
Time deposits:						
$100,000 or more	2,130,243	13,210	0.83 %	1,713,631	10,340	0.81 %
Other	786,625	5,021	0.85 %	637,916	3,736	0.78 %
Total time deposits	2,916,868	18,231	0.83 %	2,351,547	14,076	0.80 %
Total interest bearing deposits	5,438,123	33,276	0.82 %	4,190,158	24,115	0.77 %
FHLB advances	598,672	5,370	1.20 %	498,795	4,138	1.11 %
Other borrowings	53,593	1,755	4.30 %	40,670	1,160	3.76 %
Total interest bearing liabilities	6,090,388	$40,401	0.89 %	4,729,623	$29,413	0.83 %
Noninterest bearing demand deposits	1,947,673			1,599,554		
Total funding liabilities/cost of funds	$8,038,061		0.67 %	$6,329,177		0.62 %
Net interest income/net interest spread		$246,146	3.49 %		$201,275	3.62 %
Net interest margin			3.76 %			3.88 %
Net interest margin, excluding the effect of nonaccrual loan expense[4]			3.76 %			3.88 %
Net interest margin, excluding the effect of nonaccrual loan expense and prepayment fee income[4] [5]			3.73 %			3.86 %
Cost of deposits:						
Noninterest bearing demand deposits	$1,947,673	$—		$1,599,554	$—	
Interest bearing deposits	5,438,123	33,276	0.82 %	4,190,158	24,115	0.77 %
Total deposits	$7,385,796	$33,276	0.60 %	$5,789,712	$24,115	0.56 %

* Annualized

(1) Interest income on loans includes loan fees.

(2) Average balances of loans consist of loans receivable and loans held for sale.

(3) Interest income and yields are not presented on a tax-equivalent basis.

(4) Nonaccrual interest income reversed was $144 thousand and $45 thousand for the nine months ended September 30, 2016 and 2015, respectively.

(5) Loan prepayment fee income excluded was $2.2 million and $1.3 million for the nine months ended September 30, 2016 and 2015, respectively.

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Changes in net interest income are a function of changes in interest rates and volumes of interest earning assets and interest bearing liabilities. The following table sets forth information regarding the changes in interest income and interest expense for the periods indicated. The total change for each category of interest earning assets and interest bearing liabilities is segmented into the change attributable to variations in volume (changes in volume multiplied by the old rate) and the change attributable to variations in interest rates (changes in rates multiplied by the old volume). Nonaccrual loans are included in average loans used to compute this table.

	Three Months Ended September 30, 2016 over September 30, 2015		
	Net Increase (Decrease)	Change due to Rate	Volume
	(In thousands)		
INTEREST INCOME:			
Interest and fees on loans	$38,482	$(2,102)	$40,584
Interest on securities	1,987	(569)	2,556
Interest on FRB and FHLB stock and other investments	24	106	(82)
Total interest income	$40,493	$(2,565)	$43,058
INTEREST EXPENSE:			
Interest on demand, interest bearing	$2,791	$333	$2,458
Interest on savings	(108)	(230)	122
Interest on time deposits	1,944	(414)	2,358
Interest on FHLB advances	647	149	498
Interest on other borrowings	506	82	424
Total interest expense	$5,780	$(80)	$5,860
NET INTEREST INCOME	$34,713	$(2,485)	$37,198

	Nine Months Ended September 30, 2016 over September 30, 2015		
	Net Increase (Decrease)	Change due to Rate	Volume
	(In thousands)		
INTEREST INCOME:			
Interest and fees on loans	$51,799	$(6,060)	$57,859
Interest on securities	4,984	(394)	5,378
Interest on FRB and FHLB stock and other investments	(924)	123	(1,047)
Total interest income	$55,859	$(6,331)	$62,190
INTEREST EXPENSE:			
Interest on demand, interest bearing	$5,304	$1,363	$3,941
Interest on savings	(298)	(396)	98
Interest on time deposits	4,155	633	3,522
Interest on FHLB advances	1,232	352	880
Interest on other borrowings	595	188	407
Total interest expense	$10,988	$2,140	$8,848
NET INTEREST INCOME	$44,871	$(8,471)	$53,342

Provision for Loan Losses

The provision for loan losses reflects the Company's judgment of the current period cost associated with credit risk inherent in our loan portfolio. The loan loss provision for each period is dependent upon many factors, including loan growth, net charge offs, changes in the composition of the loan portfolio, delinquencies, assessments by management and third parties' regulators' examination of the loan portfolio, the value of the underlying collateral for problem loans and the general economic conditions in our market areas. Specifically, the provision for loan losses represents the amount charged against current period earnings to achieve an allowance for loan losses that, in our judgment, is adequate to absorb probable incurred losses inherent in our loan portfolio. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses; however, actual loan losses may vary in material and adverse respects from current estimates. If the allowance for loan losses is inadequate, it may have a material adverse effect on our financial condition and results of operations.

The provision for loan losses for the third quarter of 2016 was $6.5 million, an increase of $5.9 million, or 983.3%, from $600 thousand for the same period last year. The provision for loan losses for the nine months period ended September 30, 2016 was $8.2 million, an increase of $5.1 million, or 164.5%, from $3.1 million for the same period last year. The increase in provision was mostly due to the increase in historical loss rates. The Company had a $3.0 million charge-off of a commercial loan rated pass which increased historical loss rates for loans in that category resulting in additional required reserves. In addition, the increase in loan volume from the acquisition of Wilshire increased qualitative factors used in our allowance calculation.

See Financial Condition section of this MD&A for additional information and further discussion.

Noninterest Income

Noninterest income is primarily comprised of service fees on deposit accounts, fees received on trade finance letters of credit, net gains on sales of loans, and other income. Noninterest income for the third quarter of 2016 was $14.1 million compared to $11.2 million for the same quarter of 2015, an increase of $3.0 million, or 26.5%. The increase was primarily due to an increase of $1.6 million, or 83.4%, in other income and fees and an increase of $1.6 million, or 50.7%, in service fees on deposit accounts. These increases were partially offset by a $3.2 million, or 93.2%, decrease from net gains on sales of SBA loans. The overall increase in noninterest income was primarily due to the additional noninterest income resulting from the acquisition of Wilshire during the third quarter of 2016.

Noninterest income for the nine months ended September 30, 2016 was $33.6 million compared to $32.7 million for the same period of 2015, an increase of $913 thousand, or 2.8%. The increase was principally due to a $2.3 million, or 42.2%, increase in other income and fees, a $1.3 million, or 500.4%, increase from net gains on sales of other loans, and an increase in service charges on deposits accounts of $1.1 million, or 11.9%. These increases were partially offset by a $4.5 million, or 46.7%, decrease from net gains on sales of SBA loans.

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Noninterest income by category is summarized in the table below:

	Three Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percent (%)
	(Dollars in thousands)			
Service fees on deposit accounts	$4,778	$3,170	$1,608	50.7 %
International service fees	1,010	838	172	20.5 %
Loan servicing fees, net	955	800	155	19.4 %
Wire transfer fees	1,158	1,001	157	15.7 %
Other income and fees	3,591	1,958	1,633	83.4 %
Net gains on sales of SBA loans	230	3,390	(3,160)	(93.2)%
Net gains on sales of other loans	1,476	26	1,450	5,576.9 %
Net gains on sales of securities available for sale	948	—	948	100.0 %
Total noninterest income	$14,146	$11,183	$2,963	26.5 %

	Nine Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percent (%)
	(Dollars in thousands)			
Service fees on deposit accounts	$10,363	$9,261	$1,102	11.9 %
International service fees	2,601	2,656	(55)	(2.1 %)
Loan servicing fees, net	2,234	2,374	(140)	(5.9 %)
Wire transfer fees	2,966	2,635	331	12.6 %
Other income and fees	7,906	5,558	2,348	42.2 %
Net gains on sales of SBA loans	5,090	9,553	(4,463)	(46.7 %)
Net gains on sales of other loans	1,519	253	1,266	500.4 %
Net gains on sales of securities available for sale	948	424	524	123.6 %
Total noninterest income	$33,627	$32,714	$913	2.8 %

Noninterest Expense

Noninterest expense for the third quarter of 2016 was $67.8 million, an increase of $31.1 million, or 84.6%, from $36.8 million for the same period of 2015. Merger and integration expenses increased $11.2 million during the third quarter of 2016 as compared to the same period in 2015, primarily consisting of fees for legal counsel and financial advisor fees which were associated with the acquisition of Wilshire. Salaries and employee benefits expense increased $9.0 million during the third quarter of 2016 as compared to the same period in 2015 due to an increase in the number of full-time equivalent employees primarily as a result of the acquisition of Wilshire. Other noninterest expense increased $3.8 million for the third quarter of 2016 as compared to the same period in 2015 due to additional expenses from the acquisition of Wilshire.

Noninterest expense for the nine months ended September 30, 2016 was $148.2 million, an increase of $33.8 million, or 29.5%, from $114.4 million for the same period of 2015. Merger and integration expenses increased by $13.9 million during the nine months ended September 30, 2016 as compared to the same period in 2015, primarily consisting of fees for legal counsel and financial advisor fees, which were associated with the acquisition with Wilshire. Salaries and employee benefits expense increased $10.2 million, and other expense increased by $4.4 million each during the nine months ended September 30, 2016 as compared to the same period in 2015.

The increase in noninterest expense for periods in 2016 compared to period in 2015 were from additional expenses that resulted from the acquisition of Wilshire. At September 30, 2016, a large portion of expected cost savings from the acquisition of Wilshire were not realized due to the continued integration of Wilshire into the Company. During the third quarter of 2016, the Company announced a branch optimization plan which will result in the closure of 12 overlapping branch offices in the first phase and an additional number of branches in the second phase. The branch consolidation plan is expected to reduce salaries and benefits, occupancy expense, and other noninterest expenses once implemented. With the full integration of Wilshire into the Company, cost savings is expected to be realized in the remaining period of 2016 and 2017.

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At September 30, 2016, total future lease commitments totaled $60.3 million with the last of the commitments ending in 2030. Approximately $20.1 million in lease commitments were related to leases acquired from Wilshire during the third quarter of 2016.

The breakdown of changes in noninterest expense by category is shown in the following table:

	Three Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percent (%)
	(Dollars in thousands)			
Salaries and employee benefits	$30,456	$21,457	$8,999	41.9 %
Occupancy	6,889	4,941	1,948	39.4 %
Furniture and equipment	3,297	2,329	968	41.6 %
Advertising and marketing	2,306	1,309	997	76.2 %
Data processing and communications	3,199	2,192	1,007	45.9 %
Professional fees	1,898	1,289	609	47.2 %
FDIC assessment	1,564	1,027	537	52.3 %
Credit related expenses	810	75	735	980.0 %
OREO expense, net	(423)	(721)	298	(41.3)%
Merger and integration expenses	11,222	24	11,198	46,658.3 %
Other	6,628	2,833	3,795	134.0 %
Total noninterest expense	$67,846	$36,755	$31,091	84.6 %

	Nine Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percent (%)
	(Dollars in thousands)			
Salaries and employee benefits	$73,782	$63,570	$10,212	16.1 %
Occupancy	16,626	14,443	2,183	15.1 %
Furniture and equipment	7,921	6,915	1,006	14.5 %
Advertising and marketing	4,845	4,184	661	15.8 %
Data processing and communications	7,499	7,004	495	7.1 %
Professional fees	4,255	3,966	289	7.3 %
FDIC assessment	3,697	3,048	649	21.3 %
Credit related expenses	2,142	1,600	542	33.9 %
OREO expense, net	1,138	1,677	(539)	(32.1)%
Merger and integration expenses	13,962	102	13,860	13,588.2 %
Other	12,377	7,937	4,440	55.9 %
Total noninterest expense	$148,244	$114,446	$33,798	29.5 %

Provision for Income Taxes

Income tax provision expense was $17.2 million and $17.5 million for the quarters ended September 30, 2016 and 2015, respectively. The effective income tax rates were 39.7% and 41.1% for the quarters ended September 30, 2016 and 2015, respectively. Income tax provision expense was $50.2 million and $47.1 million for the nine months ended September 30, 2016 and 2015, respectively. The effective income tax rates for the nine months ended September 30, 2016 and 2015 were 40.7% and 40.4%, respectively.

Financial Condition

At September 30, 2016, our total assets were $13.51 billion, an increase of $5.59 billion, or 70.7% from $7.91 billion at December 31, 2015. The increase in assets was principally due to assets acquired from the acquisition of Wilshire during the third quarter of 2016. The acquisition resulted in an increase in assets of approximately $4.98 billion in assets including fair value adjustments and goodwill created from the transaction.

Investment Securities Portfolio

As of September 30, 2016, we had $1.56 billion in available for sale securities, compared to $1.01 billion at December 31, 2015. The net unrealized gain on the available for sale securities at September 30, 2016 was $14.40 billion, compared to a net unrealized loss on such securities of $3.5 million at December 31, 2015.

The Company acquired $478.9 million in investment securities from the acquisition of Wilshire. Investments acquired from Wilshire included government sponsored agency securities, mortgage-backed securities, and collateralized mortgage obligations in addition to municipal and corporate securities. During the nine months ended September 30, 2016, $428.9 million in securities were purchased, $108.3 million in mortgage related securities were paid down, and $22.5 million in securities were sold including $162.3 million in investments that were acquired from Wilshire. During the same period last year, $310.6 million in securities were purchased, $69.2 million in mortgage related securities were paid down, and $22.5 million in securities were sold. The weighted average life of the available for sale securities was 3.90 years and 5.07 years at September 30, 2016 and December 31, 2015, respectively.

Investments in Affordable Housing Partnerships

At September 30, 2016 the Company had $69.0 million in investments in affordable housing partnerships compared to $25.0 million at December 31, 2015. The increase in investments in affordable housing partnerships was due to investments acquired from Wilshire in the third quarter of 2016. The Company acquired 19 investments from Wilshire at a fair value of $47.1 million in the third quarter of 2016. Commitments to fund investments in affordable housing partnerships totaled $26.4 million at September 30, 2016 compared to $14.9 million at December 31, 2015.

Loan Portfolio

As of September 30, 2016, loans outstanding totaled $10.56 billion, an increase of $4.31 billion from $6.25 billion at December 31, 2015. The following table summarizes our loan portfolio by amount and percentage of total loans outstanding in each major loan category at the dates indicated:

	September 30, 2016		December 31, 2015	
	Amount	Percent (%)	Amount	Percent (%)
		(Dollars in thousands)		
Loan portfolio composition				
Real estate loans:				
Residential	$60,280	1 %	$33,797	0 %
Commercial & industrial	7,887,734	74 %	4,912,655	78 %
Construction	210,857	2 %	123,030	2 %
Total real estate loans	8,158,871	77 %	5,069,482	80 %
Commercial business	1,829,785	17 %	980,153	16 %
Trade finance	182,128	2 %	99,163	2 %
Consumer and other	392,608	4 %	102,573	2 %
Total loans outstanding	10,563,392	100 %	6,251,371	100 %
Less: deferred loan fees	(2,195)		(3,030)	
Loans receivable	10,561,197		6,248,341	
Less: allowance for loan losses	(79,976)		(76,408)	
Loans receivable, net of allowance for loan losses	$10,481,221		$6,171,933	

All of the loan categories above increased from December 31, 2015 to September 30, 2016 due to loans acquired from the acquisition of Wilshire. Approximately $3.80 billion in loans receivable were acquired from Wilshire, which

includes a discount of $87.3 million that was taken at July 29, 2016 in accordance with mark-to-market accounting required in connection with the acquisition.

We normally do not extend lines of credit or make loan commitments to business customers for periods in excess of one year. We use the same credit policies in making commitments and conditional obligations as we do for providing loan facilities to our customers. We perform annual reviews of such commitments prior to renewal.

The following table shows our loan commitments and letters of credit outstanding at the dates indicated:

	September 30, 2016	December 31, 2015
	(In thousands)	
Loan commitments	$1,398,547	$ 802,251
Standby letters of credit	59,855	45,083
Other commercial letters of credit	59,370	36,256
	$1,517,772	$ 883,590

Nonperforming Assets

Nonperforming assets, which consist of nonaccrual loans, loans 90 days or more past due and on accrual status, accruing restructured loans and OREO, totaled $117.0 million at September 30, 2016, compared to $110.2 million at December 31, 2015. The ratio of nonperforming assets to loans receivable and OREO was 1.10% and 1.76% at September 30, 2016 and December 31, 2015, respectively.

The following table summarizes the composition of our nonperforming assets as of the dates indicated.

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Nonaccrual loans [(1)]	$40,602	$ 40,801
Loans 90 days or more days past due, still accruing	192	375
Accruing restructured loans	48,701	47,984
Total nonperforming loans	89,495	89,160
OREO	27,457	21,035
Total nonperforming assets	$116,952	$ 110,195
Nonaccrual loans:		
Legacy Portfolio	$30,553	$ 28,469
Acquired Portfolio	10,049	12,332
Total nonaccrual loans	$40,602	$ 40,801
Nonperforming loans:		
Legacy Portfolio	$76,164	$ 73,422
Acquired Portfolio	13,331	15,738
Total nonperforming loans	$89,495	$ 89,160
Nonperforming loans to loans receivable	0.85 %	1.43 %
Nonperforming assets to loans receivable and OREO	1.10 %	1.76 %
Nonperforming assets to total assets	0.87 %	1.39 %
Allowance for loan losses to nonperforming loans	89.36 %	85.70 %
Allowance for loan losses to nonperforming assets	68.38 %	69.34 %

(1) Nonaccrual loans exclude the guaranteed portion of delinquent SBA loans that are in liquidation totaling $14.1 million and $18.7 million as of September 30, 2016 and December 31, 2015, respectively.

Allowance for Loan Losses

The allowance for loan losses was $80.0 million at September 30, 2016 compared to $76.4 million at December 31, 2015. The allowance for loan losses was 0.76% of loans receivable at September 30, 2016 and 1.22% of loans receivable at December 31, 2015. The change in the allowance for loan losses was driven by an increase in general valuation allowances and loss rates on non-impaired loans. These increases were offset by decreases in the quantitative reserves which was caused by decreasing historical losses. Impaired loan reserves increased to $9.1 million at September 30, 2016 from $8.8 million at December 31, 2015.

The following table reflects our allocation of the allowance for loan and lease losses (“ALLL”) by loan type and the ratio of each loan segment to total loans as of the dates indicated:

	Allocation of Allowance for Loan Losses					
	September 30, 2016			December 31, 2015		
	Amount of Allowance for Loan Losses	Percent of loans to total loans		Amount of Allowance for Loan Losses	Percent of loans to total loans	
	(Dollars in thousands)					
Loan Type						
Real estate - residential	$106	0	%	$230	0	%
Real estate - commercial	52,917	66	%	54,505	78	%
Real estate - construction	1,176	2	%	917	2	%
Commercial business	21,577	27	%	16,547	16	%
Trade finance	2,417	3	%	3,592	2	%
Consumer and other	1,783	2	%	617	2	%
Total	$79,976	100	%	$76,408	100	%

For a better understanding of the changes in the ALLL, the loan portfolio has been segmented for disclosures purposes between loans which are accounted for under the amortized cost method (Legacy Loans) and loans acquired from acquisitions (Acquired Loans). Acquired Loans have been further segregated between Purchase Credit Impaired Loans (loans with credit deterioration at the time they were acquired and accounted for under ASC 310-30, or “PCIs”) and performing loans (loans that were pass graded at the time they were acquired, or “non-PCI”). The activity in the ALLL for the three and nine months ended September 30, 2016 is as follows:

Three Months Ended September 30, 2016	Legacy Loans[1]	Acquired Loans[2] PCI Loans	Non-PCI Loans	Total
	(Dollars in thousands)			
Balance, beginning of period	$63,617	$11,949	$859	$76,425
Provision for loan losses	5,908	103	489	6,500
Loans charged off	(3,513)	—	(445)	(3,958)
Recoveries of loan charge offs	973	—	36	1,009
Balance, end of period	$66,985	$12,052	$939	$79,976
Total loans outstanding	$6,436,147	$302,942	$3,824,303	$10,563,392
Loss coverage ratio	1.04%	3.98%	0.02%	0.76%
Net loan charge offs to beginning allowance	3.99%	—%	47.61%	3.86%
Net loan charge offs to provision for loan losses	42.99%	—%	83.64%	45.37%

Nine Months Ended September 30, 2016	Legacy Loans [1]	Acquired Loans [2] PCI Loans	Non-PCI Loans	Total
	(Dollars in thousands)			
Balance, beginning of period	$63,309	$11,982	$1,117	$76,408
Provision (credit) for loan losses	7,669	70	461	8,200
Loans charged off	(6,274)	—	(801)	(7,075)
Recoveries of loan charge offs	2,281	—	162	2,443
Balance, end of period	$66,985	$12,052	$939	$79,976
Total loans outstanding	$6,436,147	$302,942	$3,824,303	$10,563,392
Loss coverage ratio	1.04%	3.98%	0.02%	0.76%
Net loan charge offs to beginning allowance	6.31%	—%	57.21%	6.06%
Net loan charge offs to provision for loan losses	52.07%	—%	138.61%	56.49%

[1] Legacy Loans includes Acquired Loans that have been renewed or refinanced subsequent to the acquisition date.

[2] Acquired Loans were marked to fair value at the acquisition date and provisions for loan losses reflect credit deterioration subsequent to the acquisition date.

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The following table shows the provisions made for loan losses, the amount of loans charged off and the recoveries on loans previously charged off, together with the balance in the ALLL at the beginning and end of each period, the amount of average and loans receivable outstanding, and certain other ratios as of the dates and for the periods indicated:

	At or for the Three Months Ended September 30,	
	2016	2015
	(Dollars in thousands)	
LOANS:		
Average loans receivable, including loans held for sale	$9,292,814	$5,918,005
Loans receivable	$10,561,197	$5,972,724
ALLOWANCE:		
Balance, beginning of period	$76,425	$70,118
Less loan charge offs:		
Commercial & industrial real estate	(567)	(40)
Commercial business loans	(3,229)	(816)
Trade finance	—	(300)
Consumer and other loans	(162)	(623)
Total loan charge offs	(3,958)	(1,779)
Plus loan recoveries:		
Commercial & industrial real estate	440	546
Commercial business loans	566	1,141
Trade Finance	—	—
Consumer and other loans	3	484
Total loans recoveries	1,009	2,171
Net loan charge offs	(2,949)	392
Provision for loan losses	6,500	600
Balance, end of period	$79,976	$71,110
Net loan charge offs to average loans receivable, including loans held for sale*	0.13%	(0.03)%
Allowance for loan losses to loans receivable at end of period	0.76%	1.19%
Net loan charge offs to beginning allowance *	15.43%	(2.24)%
Net loan charge offs to provision for loan losses	45.37%	(65.33)%

* Annualized

The Company believes the allowance for loan losses as of September 30, 2016 was adequate to absorb probable incurred losses in the loan portfolio. However, no assurance can be given that actual losses will not exceed the estimated amounts, and if actual losses exceed the estimated amounts it could have a material and adverse effect on our financial condition and results of operations.

Deposits and Other Borrowings

Deposits

Deposits are our primary source of funds used in our lending and investment activities. At September 30, 2016, deposits increased $4.36 billion, or 68.8%, to $10.70 billion from $6.34 billion at December 31, 2015. The increase in deposits was primarily due to the $3.81 billion in deposits acquired from the acquisition of Wilshire during the third quarter of 2016. The Company recorded $10.7 million in time deposit premiums and installments savings at the date of acquisition. At September 30, 2016, the remaining balance of deposit premiums from prior acquisitions totaled $8.4 million.

At September 30, 2016, 27.1% of total deposits were noninterest bearing demand deposits, 39.0% were time deposits, and 33.9% were interest bearing demand and savings deposits. At December 31, 2015, 26.7% of total deposits were noninterest bearing demand deposits, 39.1% were time deposits, and 34.2% were interest bearing demand and savings deposits.

At September 30, 2016, the Company had $629.4 million in brokered deposits and $300.0 million in California State Treasurer deposits, compared to $374.6 million and $300.0 million of such deposits at December 31, 2015, respectively. The California State Treasurer deposits had three-month maturities with a weighted average interest rate of 0.34% at September 30, 2016 and were collateralized with securities with a carrying value of $414.2 million.

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The following is a schedule of certificates of deposit maturities as of September 30, 2016:

	Balance	Percent (%)
	(Dollars in thousands)	
Three months or less	$983,080	23.54 %
Over three months through six months	716,958	17.17 %
Over six months through nine months	697,238	16.70 %
Over nine months through twelve months	1,078,920	25.84 %
Over twelve months	699,204	16.75 %
Total time deposits	$4,175,400	100.00%

Other Borrowings

From time to time the Company utilizes FHLB advances as a secondary source of funds. FHLB advances are typically secured by a pledge of commercial real estate loans and/or securities with a market value at least equal to the outstanding advances plus our investment in FHLB stock.

At September 30, 2016, we had $754.7 million of FHLB advances with average remaining maturities of 2.4 years, compared to $530.6 million with average remaining maturities of 1.9 years at December 31, 2015. The weighted average rate net of acquisition adjustments was 1.19% and 1.15%, at September 30, 2016 and December 31, 2015, respectively. The Company acquired $200.0 million in FHLB borrowings from the acquisition of Wilshire at a premium of $6.2 million. In August 2016, the Company prepaid $100.0 million in advances. As a result, only one fix rate advance acquired from Wilshire remained at September 30, 2016, with a fair value of $104.4 million.

Subordinated debentures totaled $99.5 million at September 30, 2016 and $42.3 million at December 31, 2015. The Trust Preferred Securities accrue and pay distributions periodically at specified annual rates as provided in the related indentures for the securities. The trusts used the net proceeds from their respective offerings to purchase a like amount of subordinated debentures (the “Debentures”) issued by us. The Debentures are the sole assets of the trusts. Our obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by us of the obligations of the trusts. The Trust Preferred Securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. We have the right to redeem the Debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date.

The Company acquired $56.9 million in Debentures with the acquisition of Wilshire, net of a discount of $25.5 million at the time of the acquisition. At September 30, 2016, these Debentures had a balance of $57.1 million.

Off-Balance-Sheet Activities and Contractual Obligations

We routinely engage in activities that involve, to varying degrees, elements of risk that are not reflected, in whole or in part, in the consolidated financial statements. These activities are part of our normal course of business and include traditional off-balance-sheet credit-related financial instruments, interest rate swap contracts, operating leases and long-term debt.

Traditional off-balance-sheet credit-related financial instruments are primarily commitments to extend credit and standby letters of credit. These activities could require us to make cash payments to third parties if certain specified future events occur. The contractual amounts represent the extent of our exposure in these off-balance-sheet activities. However, since certain off-balance-sheet commitments, particularly standby letters of credit, are expected to expire or be only partially used, the total amount of commitments does not necessarily represent future cash requirements. These activities are necessary to meet the financing needs of our customers.

We enter into interest rate swap contracts under which we are required to either receive cash from or pay cash to counterparties depending on changes in interest rates. We also purchase interest rate caps to protect against increases in market interest rates. We utilize interest rate swap contracts and interest rate caps to help manage the risk of changing interest rates.

We sell interest rate swaps to certain adjustable rate commercial loan customers to fix the interest rate on their floating rate loans. When the fixed rate swap is originated with the customer, an identical offsetting swap is also entered into by us with a correspondent bank.

With the acquisition of Wilshire's mortgage lending platform, the Company began utilizing mortgage banking derivatives during the third quarter of 2016. The first type of derivative, an interest rate lock commitment, is a commitment to originate loans whereby the interest rate on the loan is determined prior to funding. To mitigate interest rate risk on these rate lock commitments, the Company also enters into forward commitments, or commitments to deliver residential mortgage loans on a future date, also

considered derivatives. Net change in the fair value of derivatives represents income recorded from changes of fair value for these mortgage derivatives instruments.

We do not anticipate that our current off-balance-sheet activities will have a material impact on our future results of operations or our financial condition. Further information regarding our financial instruments with off-balance-sheet risk can be found in Item 3 "Quantitative and Qualitative Disclosures about Market Risk."

Stockholders' Equity and Regulatory Capital

Historically, our primary source of capital has been the retention of earnings, net of dividend payments to shareholders. We seek to maintain capital at a level sufficient to assure our stockholders, our customers, and our regulators that our Company and our bank subsidiary are financially sound. For this purpose, we perform ongoing assessments of our components of capital, as well as projected sources and uses of capital in conjunction with projected increases in assets and levels of risks.

Total stockholders' equity was $1.85 billion at September 30, 2016, compared to $938.1 million at December 31, 2015.

The federal banking agencies require a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%, a minimum ratio of Tier I capital to risk-weighted assets of 6.0%, and a minimum ratio of Tier I common equity capital to risk-weighted assets of 4.5% to generally be considered "adequately capitalized" under the Prompt Corrective Action regulations. In addition to the risk-based guidelines, federal banking agencies require banking organizations to maintain a minimum amount of Tier I capital to average total assets, referred to as the leverage ratio, of 4.0% to generally be considered "adequately capitalized" under the Prompt Corrective Action regulations. Beginning January 1, 2016, federal banking agencies required a capital conservation buffer of 0.625% in addition to the ratios required to generally be considered "adequately capitalized" under the Prompt Corrective Action regulations. Failure to maintain this capital conservation buffer results in limits or prohibitions on capital distributions and discretionary compensation payments. Capital requirements apply to the Company and the Bank separately. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

At September 30, 2016, our common equity Tier 1 capital was $1.37 billion compared to $833.9 million at December 31, 2015. Our Tier I capital, defined as stockholders' equity less intangible assets, was $1.47 billion, compared to $874.8 million at December 31, 2015, representing an increase of $594.9 million, or 68.0%. The increase was primarily due to equity issued from the acquisition of Wilshire during the third quarter of 2016.. At September 30, 2016, the Common Equity Tier 1 capital ratio was 11.96%. The total capital to risk-weighted assets ratio was 13.51% and the Tier I capital to risk-weighted assets ratio was 12.79%. The Tier I leverage capital ratio was 13.02%.

As of September 30, 2016 and December 31, 2015, the most recent regulatory notification categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be generally categorized as "well-capitalized", the Bank must maintain minimum common equity Tier 1 capital, total risk-based, Tier I risk-based and Tier I leverage capital ratios as set forth in the table below:

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	As of September 30, 2016 (Dollars in thousands)					
	Actual		To Be Well-Capitalized		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Hope Bancorp, Inc.						
Common equity Tier 1 capital ratio	$1,374,055	11.96%	N/A	N/A		
Total risk-based capital ratio	$1,552,499	13.51%	N/A	N/A		
Tier 1 risk-based capital ratio	$1,469,699	12.79%	N/A	N/A		
Tier 1 capital to total assets	$1,469,699	13.02%	N/A	N/A		
Bank of Hope						
Common equity Tier 1 capital ratio	$1,448,934	12.62%	$746,526	6.50 %	$702,408	6.12%
Total risk-based capital ratio	$1,531,734	13.34%	$1,148,502	10.00 %	$383,232	3.34%
Tier 1 risk-based capital ratio	$1,448,934	12.62%	$918,801	8.00 %	$530,133	4.62%
Tier I capital to total assets	$1,448,934	12.84%	$564,263	5.00 %	$884,671	7.84%

	As of December 31, 2015 (Dollars in thousands)					
	Actual		To Be Well-Capitalized		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Hope Bancorp, Inc.						
Common equity Tier 1 capital ratio	$833,868	12.08%	N/A	N/A		
Total risk-based capital ratio	$953,132	13.80%	N/A	N/A		
Tier 1 risk-based capital ratio	$874,771	12.67%	N/A	N/A		
Tier 1 capital to total assets	$874,771	11.53%	N/A	N/A		
Bank of Hope						
Common equity Tier 1 capital ratio	$866,652	12.56%	$448,684	6.50 %	$417,968	6.06%
Total risk-based capital ratio	$945,013	13.69%	$690,283	10.00 %	$254,730	3.69%
Tier 1 risk-based capital ratio	$866,652	12.56%	$552,226	8.00 %	$314,426	4.56%
Tier I capital to total assets	$866,652	11.43%	$379,262	5.00 %	$487,390	6.43%

Liquidity Management

Liquidity risk is the risk of reduction in our earnings or capital that would result if we were not able to meet our obligations when they come due without incurring unacceptable losses. Liquidity risk includes the risk of unplanned decreases or changes in funding sources and changes in market conditions that affect our ability to liquidate assets quickly and with minimum loss of value. Factors considered in liquidity risk management are the stability of the deposit base; the marketability, maturity, and pledging of our investments; the availability of alternative sources of funds; and our demand for credit. The objective of our liquidity management is to have funds available to meet cash flow requirements arising from fluctuations in deposit levels and the demands of daily operations, which include funding of securities purchases, providing for customers' credit needs, and ongoing repayment of borrowings.

Our primary sources of liquidity are derived from financing activities, which include customer and broker deposits, federal funds facilities, and borrowings from the FHLB and the FRB Discount Window. These funding sources are augmented by payments of principal and interest on loans and securities, proceeds from sale of loans and the liquidation or sale of securities from our available for sale portfolio. Primary uses of funds include withdrawal of and interest payments on deposits, originations of loans, purchases of investment securities, and payment of operating expenses.

At September 30, 2016, our total borrowing capacity from the FHLB was $2.08 billion, of which $1.32 billion was unused and available to borrow. At September 30, 2016, our total borrowing capacity from the FRB was $576.7 million, which was unused and available to borrow. In addition to these lines, our liquid assets, consisting of cash and cash equivalents, interest bearing cash deposits and time deposits with other banks, overnight federal funds sold to other banks, liquid investment securities available for sale, and loan repayments within 30 days, were $1.64 billion at September 30, 2016 compared to $1.0 billion at December 31, 2015. Cash and cash equivalents, including federal funds sold, were $443.9 million at September 30, 2016 compared to $298.4 million at December 31, 2015. We believe our liquidity sources are sufficient to meet all reasonably foreseeable short-term and intermediate-term needs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The objective of our asset and liability management activities is to maximize our earnings while maintaining adequate liquidity and an exposure to interest rate risk deemed by management to be acceptable by adjusting the type and mix of assets and liabilities to seek to effectively address changing conditions and risks. Through overall management of our balance sheet and by seeking to manage various risks, we seek to optimize our financial returns within safe and sound parameters. Our operating strategies for attaining this objective include managing net interest margin through appropriate risk/return pricing of assets and liabilities and emphasizing growth in retail deposits, as a percentage of interest bearing liabilities, to reduce our cost of funds. We also seek to improve earnings by controlling noninterest expense, and enhancing noninterest income. We also use risk management instruments to modify interest rate characteristics of certain assets and liabilities to hedge against our exposure to interest rate fluctuations with the objective of reducing the effects fluctuations might have on associated cash flows or values. Finally, we perform internal analysis to measure, evaluate, and monitor risk.

Interest Rate Risk

Interest rate risk is the most significant market risk impacting us. Interest rate risk occurs when interest rate sensitive assets and liabilities do not reprice simultaneously and in equal volume. A key objective of asset and liability management is to manage interest rate risk associated with changing asset and liability cash flows and values of our assets and liabilities and market interest rate movements. The management of interest rate risk is governed by policies reviewed and approved annually by the Board of Directors. Our Board delegates responsibility for interest rate risk management to the Asset and Liability Committee of the Board (“ALCO”) and to the Asset and Liability Management Committee (“ALM”), which is composed of the Bank’s senior executives and other designated officers.

The fundamental objective of our ALM is to manage our exposure to interest rate fluctuations while maintaining adequate levels of liquidity and capital. Our ALM meets regularly to monitor interest rate risk, the sensitivity of our assets and liabilities to interest rate changes, the book and market values of our assets and liabilities, and our investment activities. It also directs changes in the composition of our assets and liabilities. Our strategy has been to reduce the sensitivity of our earnings to interest rate fluctuations by more closely matching the effective maturities or repricing characteristics of our assets and liabilities. Certain assets and liabilities, however, may react in different degrees to changes in market interest rates. Furthermore, interest rates on certain types of assets and liabilities may fluctuate prior to changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. We consider the anticipated effects of these factors when implementing our interest rate risk management objectives.

Interest Rate Sensitivity

We monitor interest rate risk through the use of a simulation model that provides us with the ability to simulate our net interest income. In order to measure, at September 30, 2016, the sensitivity of our forecasted net interest income to changing interest rates, both rising and falling interest rate scenarios were projected and compared to base market interest rate forecasts. One application of our simulation model measures the impact of market interest rate changes on the net present value of estimated cash flows from our assets and liabilities, defined as our market value of equity. This analysis assesses the changes in market values of interest rate sensitive financial instruments that would occur in response to immediate and parallel changes in market interest rates.

The impacts on our net interest income and market value of equity exposed to immediate and parallel hypothetical changes in market interest rates as projected by the model we use for this purpose are illustrated in the following table:

	September 30, 2016		December 31, 2015	
Simulated Rate Changes	Estimated Net Interest Income Sensitivity	Market Value Of Equity Volatility	Estimated Net Interest Income Sensitivity	Market Value Of Equity Volatility
+ 200 basis points	4.08 %	(1.67)%	3.38 %	(5.57)%

+ 100 basis points	1.91 %	(0.64)%	1.49 %	(2.47)%
- 100 basis points	(1.82)%	(0.60)%	0.37 %	1.33 %
- 200 basis points	(10.89)%	(3.62)%	(0.71)%	0.41 %

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to management, including the Principal Executive Officer and the Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

The Company’s management, with the participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and is accumulated and communicated to management, including the Principal Executive Officer and the Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in routine litigation incidental to our business, none of which is expected to have a material adverse effect on us.

Item 1A. Risk Factors

Set forth below are the material changes to the risk factors discussed in Item 1A of Part 1 of the Annual Report on Form 10-K for the year ended December 31, 2015, which arise following the consummation, on July 29, 2016, of the merger between BBCN Bancorp, Inc. ("BBCN") and Wilshire Bancorp, Inc. ("Wilshire"). In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed below and in Item 1A of Part 1 of the Annual Report on Form 10-K for the year ended December 31, 2015, which could materially and adversely affect the Company's business, financial condition, results of operations and stock price. The risks described below and in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not presently known to management or that management presently believes not to be material may also result in material and adverse effects on our business, financial condition and results of operations.

Following the recently completed merger of BBCN and Wilshire, combining the two companies may be more difficult, costly or time-consuming than expected.

The success of the merger will depend, in part, on our ability to successfully combine the businesses of BBCN and Wilshire. It is possible that the integration process could result in:

- the loss of key employees,
- the disruption of each company's ongoing businesses, or
- inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger.

The loss of key employees could adversely affect the ability of the Company to successfully conduct businesses in the markets in which it operates, which could have an adverse effect on the financial condition, results of operation and value of the Company's common stock. In addition, if the Company experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause the Company to lose customers or cause customers to remove their accounts from the Company and move their business to competing financial institutions. These integration matters could have an adverse effect on the Company for an undetermined period of time.

The Company may fail to realize cost savings from the merger.

Although the Company expects to realize cost savings from the merger when fully phased in, it is possible that these potential cost savings may not be realized fully or realized at all, or may take longer to realize than expected. For example, future business developments may require the Company to continue to operate or maintain some facilities or support functions that are currently expected to be combined or reduced. Cost savings also depend on the Company's ability to combine the businesses of BBCN and Wilshire in a manner that permits those costs savings to be realized. If the Company is not able to combine the two companies successfully, these anticipated cost savings may not be fully realized or realized at all, or may take longer to realize than expected, which could have a material adverse effect on the Company's financial condition, results of operation and stock price.

Impairment of goodwill resulting from the merger may adversely affect our results of operations.

Goodwill of approximately $361.9 million and core deposits intangibles of $18.1 million were recorded by the Company as a result of the merger. Potential impairment of goodwill and amortization of other intangible assets could adversely affect our financial condition, results of operations and stock price. We assess our goodwill and other

intangible assets and long-lived assets for impairment annually and more frequently when required by generally accepted accounting principles. We are required to record an impairment charge if circumstances indicate that the asset carrying values exceed their fair values. Our assessment of goodwill, other intangible assets, or long-lived assets could indicate that an impairment of the carrying value of such assets may have occurred that could result in a material, non-cash write-down of such assets, which could have a material adverse effect on our results of operations and future earnings.

Implementation of the various provisions of the Dodd-Frank Act-in particular provisions that are applicable to banks and bank holding companies with $10 billion or more in assets-may delay the receipt of regulatory approvals and increase our operating costs or otherwise have a material effect on our financial condition, results of operations and stock price.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") enacted in 2010 significantly changes the bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and the rule-making process is still underway.

Several requirements in the Dodd-Frank Act for new banking regulations are applicable to certain banks and bank holding companies with $10 billion or more in assets. As a result of the merger, the Company surpassed this threshold, and these provisions, subject to a phase in period, will significantly increase compliance and operating costs of the Company and otherwise may have a significant impact on the business, financial condition, results of operations and stock price of the Company. Such provisions include the following:

- The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB"), which has broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets, and accordingly has assumed examination and enforcement authority over the Company post-merger.
- The Dodd-Frank Act increased the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries and gave the Federal Reserve Board the authority to establish rules regarding interchange fees charged for an electronic debit transaction by a payment card issuer that, together with its affiliates, has assets of $10 billion or more, and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer (the "Durbin Amendment"). By regulation, the Federal Reserve Board has limited the fees for such a transaction to the sum of 21 cents plus five basis points times the value of the transaction, plus up to one cent for fraud prevention costs. The post-merger effect of the Durbin Amendment will be to lower significantly our interchange or "swipe" revenue, but such lower fees are not expected to have a material adverse effect on our results of operation.
- The Dodd-Frank Act established 1.35% as the minimum Designated Reserve Ratio ("DRR"). The FDIC has determined that the DRR should be 2.0% and has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by the statutory deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15% on institutions with assets less than $10 billion. As a result of the merger, we are no longer entitled to benefit from the offset. The FDIC has not announced how it will implement this offset or how larger institutions will be affected by it.
- The Dodd-Frank Act requires a publicly traded bank holding company with $10 billion or more in assets to establish and maintain a risk committee responsible for enterprise-wide risk management practices, comprised of an independent chairman and at least one risk management expert. The risk committee must approve and periodically review the risk-management policies of the bank holding company's global operations and oversee the operations of its risk-management framework. The bank holding company's risk-management framework must be commensurate with its structure, risk profile, complexity, activities and size. These requirements will first apply to the Company commencing on October 1, 2018, and the Company will need to build the necessary infrastructure to comply with these enhanced risk management requirements well before the effective date.
- A bank holding company with more than $10 billion in assets is required under the Dodd-Frank Act to conduct annual stress tests using various scenarios established by the Federal Reserve, including a baseline, adverse and severely adverse economic conditions (known as "Dodd-Frank Act Stress Tests" or "DFAST"). The stress tests are designed to determine whether the capital planning of the Company, assessment of its capital adequacy and risk management practices, adequately protect it and its affiliates in the event of an economic downturn. The Company must establish adequate internal controls, documentation, policies and procedures to ensure the annual stress adequately meets these

objectives. The Board of Directors of the Company are required to review the Company's policies and procedures at least annually. The Company is also required to report the results of its annual stress tests to the Federal Reserve, and to consider the results of the stress tests as part of its capital planning and risk management practices. The Company will be subject to the DFAST regime commencing on January 1, 2018, but well in advance of that date, the Company will need to undertake the planning and other actions that it deems reasonably necessary to achieve timely compliance.

It is difficult to predict the overall compliance cost of these provisions, which became effective (with phase-in periods) when the merger was consummated. Compliance with these provisions will require additional staffing, engagement of external consultants

and other operating costs that could have a material adverse effect on the future financial condition, results of operations and stock price of the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None

Item 6. Exhibits

See "Index to Exhibits."

Table of Contents

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.

HOPE BANCORP, INC.

Date:	November 9, 2016	/s/ Kevin S. Kim
		Kevin S. Kim
		President and Chief Executive Officer
Date:	November 9, 2016	/s/ Douglas J. Goddard
		Douglas J. Goddard
		Executive Vice President and Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger by and between BBCN Bancorp, Inc. and Wilshire Bancorp, Inc. dated as of December 7, 2015 (Attached as Annex A to the Company's definitive proxy statement relating to the merger and the Company's annual meeting of stockholders filed on May 27, 2016 as part of Amendment No. 3 to the Company's Registration Statement on Form S-4 (Registration No. 333-210002) and incorporated herein by reference).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002**
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002**
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

* Filed herewith
** Furnished herewith